2024

SADALES TĪKLS AS
ANNUAL REPORT

ST

CONTENT

* Financial Statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU

FINANCIAL CALENDAR

Interim Condensed Financial Statements:

for the 3 months of 2025 (unaudited) – 30. 05. 2025

for the 6 months of 2025 (unaudited) – 29. 08. 2025

for the 9 months of 2025 (unaudited) – 28. 11. 2025

www.sadalestikls.lv

KEY FIGURES

Operational figures

		2024	2023	2022	2021	2020
Length of power distribution lines	km	92,322	92,323	92,407	92,430	92,656
Installed capacity of transformer	MVA	6,001	5,969	5,971	5,951	6,118
Capacity demanded by customers	MVA	11,274	11,177	11,337	11,151	11,053
Distributed electricity	GWh	6,116	6,021	6,241	6,470	6,286
Electricity distribution losses, technological and self-consumption	GWh	237	242	256	271	277
Electricity losses	%	3.62%	3.72%	3.73%	3.79%	3.99%
System Average Interruption Duration Index (SAIDI)	minutes	215	266	240	208	219
System Average Interruption Frequency Index (SAIFI)	number	2.2	2.7	2.5	2.3	2.3
Capital expenditure**	EUR'000	122,333	99,608	84,660	84,956	129,865
Number of employees at the end of the year		1,663	1,665	1,665	1,681	1,876

Financial figures

EUR'000

	2024	2023	2022	2021	2020
Revenue:	371,812	343,332	301,188	304,454	296,307
including revenue from the distribution system services	*347,187*	*320,101*	*278,516*	*283,839*	*276,492*
EBITDA [1)]	133,823	112,409	71,836	106,866	108,035
Profit / (loss)	28,256	16,906	(20,415)	10,429	22,050
Total assets	1,891,414	1,820,351	1,805,131	1,819,067	1,823,934
Regulatory Asset Base[2)]	1,581,023	1,580,463	1,584,629	1,592,699	1,585,682
Total equity	999,955	985,972	970,630	1,001,041	1,011,688
Net cash flows from operating activities	7,212	40,097	33,772	(19,217)	(26,707)
Borrowings	573,883	556,547	602,280	576,144	565,501

Financial ratios

%

	2024	2023	2022	2021	2020
EBITDA margin [3)]	36	32.7	23.9	35.1	36.5
Operating margin [4)]	7.6	4.9	-6.8	3.4	7.4
Return on assets (ROA) [5)]	1.5	0.9	-1.1	0.6	1.3
Return on equity (ROE) [6)]	2.8	1.7	-2.1	1	2.3
Return on capital employed (ROCE) [7)]	3.1	1.9	-0.6	1.5	2.5
Debt-to-capital ratio [8)]	36	37	37	36	36
Capital ratio [9)]	53	54	54	55	56

[1)] EBITDA – earnings before interest, income tax, share of profit or loss of associates and subsidiaries, depreciation and amortisation, and impairment of intangible assets and property, plant and equipment (in 12 months period)
[2)]Regulatory Asset Base - value of property, plant and equipment used effectively for the provision of distribution system
[3)]EBITDA margin – EBITDA / revenue
[4)] Operating margin – operating profit / revenue
[5)] Return on assets (ROA) – profit / average value of assets (total assets at the beginning of the year + total assets at the end of the year/2)
[6)] Return on equity (ROE) – profit / average value of equity (total equity at the beginning of the year + total equity at the end of the year/2)
[7)]Return on capital employed (ROCE) – (operating profit (in 12 months period) / (average value of equity + average value of borrowings)) * 100 %
Average value of equity – (equity at the beginning of the year + equity at the end of the year) / 2
Average value of borrowings – (borrowings at the beginning of the year + borrowings at the end of the year) / 2
[8)] Debt-to-capital ratio – average value of borrowings / (average value of borrowings + average value of equity)
[9)] Capital ratio – total equity / total assets (at the end of the year)

* In 2020, transmission system operator recalculated the supplied electricity for 2019, accordingly recalculated losses in distribution of electricity
**Investments – in 2020, investments made in the amount of EUR 40.8 million – investment in the share capital of the Company of the leased assets of Latvenergo AS and the acquisition of infrastructure property, plant and equipment items and unfinished capital expenditure in leased assets acquired from Latvenergo AS.

Joint Stock Company (AS) Sadales tīkls (hereinafter referred to as the Company, Sadales tīkls AS) is the largest of 10 licensed distribution system operators (DSOs) in Latvia. The Company provides distribution system service to up to 799 thousand electricity distribution system users, covering 99% of the territory of the Republic of Latvia with its service. The Company receives electricity for the distribution system user facilities from the 330 kV and 110 kV transmission power grid, as well as from electricity producers connected to the distribution network. Distribution system user objects are connected to low voltage (0.4 kV) and medium voltage (6 – 20 kV) power lines.

Performance indicators

In 2024, the geopolitical situation and uncertainties - inflation, tighter credit requirements, still high lending rates and a slow recovery in export target markets – continued to affect economic development.

In the second half of 2023, considering the changes in electricity prices and general inflation, the expected tariff reduction of transmission system operator Augstsprieguma tīkls AS in 2024, as well as reviewing the costs for the next tariff period - 2024, in November 2023, Sadales tīkls AS published the changes to the electricity distribution tariffs, these adjustments included cost reductions compared to the initial tariff project expenses. The new tariff came into effect on 1 January 2024. No significant changes from the tariff and revised forecasts were identified in the reporting year, meaning that the current tariff values will remain in effect for 2025.

To limit the rapid increase of the distribution tariff and to ensure the predictability of changes in the future, from 1 January 2024 to 31 December 2025, a cap on the increase of the fixed part of the distribution tariff over a twelve-month period is set for household customers with a connection capacity up to 25A. The difference between the approved tariff and the tariff applied to customers is compensated from the dividends received by Latvenergo AS from the State budget. In 2024, end-users were granted State aid for distribution system service charges of EUR 43 million excluding VAT (2023: EUR 77 million), compensated from the State budget.

Given the availability of funding for energy-efficient solutions and the rise in energy prices in recent years, connections to larger capacity generators (solar power plants) have increased and the number of connections to battery-powered solar power plants has doubled. In the reporting year, the total generation capacity of microgenerators and generators (producers) connected to the distribution system exceeded 910 megawatts (MW) (551 MW in 2023) and the number of microgenerators and generators (producers) connected to the distribution grid is close to 25 000 (2023: 20 000).

In 2024, overall power supply reliability indicators were significantly affected by rapid air temperature fluctuations at the beginning of the year, as well as storms in late July and mid-December, which caused major damage to the electricity grid. The effects of weather conditions demonstrated the increased resilience of the power grid and justified the importance of the investments and preventive work carried out in previous years in terms of solutions and technical improvements to the power grid. Thanks to the work of the Company's highly professional employees using modern equipment, the rapid elimination of the consequences of these events was facilitated, minimising the increase in the number and duration of power interruptions during the year. In the long term, the continued construction and reconstruction of power lines in underground cable form, as well as the increase in the proportion of isolated wires and overhead cables in the overhead power network, will significantly reduce the number of power grid damages and improve the electricity supply. The total number of damages decreased last year. Total 12 595 recorded failures were registered in the infrastructure of AS "Sadales tīkls" (excluding the impact of natural disasters), which is 13% less than last year and by far the lowest number of damages registered in the last ten years.

The Step electricity market data platform has been available to Latvian electricity market participants for more than a year. The Step data platform is an information technology system aimed at ensuring standardised and centralised production, storage and exchange of electricity market data between market participants and system operators. The entire electricity market operation has been transferred to this new system, which sets common data quality standards, centralises data exchange and is efficient in the use of new technology solutions, which is an essential precondition for the successful development of the Latvian electricity market. In 2024, approximately 22 million messages have been processed – this is the volume of the exchange of messages that characterise the dynamics of the electricity market. The Company's goal is to further develop and improve the Step platform.

The Company continues the implementation of the European Union Recovery Fund 1.2.1.5.i investment project "Modernisation of the electricity distribution system of Sadales tīkls AS. The contract with the Ministry of Economy for the implementation of the project was signed on 24 March 2023, the total project financing amounts to EUR 41.9 million and the project implementation period is until 31 May 2026. The project includes 7 key infrastructure and modernisation activities:

1. Compensation of technical losses of distribution transformers with solar energy. Within the framework of the activity, it is planned to implement compensation of technical losses of distribution network transformers with solar energy by constructing solar panel systems on the existing transformer substations of Sadales tīkls AS to partially reduce the technical losses caused by transformers installed in substations of the distribution network and the costs of self-consumption of substations. In 2024, the tender for the supply and installation of solar panels was concluded, contracts were signed and implementation started. By the end of 2024, 11 objects with installed solar panels were connected to the electricity grid. In 2025, it is planned to ensure the installation of solar panels on most of the 700 objects planned in total and to carry out a second tender for the supply and installation of solar panels.

2. Replacing distribution transformers – it is planned to replace the oldest and/ or distribution system transformers with the highest proportion of losses in the entire territory of Latvia. It is planned to replace 840 transformers. Benefits: reduced costs of losses in transformers, costs of repair and maintenance of transformers, as well as improved network security and quality of electricity supply, which will equally allow faster and more efficient implementation of renewable generation connections. In 2024, supply and replacement contracts were concluded for some of the transformers, resulting in the replacement of 108 transformers. This resulted in a reduction of 110 MWh in 2024, while the future annual reduction of losses from the 108 transformers replaced in 2024 will be 817 MWh per year (20% of the project target). In addition to the delivery of transformers, a procurement for the replacement of transformers will be carried out in 2025 and around 600 transformers will be replaced in the second half of the year.
3. Construction and reconstruction of medium voltage lines. An increase in the available capacity will be carried out for settlements where transmission substations have not been built so far, as well as for improving the security of electricity supply and quality of supply to these settlements. It is planned to build/ rebuild medium voltage lines with a length of 75 km. In 2024, the reconstruction of the Valdemārpils substation will be completed. Tenders were carried out and contracts were concluded for the construction of 6 objects - in Ape, Adazi, Lapmezciems, Roja, Kalnciems, Jaunmarupe. In the beginning of 2025, a contract was also concluded for the object in Mālpils, while the works in the Ape object were completed (medium voltage cable line of 8 km length was built). In 2025 it is planned to complete the works in the other 6 mentioned objects. Also in 2025, tenders and construction contracts will be finalised for the objects in Baldone and Ropazi, works on these objects will be completed in 2026.
4. Improving the energy efficiency of buildings, improving heating solutions. Within the framework of the activity, energy efficiency improvement measures are planned in 6 buildings of Sadales tīkls AS and replacement of heat supply solutions in 3 bases. Works related to the replacement of 3 heating solutions have been completed from 2022 to 2024. In 2024, tenders and contracts were concluded for the renovation of roofs and facades at 5 sites in Valmiera, Limbazi, Bauska and Jelgava. In 2025, the energy efficiency upgrades of these objects will be completed and the Liepāja object will be tendered and contracted again.
5. Establishment of distribution connections with appropriate technical parameters for the promotion of the use of renewable energy sources. Within the framework of the activity, the construction or reconstruction of the power grid of Sadales tīkls AS is planned for the installation of connections for the connection of public charging equipment for electric vehicles. In 2024, the preparation of technical documentation, procurement and other contracting activities continued. The construction of 6 sites (24 connection points) was completed. By 31 May 2026, the project should have reached the target of 2,060 connection points for electric vehicle charging and/or micro-generation installation (this indicator should include the connection points whose operation has benefited from the project's investments in the development of the electricity grid).
6. Electricity market data exchange and storage platform (Data Platform). By May 2026, the Data Platform portal will be developed to provide electricity market data exchange and services to electricity market participants. In 2024, Latvenergo AS launched a procurement for the portal development service, which will be finalised in Q1 2025.
7. Implementation of smart electricity metering system. Within the framework of the activity, the development and introduction of a smart electricity metering system (including its integration with other existing information systems of the Company) is envisaged to ensure the electricity metering data necessary for the functioning of the electricity market and their availability to electricity market participants, as well as to implement process automation. The contract for the development of the system has been concluded in 2023, the development and implementation of the system continued in 2024 and is expected to be finalised in 2025.

The second project within the framework of the European Union Recovery Fund Plan Complement, Sadales tīkls AS is implementing the electricity distribution network modernisation project - REPowerEU, No. 7.1.1.2.i.0/1/24/I/CFLA/001. The contract with the Central Finance and Contracting Agency for the implementation of the European Union Recovery Fund project, project No 7.1.1.2.i.0/1/24/I/CFLA/001, was signed on 18 October 2024, the total project financing is EUR 60 million, the project implementation deadline is 30 June 2026. The project includes the implementation of 4 key activities:

1. Ensuring capacity availability. The initiative aims to increase the capacity of the electricity distribution system by 70 MW expanding the overall grid capacity and enabling the connection of additional renewable energy generation capacity in the long term. This will be achieved by building a new 110 kV substation in Launkalne and increasing the transformer capacity in the existing 110 kV substations in Dobele, Olaine, Valmiera, Jekabpils and Acone. In 2024, build contracts were signed, and the design phase commenced.
2. Installation of Remote-Controlled Medium-Voltage Switches. The project includes the installation of at least 285 remote-controlled medium-voltage switches, which will enable remote management and fault detection in the electricity distribution system. The goal of this initiative is to improve electricity supply reliability and enhance remote network management capabilities.
3. Development of the Electricity Distribution System Network. The project involves the conversion of overhead power lines into underground cable lines in various parts of Latvia, including the Riga metropolitan area, regional development centres, and major cities, where high microgeneration and electrification growth (e.g., heat pumps, electric vehicles) is observed or expected. The underground cable network solution provides maximum stability for the power grid, protecting against adverse weather conditions, climate change impacts, and potential targeted physical attacks. In 2024, procurement processes were launched, and a portion of construction contracts were concluded.
4. Implementation of a Smart Grid Management Solution. The activity includes the implementation of a Smart Grid Management Solution, complementing and upgrading the core dispatch management systems – SCADA and

Distribution management system – and related ICT solution developments. This solution will improve and automate network monitoring processes, including providing additional functionality for more flexible capacity management in dynamically changing conditions across all voltage levels and enabling remote fault detection with the ability to quickly adjust the operation modes of the electricity distribution system and reconfigure the system. As a result, the project will enhance electricity quality, improve supply reliability, and enable additional renewable energy generation and consumption capacity connections. A contract with the service provider (for SCADA) has been concluded in 2024.

The company's daily operations are driven by long-term strategic goals, with a strong focus on evolving customer needs and behaviour. This commitment forms the foundation for enhancing existing services and developing new offerings.

In 2024, the company successfully implemented planned electricity network maintenance and investment projects, improved digital and technological solutions, enhanced reliability indicators, and provided high-quality distribution services to customers. Collaboration with clients and partners has been dynamic and innovation-driven, leading to an elevated level of digital service excellence. Customer satisfaction and loyalty reached a historically high level of 70 index points in 2024, reflecting a 6-point increase compared to 2023, bringing the company to the threshold of high customer loyalty.

The digital transformation has led to a strong replacement of traditional customer service channels by self-service in e-environments. Customers prefer uninterrupted service availability and high service quality remotely at their preferred time and place, as demonstrated by the share of e-commerce activities reaching 98.6% in 2024. The Company's website, sadalestikls.lv, provides extensive information on services, several e-calculators, power grid damage reporting, digital maps, e-consultations and other e-tools, and the number of damage reports via e-environment is also increasing.

Financial results

Considering changes in electricity prices, overall inflation trends, and the expected reduction in Augstsprieguma tīkls AS tariffs in 2024, Sadales tīkls AS conducted a review of costs for the upcoming tariff period (2024). As a result, in November 2023, the company published differentiated tariff adjustments, incorporating cost reductions compared to the initially planned tariff project expenses. During the reporting year, no significant deviations were observed from the revised tariff forecasts, and therefore, the existing tariff values will remain in effect for 2025.

From 1 January 2024 to 31 December 2025, for households with a connection capacity up to 25A, the increase in the fixed part of the distribution tariff is limited to prevent dramatic cost fluctuations and ensure predictability. The difference between the actual and the approved tariff is covered by the dividends received by Latvenergo AS from the State budget. At the end of 2024, the amount of State support for the fixed part of the distribution tariff for household users with a connection capacity up to 25A is reduced for the next twelve-month period, 2025.

The Company's revenue in 2024 compared to 2023 has increased by EUR 28.5 million and EBITDA has increased by EUR 21.4 million.

In the reporting year, the Company's profit was made in the amount of EUR 28.3 million. In the reporting year, the Company's operations generated a profit of EUR 28.3 million. The financial result was positively affected by a 1.6% increase in the volume of electricity distributed and a decrease in the cost of electricity resulting from a lower amount of purchased electricity (losses) and a lower average purchase price.

The volume of distributed electricity is one of the factors affecting revenue, which in the reporting year reached 6,116 GWh and, compared to 2023, the volume has increased by 95 GWh or 1.6%. The decrease in the volume of distributed electricity was observed in several sectors: industry by 1.4%, agriculture by 5.8 % and other users by 1.7%, due to the lower economic activity of the sectors during this period and the installation of self-consumption generation facilities. Electricity consumption compared to 2023 increased in the other sectors: residential by 3.7%, commercial by 3.9% and non-industrial (offices, cultural, sports facilities, hotels, etc.) by 2.9%.

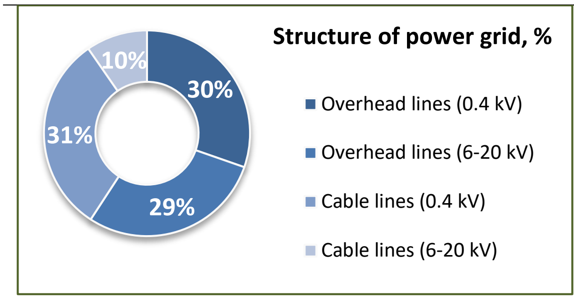
In the reporting year, the electricity loss ratio was 3.62% of the total electricity received by the grid. The actual amount of electricity that supports the distribution system's operational processes, also known as electricity distribution losses, was 225 GWh. As a result of efficient network maintenance and development, overall losses have reached a historically lowest level.

In 2024, the increase in operating costs was influenced by 2023 inflation rates, while the increase in borrowing rates is still influenced by the relatively high EURIBOR rates. There is also an increase in transmission service costs, mainly due to higher electricity transmission operator tariffs, CIT on previous year's profits, increased depreciation due to increased capital expenditure and personnel costs due to structural changes.

Investments

The Company receives electricity for the distribution system user facilities from the 330 kV and 110 kV transmission power grid, as well as from electricity producers connected to the distribution network. Distribution system user facilities are connected to the low voltage (0.4 kV) and medium voltage (6–20 kV) mains.

To ensure a reliable and high-quality power supply, the grid is continuously monitored and maintained, with a focus on network stability and voltage consistency. The Company's key priorities include network development, maintenance, smart grid integration, innovation, and the use of sustainable materials to meet evolving customer needs. In 2024, the grid modernization efforts continue, focusing on removing outdated infrastructure and expanding the use of insulated power lines (cables, insulated wires, and pendant cables). These upgrades enhance supply reliability and overall service quality. The total grid length remains stable at 92,322 km, similar to 2023.



	2024	2023	2024/2023
Number of clients	798,741	782,273	+16,468
Installed capacity of transformers, MVA	6,001	5,969	+32
Total length of power lines, km	92,322	92,323	-1
Share of overhead lines, %	59 %	60 %	-0.7%-points
Share of cable lines, %	41 %	40 %	+0.7%-points
Number of distribution network transformers	30,298	30,632	-334

Reconstruction and renewal of the electricity grid is one of the license obligations of Sadales tīkls AS. The task of the Company is to ensure the smooth restoration of the electrical system, so that in the long term the average age of the system elements, the volume of the renewable power grid and the cost of repairs do not increase significantly.

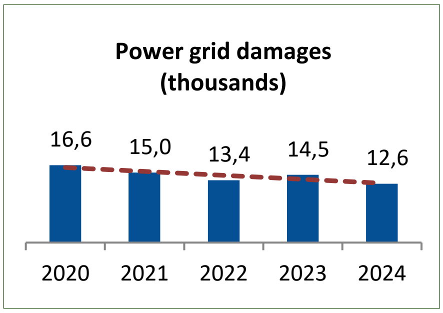
Investments	2024	2023	Comment
Investments, million EUR	122.3	99.6	+22.7 million EUR (+22.8%)
Reconstructed power lines, km	1,435	1,442	In 2024, EUR 64.1 million was invested in the reconstruction and renewal of the electricity grid (EUR 54.0 million in 2023) or 52% of the reporting period investments.
Built connections, mil. EUR	39.2	33.5	The cost increase for connection projects built at the request of customers is EUR 5.7 million or 17%.
Recovery and Resilience Facility (RRF) project & RePower project investments, million EUR	9.8	1.7	In 2024, the RRF project continues with the construction of medium-voltage lines and the implementation of building energy efficiency improvement projects. In addition, the RePower project has been launched to improve digital network management, technical solutions for the cable network and to ensure capacity availability for electricity users.

In December 2024, the Public Utilities Commission approved the electricity distribution system development plan of Sadales tīkls AS for the period from 2025 to 2034. The main investment directions according to the development plan are smooth reconstruction of the power grid, improvement of the quality of power supply, smart management of the power grid.

Medium-term operational strategy for 2022-2027

The overall long-term goal of Sadales tīkls AS is to ensure a sustainable and economically justified electricity distribution service by efficiently managing the power grid and improving the security and quality of electricity supply, which is important for the competitiveness and growth of the national economy, while contributing to the achievement of climate neutrality objectives.
Fulfilment of strategic goals in the third year of the strategy period:

1. Improving the Quality and Reliability of Electricity Supply



Indicator	2027	2024	2023	2022	Comment
System average interruption duration index (SAIDI) (without massive damages), minutes	160	145	168	187	In 2024, SAIDI reduced by 23 minutes (14%), compared to 2023
System average interruption frequency index (SAIFI) (without massive damages), times	1.85	1.81	1.99	1.91	In 2024, SAIFI reduced by 0.18 times (9%), compared to 2023

In 2024, to improve the quality and reliability of the power supply, the damages to the power grid was repaired by working under active medium voltage (MV). The installation of MV dividers and the intensive use of generators during planned interruptions also contributed to the reduction of SAIDI/SAIFI indicators in 2024. The total number of power grid damages is also decreasing. Last year, 12,595 damages were registered (excluding the impact of natural disasters), which is the lowest number of damages recorded so far during the year. Compared to 2023, when 14,486 power grid damages were registered, the number decreased by 13% last year.

The construction of an isolated power grid, as well as targeted reconstruction, restoration and maintenance of the power grid allows to significantly reduce the number of failures and improve the safety indicators of the power supply – SAIDI and SAIFI indices. To reduce the impact of weather conditions, in the reporting year, in the amount of 5,495 km (in 2023 – 4,490 km), the power line tracks were cleared of bushes and the cutting of potentially threatening trees in the protection zone was carried out.

Power grid failure detection is an essential part of maintaining the power grid to provide a safe and high-quality electricity service. Applying and testing the latest technologies allows maintenance and upgrades to be performed as efficiently as possible.

To enhance the evaluation of power grid infrastructure, including visual defect detection, vegetation monitoring, and geospatial analysis, remote sensing technologies were used to survey 700 km of overhead lines. These advanced techniques enable early identification of surface infrastructure defects, improving network reliability and efficiency. Using AI-powered image processing, the company developed its first artificial intelligence models to classify wooden poles and detect upper rot, enhancing predictive maintenance. Additionally, LIDAR laser scanning created a 3D digital model of the network, enabling precise geospatial defect detection and vegetation assessment along power line routes and protection zones. Building on these technological capabilities, a future defect detection strategy has been developed—a hybrid model integrating manual inspections with AI-powered digital analysis. This data-driven approach optimizes inspection cycles based on infrastructure age, ensuring early damage detection, proactive maintenance, and long-term network sustainability.

In addition to the infrastructure remote sensing project, the project "Fully automated overhead power lines vegetation management service for energy DSO AS "Sadales tīkls"" was implemented in cooperation with SIA "Baltic Satellite Service", where an open satellite image processing solution for vegetation management (identification of the presence and extent of trees and bushes) in the network protection zones was developed.

2. Digital Transformation of the Company

The Company purposefully plans and develops digital solutions based on automated, standardised processes and centralised data exchange. To realise the digital transformation, tasks have been defined to develop the Company's digital environment and services.

As a result of digital transformation, traditional customer service channels are confidently replaced by self-service in the e-environment. Customers prefer uninterrupted service availability and high-quality service remotely at their preferred time and place, as evidenced by the proportion of e-environment activities reaching 98.6% in 2024.
The Company's website, sadalestikls.lv, offers extensive information on services, several e-calculators, damage reporting, digital maps, e-consultations and other e-tools.
The number of damage reports in the e-environment is increasing, a third of the applications are registered daily on the website and more than half in mass damage situations. Public involvement helps to detect and prevent infrastructure defects by promptly reporting observed events on the Company's website.
The virtual assistant Valts provides significant support and immediate answers to questions at any time of the day. In the reporting year, the number of Valt sessions exceeded 40,000, and the experience of using Valt has been improved (more precise navigation, possibility to continue a previous conversation, evaluation of conversation usefulness, etc.).

On the portals e-st.lv and saskano.sadalestikls.lv it is possible to do everything from applying for a service to signing a contract, as well as to coordinate projects and plans, obtain permits for construction, logging and excavation work. The virtual assistant Valts is also available on these portals.

For the convenience of customers, a personalised service is also provided - prompt customer notification via SMS or e-mail about current events in the power grid. A new additional service has been developed – night notification, which is particularly important for customers with critical infrastructure (e.g. hospitals) to ensure operational (business) continuity.

To centralise the exchange of data between all market participants in Latvia, Sadales tīkls AS is the holder and manager of the national electricity market data exchange and storage platform in Latvia from 2020.

The data platform "Step" has been made available to Latvian electricity market participants in 2023. The data platform "Step" is an information technology system aimed at ensuring the preparation, storage and exchange of standardized and centralized electricity market data between market participants and system operators. The entire electricity market operation has been transferred to this new system, which sets unified data quality standards, centralised data exchange and is efficient in the use of new technology solutions, which is an essential precondition for the successful development of the Latvian electricity market.

In order to contribute to the digital development of the electricity market, the continuous availability of services and data, the development of the data platform "Step" continues and within the project the front end or portal solution of the Data Platform will be developed and implemented. On June 19, 2024, a procurement (the tender) – negotiation procedure was announced for "Implementation and maintenance of the Electricity Market Data Exchange and Storage Platform Portal

(Data Platform STEP Portal) project". The contract for the development of the STEP Data Portal is expected to be concluded in early 2025. The project is supported by the European Union's Recovery Fund.

Indicator	2027	2024	2023	2022	Comment
Standardized and centralized data exchange between market participants and system operators	Implementation of the national electricity market data exchange and storage platform	Procurement process for the Data Platform Portal conducted in two rounds	1st stage of the electricity market data exchange and storage platform implemented	Created data platform test environment	Procurement process for the Data Platform Portal has been conducted in two rounds. The project is being managed according to the approved timetable.
Share of e- environment activity,%	99%	98.6%	98.6%	98	1. In total, more than 2.5 million actions are taken on customer self-service websites. More than 60 new or upgraded functionalities have been introduced to improve service. 2. The Service section of the Company's website have been visited more than 800 thousand times. The most visited sections are Damages and Tariffs. 3. The Damage tool registered 70 thousand visits last year. Overall, 32.75% of damages are reported through the Damage Tool, up to 60% in mass damage situations. Based on customer feedback, the functionality of the tool is constantly being improved. 4. Virtual assistant Valts reached 40.5 thousand sessions this year. More and more customers (15%) who visit the website also use Valts, thanks to both the continuous improvement of Valts content and the proactive movement towards Valts as a self-service tool. 5. The Digital maps have been visited 14.6 thousand times, the most popular sections being "Grid disconnections" and "Free power". Technical improvements and additional data have been integrated into the maps for customer convenience. 6. Automation of service processes continues, thus reducing manual work and optimising service costs.

3. Endless (Continual) Improvement and Value Increase of the Company

In 2024, process management has been improved, strengthening the principles of Lean, Six Sigma and TOC in the Company.

Indicator	2027	2024	2023	2022	Comment
Changes in wage costs	LCI* - 1%	-3.1%	3.1%	4.6%	According to the data published by the Central Statistical Office for the year 2024, the average LCI index reaches 11.9%. Strategic goal is achieved.
Changes in operational costs	CPI** - 1%	-3.8%	-10.8%	5.6%	According to the CSB data, the average inflation rate in 2024 in the country reaches 1.3%. Strategic goal is achieved.

**LCI – Labour cost index*
***CPI – Consumer price index*

4. Ensuring Sustainable Development and Climate Neutrality

Indicator	2027	2024	2023	2022	Comment
Employee engagement ratio	Medium-to-high score	67	66	65	In 2024, the Employee engagement ratio has grown by 1 percentage point. To promote employee engagement, the Company has implemented a talent development program, seminars for new employees and a mentor program, remote lectures on topics relevant to employees.

Indicator	2027	2024	2023	2022	Comment
Company Reputation Index (TRIM)	Above the industry index in Latvia and the Baltics	52	38	48	The reputation of Sadales tīkls AS has increased by 14 index points over the year, reaching 52 points, which exceeds the industry averages in Latvia, the Baltics, Europe, and globally (ranging from 37 to 49 index points). The reputation increase has been influenced by service quality (network reliability, connection and generation services, etc.), as well as thoughtful strategic communication. The end of the active tariff reform period at the beginning of 2024 also provided a positive background.
Customer Satisfaction Index (CSI)	Medium-to-high score	70	64	66	The index increase is 6 index points. The chosen customer management strategy has resulted in the highest ever customer satisfaction score (70 points) in 2024. Increase in both the corporate (68 points) and household (71 points) segments. The biggest increase in the small business segment is due to the development of the customer service model (segmented, individual approach, proactive communication, change in channel structure). Excellent service is reflected in the particularly high scores of the large enterprise and local government segments (74 points).
Number of accidents caused by the employer	–	–	–	–	There have been no accidents caused by the employer's failure to take or neglect safety measures.
Ensuring the creation of public power connection points for charging electric cars in the power grid*	600	234	49	31	234 public electric charging connection points have been connected to the ST power grid since 2022. 157 charging connection points with a total capacity of 28 MW (average 178 kW per site) have been built in 2024.
Greenhouse gas (carbon dioxide) emission reduction by providing distributed RER generation connections to the power grid (t, CO_2)	224,700	337,514	185,108	111,381	Implemented reduction of greenhouse gas (carbon dioxide) emissions. Methodology for calculating the actual value: the amount of electricity produced by the hydroelectric power plant (HPP) and wind power plant (WPP) is determined according to the meter readings on the electricity transferred to the power grid of Sadales tīkls AS. The amount of electricity produced by solar power plants (SES) and micro-generators (MG) is determined by assuming an installed capacity utilization time of 1000 hours per year. The calculation method uses the CO_2 emission factor for electricity supplied to final customers in Latvia according to the data referred to on the website of Augstsprieguma tīkls AS.

Financial Objectives for the Strategy Period:

Objective	2027	2024	2023	2022	Comment
Return on Capital Employed (ROCE)	3.1	3.1	1.9	-0.6	New tariffs for electricity distribution services are in force from 1 July 2023, which helped the Company to improve its return on capital employed.
Dividends to the shareholder	100%	100%	–	100%	The financial result for 2022 was a loss of EUR 20.4 million. As a result, no dividends were paid in 2023, while in 2024 dividends were paid 100% of 2023 EUR 16.9 million profit.

Corporate governance

Along with the financial results of Sadales tīkls AS, the Corporate Governance Report 2024 of Sadales tīkls AS has also been published. The report is based on the Corporate Governance Code published in 2020 by the Corporate Governance Advisory Board established by the Ministry of Justice, whose principles are based on international best practice in corporate governance.

The year 2024 was significant for the corporate governance of Sadales tīkls AS due to the approval of the Sustainability Strategy 2024-2027. There were no changes in the composition of the Management Board and Council of Sadales tīkls AS 2024. Having assessed both the corporate governance framework and the compliance with the principles in 2024, the Company's Management Board considers that Sadales tīkls AS operates in accordance with the highest standards of good governance practices and has complied in material respects with all the principles set out in the Code applicable to its operations, except for 1 (one) criteria, which is partially complied with. In addition, in its activities, Sadales tīkls AS complies with the principles of the Latvenergo Group's corporate governance policy, as long as it does not contradict the requirements of independence of Sadales tīkls AS as an electricity distribution system operator set forth in the regulatory enactments. More information is available on the website of Sadales tīkls AS *https://sadalestikls.lv/lv/gada-parskati*.

Non-financial disclosure

In its activities, Sadales tīkls AS strives for processes, products and services that contribute to the implementation of the UN Sustainable Development Goals, to ensure access to reliable, sustainable and modern energy at affordable prices for all, to build resilient and sustainable infrastructure, to promote inclusive and sustainable industrialisation by encouraging innovation, to ensure sustainable consumption and production patterns and to take urgent measures to mitigate climate change and its impacts.
Balancing responsible business practices with economic, environmental, social and governance areas that meet sustainable development criteria and are the basis for stakeholder engagement, Sadales tīkls AS continues to broaden its focus on sustainability initiatives by approving the Sadales tīkls AS Sustainability Strategy 2024-2027 in 2024 and setting measurable and achievable targets.
The Sustainability Strategy is a subordinate document to the Company's medium-term operational strategy for 2022-2027 and fits within the Latvenergo Group's existing sustainability strategy and the sustainability objectives included in that strategy. Progress towards the 2024 Sustainability Strategy targets in the climate, governance, social and financial areas:

Environment

Sadales tīkls AS develops and promotes the availability of electricity produced from renewable energy sources or "green electricity" in the electricity grid, electromobility connection, innovation and development of new technologies, protects and preserves the natural biodiversity. Key climate and environment commitments, indicators:

Indicator	2027	2024	2023	Comment
Electricity distribution losses, %	<4%	3.62%	3.72%	Under the EU's Recovery and Resilience Facility projects: - 108 older and higher-loss transformers were replaced, resulting in a reduction of 110 MWh; - 8.6 km of medium-voltage cable lines were built to increase the available capacity for the settlements.
Number of significant environmental damage	0	0	0	No significant environmental damage in 2024.
Increase in the share of isolated (cable, isolated wire or overhead cable) power grids vs total power lines, %	72%	67%	65%	Increased the longevity, continuity and reliability of power grids by 2% in 2024 by increasing the share of isolated (cable, isolated wire or overhead cable) power grids in the total volume of power lines

Indicator	2027	2024	2023	Comment
Implemented projects to mitigate biodiversity impacts in electricity grid infrastructure	≥ 2 / per year	3	1	In 2024: 1) Falcon houses have been installed on 11 ST electricity poles to provide suitable nesting places for these migratory birds; 2) the fourth season of live broadcasts from the White Stork nest continued; 3) the Company's employees planted 7 000 pine saplings on 2 ha of land, restoring part of a forest clearing in the Ogre area.
Introduce data- based remote sensing technologies for damage detection in power lines	implemented	in the process	launched	See under: medium-term operational strategy 2022-2027.
Implement common innovation processes and initiatives for innovation development	≥2 / per year	5	3	Initiatives in the field of innovation development in 2024: 1) AC/DC Tech Forum - a dialogue and information exchange between decision-makers, industry experts, market players and businesses on industry transformation. 2) AC/DC Lab - an innovation laboratory for employee involvement in improving company processes and creating a culture of innovation, to create new and innovative solutions in areas of relevance to the Company. In the reporting year, around 100 participants shared 13 ideas. 3) Participation in the annual Baltic Electricity Distribution System Operators Forum, where leading specialists and experts from Lithuania, Latvia, Estonia, Poland, Ukraine provided insights into their countries' electricity grid development trends, digitalization progress, smart meter data usage, grid management improvement and other innovative grid modernization solutions. 4) In cooperation with Tet, a project has been started to facilitate the introduction of a new electricity resilience services solution in Latvia to manage electricity network congestion more efficiently. 5) An innovation management "Open Day" for the Company's employees, where they were introduced to current research projects and developments in the global energy sector.
Greenhouse gas (carbon dioxide) emission reduction by providing distributed RER generation connections to the power grid (t, CO_2)	1,540	338	194	In 2024, the country's energy independence was boosted by the connection of RES generation, increasing energy self-sufficiency, which resulted in a reduction of GHG emissions of 144,000 tonnes of CO_2 compared to 2023.

In 2024, the Smart Metering Full Service for customers was introduced, enabling customers to manage resources more efficiently and reduce CO_2 emissions. The service provides remote extraction and transmission of energy data from the customer's internal grids, as well as a full service for this solution, and provides convenient business process optimisation options for customers. It enables companies to automate and significantly facilitate meter readings, provide verified, accurate and accountable electricity metering, digitise internal business processes and reduce operational costs. For the convenience of customers, the service includes everything needed for automated data acquisition and management.

At the end of 2024, at the National Innovative Capital Companies Initiative Forum, SJSC "Latvian State Radio and Television Centre" officially handed over the initiative management to Sadales tīkls AS, which assumed this role in 2025. This transition marks an important step in the cooperation between the Latvian state and local government capital companies, contributing to the strengthening of the innovation culture and the growth of the economy. The Company will be actively involved in the development of the country's innovation ecosystem, the establishment of more efficient process management, and the promotion of cooperation and knowledge sharing between different sectors and companies.

The Company's environmental management system meets the requirements of ISO 14001:2015 standard in the areas of "Electricity distribution and supply" and "Production of wooden poles for overhead transmission lines". In 2024, the Company's wooden pole production facility was certified and the EN 14229:2010 certificate for control of production of wooden poles for overhead transmission lines was obtained.

Social area

Social commitments are aimed at promoting the well-being of employees, customers and the local community, contributing to the achievement of the Company's goals and increasing the Company's visibility and reputation, while developing a reliable and high-quality electricity supply in Latvia as well as fast and convenient access to electricity data.

Indicator	2027	2024	2023	Comment
Strengthen (improve) staff well-being through physical safety, mental and physical health activities (number of activities)	≥ 3	≥ 5	≥ 3	More than 3 employee well-being activities implemented in 2024, including: 1) Health Week "Good Health is a Valuable Investment"; 2) The Company's virtual sports club "ST does sports", a two-month challenge covering 35,743 kilometres and 3,537 activities through running, walking, cycling, short and long hikes; 3) A summer sports and team building event; 4) 72 employee team building events "TEAM is POWER"; 5) online lectures for employees: financial well-being, humour at work for a more productive work and healthier environment.
Ensuring the highest standards for personal protective equipment and safety in the working environment, reduction of serious accidents	0	0	0	To strengthen the safety culture, an annual seminar for qualified workers was held - attended by 80 OSH specialists from 50 companies. Participation in a best practice exchange seminar organised by the State Labour Inspectorate, introducing occupational health and safety specialists from other companies to the occupational health and safety measures implemented in the Company to successfully adapt the working environment and working conditions to climate change.
Ensure management of critical infrastructure and protection of information resources at the Company's disposal, number of high-impact incidents per year	0	0	0	–
Promote children's and young people's knowledge of electrical safety through educational activities, children and young people educated per year	≥ 6,000	12,019	≥ 6,000	The Company's Electrical Safety Ambassadors visited 6,019 children in schools and more than 6 000 third-grade children took part in the first online electrical safety awareness initiative, the Electrical Safety Marathon and Game Show "Elektroshock". In 2024, 7 projects were implemented (Fizmix, the ČČ Championship, exhibition "Children's World 2024", the Alfreds Krauklis Basketball Tournament, the State Police and Sigulda Municipality event "Be Knowledgeable, Be Safe", the game show "Elektrošoks" in cooperation with youth opinion leaders and interactive game on arelektribuneriske.lv). Received a certification of appreciation from the "Mission Possible" school programme "Ready for Life" for contribution to developing pupils' competencies.
To inform and to educate the public on electrical safety issues. (campaigns implemented)	≥1 / per year	≥1 / per year	≥1 / per year	In 2024, 611 (22% of the total target) electrical safety publications in the media on electrical safety in households, everyday life and the safety of economic activities implementers in the vicinity of the electricity grid. To draw public attention to electrical safety, a transformer substation in the centre of Madona was painted in cooperation with artist Dainis Rubenis. Raised awareness of environmental protection and electrical safety by supporting the "EKO ZVANS!" campaign of "ZAAO" Ltd., encouraging people to pay attention to electrical safety, as the use of defective electrical equipment and repairing it yourself are the cause of dozens of electrical injuries and a number of fires every year. In cooperation with the Latvian Chamber of Commerce and Industry, a series of broadcasts "Electricity and Business" on current issues in the energy sector, inviting economic and energy experts, entrepreneurs and politicians to provide clear, practical and high-quality information to entrepreneurs on national energy policy priorities and their impact on business, the electrification potential of enterprises, etc.
Ensuring high levels of customer satisfaction and communication excellence through the development of digital customer services, CSI	60-70	70	63	See section *Medium-term operational strategy for 2022-2027*
Sustainable and economically viable distribution service and secure and high quality electricity supply, SAIDI (minutes), SAIFI(times)	160 minutes 1.85 times	145 minutes 1.81 times	168 minutes 1.99 times	See section *Medium-term operational strategy for 2022-2027*

In 2024, Sadales tīkls AS was awarded with 3rd place in the "Golden Helmet" labour protection Good Practice Award competition organised by the State Labour Inspectorate of Latvia for the Company's development and implementation of a digital solution for the administration and management of personnel rights related to the use of digital technologies in the workplace to prevent or reduce risks in the working environment.

Donations

Sadales tīkls AS continues to actively support Ukraine in rebuilding its destroyed electricity supply infrastructure. Since the beginning of the war in February 2022, Sadales tīkls AS has been in contact with colleagues in the energy sector in Ukraine and has been sending donations of the Company equipment and materials via Ziedot.lv.

Year	Recipients of the donation	Registration number	Donation	Amount (EUR)
2022	Foundation "Ziedot.lv"	40008078226	ATVs and transformers, vehicles, generators and electrical materials for the general support of Ukrainian society	255,696.37
2024	Foundation "Ziedot.lv"	40008078226	Special equipment units, generators and electrical materials for the general support of Ukrainian society	88,255.73

Governance

Sadales tīkls AS implements the principles of good corporate governance, ensuring effective management of resources, managing risks and opportunities.

Indicator	2027	2024	2023	Comment
Integrate sustainability into decision-making processes, define a structure for sustainability issues and decision-making, identify sustainability goals	implemented	in the process	–	A structure for the circulation of sustainability issues is defined. Sustainability strategy is approved, implementation is monitored by the Management Board of Sadales tīkls AS. Planning of sustainability activities and targets is integrated into the annual target planning process. The monitoring of the implementation of the sustainability strategy targets, performance evaluation, management of change proposals are handled by the Strategic Management function of the Company. Work continues on integrating sustainability issues/assessments into the decision-making process.
Raise employee understanding of sustainability and its importance, annual employee engagement	≥ 40%	≥ 40%	–	Implemented internal communication on the approval of the Sustainability Strategy 2024-2027, information sent to company employees, implemented communication of the strategy at corporate level and created a sustainability section on the Company's website, etc.
Effective management of sustainability data, a common approach to sustainability data management	implemented	–	–	Latvenergo has launched a project on a common approach to sustainability data management. The plan is to develop solutions by the end of 2025.
Maintain a corporate culture that supports ethical behaviour, corruptive events	0	0	0	No corrupt events identified. In 2024, an ethics committee was established, and a reporting email was made available to employees. New employees are informed.
Maintain a corporate culture that supports ethical behaviour, breaches of ethical standards	0	0	0	No whistleblower reports.
Improve sustainability requirements for suppliers, educational activities	≥ 3 / gadā	6	≥ 3	In 2024, the LE Group Code of Conduct for Supplier Relations was developed. Webinars, training, regular dialogue with contractors, designers and suppliers registered in the qualification system. Providing up-to-date technical, regulatory environment and occupational safety information.
Implement sustainable procurements, % of procurements that includes a sustainability criteria/requirement	≥ 30%	≥ 30%	–	In 2024, 2 "green" procurements have been implemented. Partners registered on the Qualified Bidders List comply with the Company's labour protection, environmental management requirements.
Disclose non-financial information in accordance with EU and LV disclosure requirements	x	x	–	Non-financial report prepared in accordance with 2024 requirements.
Promote ST's reputation and image as a responsible company	≥70%	52	38	See section *Medium-term operational strategy for 2022-2027*

Participation in industry associations, unions and organisations Sadales tīkls AS provides information on current events in the energy and related industries and ensures representation of interests in the development of national and international policy documents, legislation and standards.
Sadales tīkls AS participates in national associations and professional organisations - Latvian Association of Electrical Engineers and Energy Engineers, Latvian Chamber of Commerce and Industry, Employers' Confederation of Latvia, Latvian National Accreditation Bureau, Business Efficiency Association, and international associations and professional

organisations - EURELECTRIC - Europe's electricity industry trade association, the Latvian Member Committee of the World Energy Council, the European Network for Cyber Security (ENCS), the European Organisation of Distribution System Operators for the Development of a Smart Grid in Europe (E. DSO), ALLIANCE G3 CPL - standardisation, certification, development of Alliance G3 technologies and EU DSO entity – is the official EU-level organisation of electricity distribution system operators.

In accordance with clause 5 of the Sustainability Disclosure Law - the subject of the Law - the subsidiary is exempted from the obligation to prepare a sustainability report in the manner prescribed by the Law and the information on Sadales tīkls AS is included in the Latvenergo Group's consolidated sustainability report.

Information on the Company's sustainability management aspects is available on the website of Sadales tīkls AS https://sadalestikls.lv/en/ in the "Company – Sustainability" section, covering issues such as corporate social responsibility, economic and product responsibility, society, employees and the working environment, environmental protection, etc.

Further development

The goals of Sadales tīkls AS are derived from the medium-term operational strategy of Sadales tīkls AS for 2022-2027 and the sustainability strategy of Sadales tīkls AS for 2024-2027. The values to be achieved in 2025 have been set to move towards the achievement of the values set out in the strategy in 2027.

The 2025 goals have been set considering anticipated future challenges and the results of internal and external factor analyses. When determining target values and planned tasks, various potential factors influencing economic activities in 2025 were considered, including rising construction costs, enhancements in electricity market regulations and The Public Utilities Commission regulations, preparatory work for synchronization with the European grid by February 2025 (to strengthening independence of electricity supply), development and management of a network adapted for bidirectional power flow and increasing number of distributed generation and electric vehicle charging connections, among others.

In the regulatory environment, a key factor affecting electricity producers is the option for producers to forgo reserved capacity and reclaim the capacity reservation fee. Planned legislative changes related to electricity storage may impact future developments in connection setups and tariff structures. Additionally, proposed modifications to ampere-based fee zones could simplify the connection process for a broader range of users.

In 2025, the Company will continue to develop and efficiently maintain the power grid, smart grid management, and material sustainability and management to achieve lower SAIDI and SAIFI ratios over the long term, thereby achieving increasing reliability and quality of the power grid. Activities involving an increase in the share of e-environmental activities will also be promoted. The implementation of a portal for the electricity market data exchange and storage platform (2023-2026) and a smart grid management solution are planned, extending the functional coverage of the existing grid operational status management system (DMS) and the grid management system (GMS).

To accelerate the development of the electricity grid, the Company attracts external financing, which has no impact on the tariff for the customer. Through the European Union's Recovery and Resilience Facility and REPowerEU funding, we will accelerate the reliability of the power grid, modernise automated dispatching systems, and accelerate the construction of charging points for electric cars.

Sadales tīkls AS will continue to pursue its goals to continuously improve, prevent or reduce the impact of its activities on the environment and climate change, to protect and maintain biodiversity, natural and energy resources, the health and well-being of the population, and to create awareness among its employees of the need to be considerate and responsible towards the environment and energy resources.

To ensure sustainable development in 2025, the Company will continue to promote employee engagement and loyalty, focus on customer satisfaction, and contribute to the development of the Company's reputation and image. Regarding the promotion of climate neutrality, in 2025 the Company will continue to implement the establishment of public connection points for charging electric cars on the grid, ensuring the connection of distributed RES generation to the grid and the reduction of greenhouse gas (carbon dioxide) emissions through the implementation of decarbonisation and energy efficiency projects.

By implementing the tasks planned for 2025, progress will be made towards achieving the goals set out in the Company's medium-term operational strategy (2022-2027) and the sustainability strategy of Sadales tīkls AS (2024-2027).

In addition, at the State Innovative Capital Companies Initiative forum, the Latvian State Radio and Television Centre officially handed over the leadership of the initiative to Sadales tīkls AS, which will assume this role in 2025. This transition marks an important step in the cooperation between the Latvian state and local government capital companies, contributing to strengthening the culture of innovation and the growth of the economy.

Financial risk management

The Company's operations are subject to several financial risks, including market risk, interest rate risk, credit risk and liquidity risk. The management of the Company minimizes the negative impact of potential financial risks on the financial position of the Company.

Financial risk management is carried out in accordance with the principles laid down in the *Financial Risk Management Policy* of the Latvenergo Group.

a) Currency risk

Currency risk arises when a future transaction or assets or liabilities are denominated in a currency other than the Company's functional currency. If the Company were to incur currency risk for any reason, then it would be effectively hedged in accordance with the principles set forth in the Financial Risk Management Policy.

b) Interest rate risk

Interest rate risk for the Company is related to the loans issued and received from the Parent Company in accordance with the Agreement on Provision of Mutual Financial Resources concluded within Latvenergo Group and in accordance with the concluded long-term borrowing agreements.

In accordance with the agreement on Provision of Mutual Financial Resources concluded within the Latvenergo Group, an annual interest rate equal to the sum of the actual one-month EURIBOR (Euro Interbank Offered Rate) rate and the weighted average added rate of external short-term financing attracted by the Parent Company Latvenergo AS. In case the one-month EURIBOR rate is with a negative value, the interest rate is equal to the weighted average added rate of external short-term financing attracted by the Parent Company Latvenergo AS. The interest payable on mutual current borrowings and loan during the financial year did not expose significant interest rate risk.

As of 31 December 2024, the total amount of the Company's non-current borrowings from the parent company Latvenergo AS is EUR 569,169 thousand (31/12/2023: EUR 551,392 thousand). As of 31 December 2024, 50.8% (31/12/2022: 34.5%) of the Company's non-current borrowings had a variable interest rate, which is affected by the change in the six-month interbank EURIBOR rate. Other long-term borrowings are subject to a fixed interest rate, thus limiting the risk of interest rate increases.

c) Credit risk

Financial assets that potentially expose the Company to a certain degree of credit risk are mainly current loans, receivables from contracts with customers, advance payments to third parties, cash and cash equivalents. Except for the Parent Company Latvenergo SIA, the Company does not have a significant concentration of credit risk in relation to any counterparty or group of counterparties.

As of 31 December 2023, the concentration of the Company's credit risk per counterparty – Latvenergo AS – reached 36% of all trade receivables (31/12/2023: 49%). The Company considers that trade receivables of the related parties are fully recoverable. Trade receivables are stated at their recoverable amount. The Company's partners in cash transactions are the largest local banks with good reputation and with assigned investment-grade credit ratings to their parent companies.

d) Liquidity risk

The Company observes prudent liquidity risk, ensuring the availability of adequate financial resources for the settlement of liabilities within the specified terms. The Company receives the necessary cash resources from the Parent Company in accordance with the agreement concluded within the Latvenergo Group on Provision of Mutual Financial Resources.

The management of the Company predicts that it will not have liquidity problems and the Company will be able to settle with creditors within the specified terms. The management of the Company believes that the Company will have sufficient financial resources so that its liquidity is not endangered.

Events after the reporting year

During the period since the last day of the reporting year, there have been no other events that would materially affect the Company's financial statements for 2024.

Statement of management responsibility

Based on the information available to the Management Board of Sadales tīkls AS, in all material aspects Sadales tīkls AS Annual Report 2024 which includes the Management Report has been prepared in accordance with applicable laws and regulations and in all material respect present a true and fair view of the assets, liabilities, financial position and profit and loss of Sadales tīkls AS. Information provided in the Management Report is accurate.

Proposals for profit distribution

Considering the Law on Governance of Capital Shares of a Public Entity and Management of Capital Companies and ratios of the Company's capital structure, the Management Board of Sadales tīkls AS propose to pay 100% or EUR 28,256 thousand of the Company's profit for 2024 to the Parent company in dividends. The distribution of dividends is subject to a resolution of Sadales tīkls AS Shareholder Meeting.

Management Board of Sadales tīkls AS:

Sandis Jansons
Chairman of the
Management Board

Baiba Priedīte
Member of the
Management Board

Kristīne Sarkane
Member of the
Management Board

Vīgants Radziņš
Member of the
Management Board

Raimonds Skrebs
Member of the
Management Board

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

Statement of Profit or Loss

EUR'000

	Notes	2024	2023
Revenue	5	**371,812**	**343,332**
Other income		1,777	2,280
Raw materials and consumables used	6	(127,961)	(127,855)
Personnel expenses	7	(68,311)	(63,932)
Other operating expenses	8	(43,494)	(41,416)
EBITDA		**133,823**	**112,409**
Depreciation, amortisation and impairment of intangible assets, property, plant and equipment and right–of–use assets	10, 11, 12	(85,031)	(82,628)
Operating profit		**48,792**	**29,781**
Finance income	9 a	69	3
Finance costs	9 b	(16,379)	(12,878)
Profit before tax		**32,482**	**16,906**
Corporate income tax	18 b	(4,226)	–
Profit for the year		**28,256**	**16,906**

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

Statement of Comprehensive Income

EUR'000

	Notes	2024	2023
Profit for the year		**28,256**	**16,906**
Comprehensive income / (loss) not to be reclassified to profit or loss in subsequent periods:			
- gains / (loss) on remeasurement on defined benefit plan	*18, 22 a*	*2,633*	*(1,564)*
Comprehensive income / (loss) for the year		**2,633**	**(1,564)**
Total comprehensive income for the year		**30,889**	**15,342**

Notes on pages 21 to 48 form an integral part of these financial statements.

Sandis Jansons
Chairman of the
Management Board

Baiba Priedīte
Member of the
Management Board

Kristīne Sarkane
Member of the
Management Board

Vīgants Radziņš
Member of the
Management Board

Raimonds Skrebs
Member of the
Management Board

Liāna Ķeldere
Accounting director of Latvenergo AS

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

Statement of Financial Position

EUR'000

	Notes	31/12/2024	31/12/2023
ASSETS			
Non–current assets			
Intangible assets	10	25,919	27,252
Property, plant and equipment	11 a	1,767,669	1,736,486
Right–of–use assets	12	1,695	2,264
Investment property	11 d	279	475
Non-current financial investments	13	1	1
Total non–current assets		**1,795,563**	**1,766,478**
Current assets			
Current loan	19	31,101	–
Inventories and assets held for sale	14	23,595	22,998
Receivables from contracts with customers	15	40,127	30,170
Other trade and current receivables		554	246
Deferred expenses		174	158
Cash and cash equivalents	16	300	301
Total current assets		**95,851**	**53,873**
TOTAL ASSETS		**1,891,414**	**1,820,351**
EQUITY AND LIABILITIES			
Equity			
Share capital	17	652,693	652,693
Reserves	18 a	354,081	361,274
Accrued losses		(6,819)	(27,995)
Total equity		**999,955**	**985,972**
Liabilities			
Non–current liabilities			
Borrowings	19	474,309	445,553
Lease liabilities	12	1,207	1,624
Provisions	22	8,125	9,663
Deferred income	23 a	184,287	151,032
Total non–current liabilities		**667,928**	**607,872**
Current liabilities			
Borrowings	19	99,574	110,994
Lease liabilities	12	621	699
Trade and other payables	21	105,280	97,899
Deferred income	23 b	18,056	16,915
Total current liabilities		**223,531**	**226,507**
TOTAL EQUITY AND LIABILITIES		**1,891,414**	**1,820,351**

Notes on pages 21 to 48 form an integral part of these financial statements.

Sandis Jansons
Chairman of the
Management Board

Baiba Priedīte
Member of the
Management Board

Kristīne Sarkane
Member of the
Management Board

Vīgants Radziņš
Member of the
Management Board

Raimonds Skrebs
Member of the
Management Board

Liāna Ķeldere
Accounting director of Latvenergo AS

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

Statement of Changes in Equity

EUR'000

	Notes	Attributable to equity holder of the Company			TOTAL
		Share capital	Reserves	Accrued losses	
As of 31 December 2022		**652,693**	**371,889**	**(53,952)**	**970,630**
Disposal of non–current assets revaluation reserve	18 a	–	(9,051)	9,051	**–**
TOTAL changes recognised in equity		**–**	**(9,051)**	**9,051**	**–**
Profit for the year		–	–	16,906	**16,906**
Comprehensive loss for the year		–	(1,564)	–	**(1,564)**
Total comprehensive (loss) / income for the year	18 a, 22 a	**–**	**(1,564)**	**16,906**	**15,342**
As of 31 December 2023		**652,693**	**361,274**	**(27,995)**	**985,972**
Dividends for 2023	18 b	–	–	(16,906)	**(16,906)**
Disposal of non–current assets revaluation reserve	18 a	**–**	(9,826)	9,826	**–**
TOTAL changes recognised in equity		**–**	**(9,826)**	**(7,080)**	**(16,906)**
		–	–	28,256	**28,256**
Profit for the period			–	–	**28,256**
Comprehensive income for the year		–	2,633	–	**2,633**
Total comprehensive income for the year	18 a, 22 a	**–**	**2,633**	**28,256**	**30,889**
As of 31 December 2024		**652,693**	**354,081**	**(6,819)**	**999,955**

Notes on pages 21 to 48 form an integral part of these financial statements.

Sandis Jansons
Chairman of the
Management Board

Baiba Priedīte
Member of the
Management Board

Kristīne Sarkane
Member of the
Management Board

Vīgants Radziņš
Member of the
Management Board

Raimonds Skrebs
Member of the
Management Board

Liāna Ķeldere
Accounting director of Latvenergo AS

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

Statement of Cash Flows

EUR'000

	Notes	2024	2023
Cash flows from operating activities			
Profit before tax		**32,482**	**16,906**
Adjustments:			
- Depreciation, amortisation and impairment of intangible assets, property, plant and equipment and right–of–use assets	10, 11, 12	85,031	82,628
- Loss from disposal of non-current assets		7,945	7,172
- Finance income	9 a	(69)	(3)
- Finance costs	9 b	16,379	12,878
- Decrease in provisions	22 a, b	1,094	94
Operating profit before working capital adjustments		**142,862**	**119,675**
Increase in inventories		(606)	(4,504)
Increase in receivables from contracts with customers and other receivables		(9,601)	(2,164)
(Decrease) / increase in trade and other payables		(16,767)	16,330
Impact on the parent company's borrowings / loan from receivables and payables of group companies, net	19	(104,414)	(89,231)
Cash generated from operating activities		**11,474**	**40,106**
Payments of interest on leases	12	(36)	(36)
Paid corporate income tax		(4,226)	–
Net cash flows generated from operating activities		**7,212**	**40,070**
Cash flows from investing activities			
Purchase of intangible assets and property, plant and equipment		(117,584)	(94,326)
Net cash flows used in investing activities		**(117,584)**	**(94,326)**
Cash flows from financing activities			
Proceeds on borrowings from the Parent Company, net	19	89,129	42,293
Received financing from European Union		22,562	12,570
Paid financing from European Union to the parent company as a cooperation partner		(678)	–
Payments of principal on leases	12	(642)	(607)
Net cash flows generated from financing activities		**110,371**	**54,256**
Net decrease in cash and cash equivalents		**(1)**	**–**
Cash and cash equivalents at the beginning of the reporting year		301	301
Cash and cash equivalents at the end of reporting year	16	**300**	**301**

Notes on pages 21 to 48 form an integral part of these financial statements.

Sandis Jansons
Chairman of the
Management Board

Baiba Priedīte
Member of the
Management Board

Kristīne Sarkane
Member of the
Management Board

Vīgants Radziņš
Member of the
Management Board

Raimonds Skrebs
Member of the
Management Board

Liāna Ķeldere
Accounting director of Latvenergo AS

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

Notes to the Financial Statements

1. GENERAL INFORMATION ON THE COMPANY

Sadales tīkls AS (hereinafter – Sadales tīkls AS or the Company) is power supply utility engaged in electricity distribution, electric installation, as well construction of buildings and facilities or parts thereof, assembly of engineering systems and production of poles for distribution system lines. The registered address of the Company is 1 Šmerļa Street, Riga, Latvia, LV–1160. Registered in Commercial Register of the Republic of Latvia on 18 September 2006, No. 40003857687. Objects of the Company are located throughout the territory of Latvia.

The sole shareholder holding all of shares of Sadales tīkls AS and preparing consolidated annual report including Sadales tīkls AS as its subsidiary, is Latvenergo AS (The registered address of the Company is 12 Pulkveža Brieža Street, Riga, Latvia, LV–1230), whose shares are owned by the Republic of Latvia and are held by the Ministry of Economics of the Republic of Latvia, see on Latvenergo AS web page section "Investors" (http://www.latvenergo.lv/eng/investors/reports/).

The company's business activities are distribution of electricity (NACE: 35.13), Construction of utility projects for electricity and telecommunications (NACE: 42.22), installation of electrical installations (NACE: 43.21), sawing, planing and impregnation (NACE: 16.10) and education not elsewhere classified (NACE: 85.59).

Since 2 May 2023 the Management Board of Sadales tīkls AS was comprised of the following members: Sandis Jansons (Chairman of the Board), Baiba Priedīte, Raimonds Skrebs, Kristīne Sarkane and Vīgants Radziņš.

On 14 July 2020 the Supervisory Board of Sadales tīkls AS was established, comprised of the following members: Kristaps Ločmelis (Chairman of the Board), Edijs Šaicāns (Deputy Chairman), Inese Zīle and Viktorija Meikšāne.

The accounting service is provided by Latvenergo AS (40003032949) in accordance with the concluded accounting service agreement.

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

The Management Board of Sadales tīkls AS has approved 2024 Annual report, including the Financial Statements on 1 April 2025. The Company's Financial Statements are subject to Shareholder's approval after the issue (see on webpage www.sadalestikls.lv section *Financial Reports*).

2. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these Company's Financial Statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1. Basis of preparation

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

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

The Statement of cash flows is prepared using the indirect method by adjusting the profit before tax with the cash flows generated from operating activities.

The Company's Financial Statements have been prepared in euro (EUR) currency and all amounts shown in these Financial Statements except non-monetary items are presented in thousands of EUR (EUR'000). All figures, unless stated otherwise are rounded to the nearest thousand.

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

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

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

a) Standards issued and which became effective, and that have been endorsed by the European Union, and are relevant for the Company's operations

The adopted policies correspond to the accounting policies of the previous financial year, except for the following IFRS amendments, which the Company has adopted starting from 1 January 2024:

- **IAS 1 Classification of Liabilities as Current or Non-current (Amendments)**

The amendments become effective for annual reporting periods beginning on or after 1 January 2024 with earlier application permitted, and amendments must be applied prospectively in accordance with IAS 8. The purpose of the amendments is to clarify IAS 1 principles for classifying liabilities as current or non-current. The amendments clarify the meaning of a right to defer settlement, the requirement for this right to exist at the end of the reporting period, that management intent does not affect current or non-current classification, that options by the counterparty that could result in settlement by the transfer of the entity’s own equity instruments do not affect current or non-current classification. Also, the amendments specify that only covenants with which an entity must comply on or before the reporting date will affect a liability’s classification. Additional disclosures are also required for non-current liabilities arising from loan arrangements that are subject to covenants to be complied within twelve months after the reporting period. The Company's management has assessed that these amendments had no impact on the classification of liabilities and the financial statements.

b) Standards and its amendments issued, which have not yet became effective and have not yet endorsed by the European Union, but are relevant for the Company's operations and are not early adopted

- **IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosures - Classification and Measurement of Financial Instruments (Amendments)**

The amendments are effective for annual reporting periods beginning on or after 1 January 2026. Early adoption of amendments related to the classification of financial assets and the related disclosures is permitted, with the option to apply the other amendments at a later date. The amendments clarify that a financial liability is derecognised on the ‘settlement date’, when the obligation is discharged, cancelled, expired, or otherwise qualifies for derecognition. They introduce an accounting policy option to derecognise liabilities settled via electronic payment systems before the settlement date, subject to specific conditions. They also provide guidance on assessing the contractual cash flow characteristics of financial assets with environmental, social, and governance (ESG)-linked features or other similar contingent features. Additionally, they clarify the treatment of non-recourse assets and contractually linked instruments and require additional disclosures under IFRS 7 for financial assets and liabilities with contingent event references (including ESG-linked) and equity instruments classified at fair value through other comprehensive income. The Company will assess the impact of these amendments on the classification of financial instruments and disclosures in the financial statements, but does not expect them to have a significant impact on the Company's financial position.

- **IFRS 18 Presentation and Disclosure in Financial Statements**

IFRS 18 is effective for reporting periods beginning on or after 1 January 2027, with earlier application permitted. Retrospective application is required in both annual and interim financial statements. IFRS 18 introduces new requirements on presentation within the statement of profit or loss. It requires an entity to classify all income and expenses within its statement of profit or loss into one of the five categories: operating; investing; financing; income taxes; and discontinued operations. These categories are complemented by the requirements to present subtotals and totals for ‘operating profit or loss’, ‘profit or loss before financing and income taxes’ and ‘profit or loss’. It also requires disclosure of management-defined performance measures and includes new requirements for aggregation and disaggregation of financial information based on the identified ‘roles’ of the primary financial statements and the notes. In addition, there are consequential amendments to other accounting standards. The Company will assess the impact of the new standard, particularly on the structure of the income statement, the statement of cash flows and the disclosure of additional information required to disclose the management's determined performance. The Company will also assess the impact on how information is grouped in the financial statements, including in relation to items currently designated as “other”.

- **Annual Improvements to IFRS Accounting Standards – Volume 11**

The IASB’s annual improvements process deals with non-urgent, but necessary, clarifications and amendments to IFRS. In July 2024, the IASB issued Annual Improvements to IFRS Accounting Standards — Volume 11. An entity shall apply those amendments for annual reporting periods beginning on or after 1 January 2026. The Annual Improvements to IFRS Accounting Standards - Volume 11, includes amendments to IFRS 1, IFRS 7, IFRS 9, IFRS 10, and IAS 7. These amendments aim to clarify wording, correct minor unintended consequences, oversights, or conflicts between requirements in the standards. The Company will evaluate the impact of these annual improvements on the financial statements, but does not expect them to have a material impact on the Company's financial position.

c) Standards and its amendments issued and which became effective, and that have been endorsed by the European Union, and which are not relevant for the Company's operations

- IFRS 16 Leases: Lease Liability in a Sale and Leaseback (Amendments)
- IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments Disclosures - Supplier Finance Arrangements (Amendments)

d) Standards and its amendments issued and endorsed by the European Union but are not yet effective and are not early adopted and are not relevant to the Company's operations

- IAS 21 The Effects of Changes in Foreign Exchange Rates: Lack of Exchangeability (Amendments)

e) Standards and its amendments issued and have not yet endorsed by the European Union but are not yet effective and are not early adopted and are not relevant to the Company's operation

- IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosures - Contracts Referencing Nature-dependent Electricity (Amendments)
- IFRS 19 Subsidiaries without Public Accountability: Disclosures
- Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

2.2. Going concern

As of 31 December 2024 the Company's current liabilities exceeded current assets by EUR 127,680 thousand (31/12/2023: EUR 183,894 thousand). Current liabilities mainly consist of borrowings from and liabilities to the Parent company.

The Management of the Company foresees that in 2025 the Company will not have liquidity problems and will settle its liabilities to creditors within set terms as it is foreseen that the Company will have positive operating cash flow. Credit risk exposure in connection with trade receivables is managed by the Company's Management. This exposure has significantly concentrated only on transactions with the Parent Company – Latvenergo AS (distribution system services). The Company will not be influenced by significant liquidity risk as the liabilities mainly comprise of liabilities from related parties and the Management of the Company is confident that related parties will agree on deferring the maturity dates of liabilities settlements or the Parent Company will provide additional financing to avoid insolvency of the Company.

On 26 February 2025 the Company has received a support letter from the Parent Company. The letter verifies that annual report for the year 2024 of Sadales tīkls AS is prepared in accordance with going concern principle, acknowledging that Latvenergo AS position as 100% shareholder is to ensure that subsidiary is managed so that it has sufficient financial resources and is able to carry its operations and settle its obligations, as well if necessary, not to request repayment of a principal amount of the loan, as well repayment of accrued interest from Sadales tīkls AS, if that would cause doubt for Sadales tīkls AS to continue its operations at least 12 months after the approval of Sadales tīkls AS year 2024 Annual report.

The management of the Company therefore concluded that going concern principle is applicable for preparation of these financial statements.

2.3. Foreign currency translation

a) Functional and presentation currency

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

b) Transactions and balances

All transactions denominated in foreign currencies are translated into the functional currency according to the European Central bank (ECB) exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into functional currency using the exchange rate of the European Central bank at the last day of the reporting year. The resulting gain or loss is charged to the Company's Statement of Profit or Loss.

2.4. Non-financial assets and liabilities

2.4.1. Intangible assets

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

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

a) Connection usage rights

Connection usage rights are the payments for the rights to use the transmission system's power grid and are measured at cost net of amortisation and accumulated impairment that is calculated on straight–line basis to allocate the cost of connection usage rights to the residual value over the estimated period of relationship with a supplier (connection installer) – 20 years.

b) Licenses and software

Usage rights, licenses and software are shown at historical cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using the straight–line method to allocate the cost of usage rights, licenses and software over their estimated useful lives. Computer software development costs recognised as assets are amortised over their estimated useful lives, not exceeding a period of use defined in agreement or 3 – 10 years.

2.4.2. Property, plant and equipment

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

If an item of PPE consists of components with different useful lives and the cost of these components are significant against the cost of an PPE item, these components are recognised separately.

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

Type of property, plant and equipment (PPE)	Estimated useful life, years
Buildings and facilities	15 – 80
Distribution system electricity lines and electrical equipment:	
– electricity lines	30 – 50
– electrical equipment of transformer substations	30 – 35
Technology equipment and machinery	8 – 10
Other property, plant and equipment	2 – 20

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

Gains or losses on property, plant and equipment disposals are determined by comparing proceeds with carrying amounts. Those are included in the Company's Statement of Profit or Loss. If revalued property, plant and equipment have been sold or disposed, appropriate amounts are reclassified from revaluation reserve to retained earnings.
All fixed assets under construction are stated at historical cost and comprised costs of construction of assets. The initial cost includes construction and installation costs and other direct costs related to construction of fixed assets. General and specific borrowing costs directly attributable to the acquisition or construction of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. Assets under construction are not depreciated as long as the relevant assets are completed and ready for intended use, assets under construction are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, either individually or at the cash-generating unit level. The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the recoverable amount that is higher of the asset's fair value less costs to sell and value in use.

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

2.4.3. Investment property

Investment properties are land or a building or part of a building held by the Company as the owner to earn rentals or for capital appreciation, rather than for use in the production of goods or supply of services or for administrative purposes, or sale in the ordinary course of business. Investment property generates cash flows independently of the other assets held. The investment properties are initially recognised at cost and subsequently measured at acquisition cost net of accumulated depreciation and impairment losses. The applied depreciation rates are based on estimated useful life set for respective fixed asset categories – from 15 to 80 years

The Company apply the cost model in valuation of investment properties. Land or building or part of a building held by the Company as the owner to earn rentals or for capital appreciation, rather than for use in the production of goods or supply of services or for administrative purposes, or sale in the ordinary course of business, after decision of the Company's management are initially recognised as investment properties at cost and subsequently measured at acquisition cost net of accumulated depreciation and impairment losses.

2.4.4. Revaluation of property, plant and equipment

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

Electricity distribution system assets (property, plant and equipment) are revalued regularly but not less frequently than every five years:
- electricity lines,
- electrical equipment of transformer substations.

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

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

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

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

2.4.5. Impairment of non-financial assets

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

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

2.4.6. Leases

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

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

Low value leases are not recognised completely, applying the exemption for leases of land under transformer substations, which are considered not material according to the criteria of IFRS 16, and the value of this type of asset is not material.

Leases are recognised as right–of–use assets and the corresponding lease liabilities at the date when leased assets are available for use of the Company. The cost of the right–of–use an asset consists of:
- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs.

The Company accounts right–of–use assets of land, buildings and facilities.

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

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

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

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

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

2.4.7. Inventories

Inventories are stated at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Cost is determined using the weighted average method.

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

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

- inventories that haven't turned over during last 6 months are impaired in amount of 50%,
- inventories that have not turned over during last 12 months are fully impaired.

2.4.8. Provision

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

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

a) Provisions for post–employment benefits

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

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

The liability is recognised in the Company's Statement of Financial Position in respect of post–employment benefit plan is the present value of the defined benefit obligation at the end of the reporting period. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using weighted average discount rate of the European Insurance and Occupational Pensions Authority (EIOPA) and EURBMK BBB electricity industry rate. The discount rate used is determined by reference to market yields on government bonds due to lack of deep market on high quality corporate bonds. The currency and maturity of the government bonds correspond the currency and estimated maturity of the liabilities. The discount rate reflects the time value of money and not actuarial or investment risk. The Company uses projected unit credit method to establish its present value of fixed benefit obligation and related present and previous employment expenses. According to this method it has been stated that each period of work makes benefit obligation extra unit and the sum of those units comprises total Company's obligations of post–employment benefits. The Company use objective and mutually compatible actuarial assumptions on variable demographic factors and financial factors (including expected remuneration increase and determined changes in benefit amounts).

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

2.5. Financial assets and liabilities

2.5.1. Financial assets and liabilities

The Company classifies its financial assets under IFRS 9 in the following measurement categories:

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

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

The Company reclassifies debt investments when and only when its business model for managing those assets changes.

Debt instruments

Subsequent measurement of debt instruments depends on the Company's business model for managing the asset and the cash flow characteristics of the asset. The Company classifies its debt instruments:

- *Amortised cost.* Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Any gain or loss arising on de-recognition is recognised directly in profit or loss. Impairment losses are presented as separate item in the statement of profit or loss position 'Other operating expenses'.

Equity instruments

The Company subsequently measure all equity investments at fair value.

Financial Liabilities

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

Impairment

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

The Company has applied two expected credit loss models: counterparty model and portfolio model.

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

For estimation of expected credit loss for unsettled revenue on individually significant other receivables and other receivables of energy industry companies and related parties The Company apply the simplified approach and record lifetime expected losses based on corporate default and recovery rates.

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

2.5.2. Receivables from contracts with customers and other receivables

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

a) Receivables from distribution system services,
b) Receivables from connection service fees and other distribution system services,
c) Receivables from subsidiaries.

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

The Company consider the evidence of impairment for the receivables from contracts with customers and other receivables at both an individual and a collective level.

The expected loss rates are based on the payment profiles of sales and the corresponding historical credit losses experienced within this period. The Company applies the IFRS 9 simplified approach to measuring expected credit losses of these receivables which uses a lifetime expected loss allowance (see Note 4 b).

For individually significant other receivables and other receivables of energy industry companies and related parties' receivables the counterparty model is used based on individual contract basis. The expected credit losses according to this model are based on assessment of the individual counterparty's risk of default based on Moody's corporate default and recovery rates for the relevant industry's entity.

2.5.3. Cash and cash equivalents

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

2.6. Dividend distribution

Dividend distribution to the Shareholder of the Company is recognised as a liability in the Company’s Financial Statements in the period in which the dividends are approved by the Company’s Shareholder.

2.7. Corporate income tax

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

2.8. Grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. Government grants are recognised as income over the period necessary to match them with the related costs, for which they are intended to compensate, on a systematic basis.

Grants related to expense items

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

A grant received for part-financed research project costs is recognized as a cost reduction in the period in which the actual costs are incurred.

Grants related to assets

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

2.9. Revenue recognition

Revenue from contracts with customers

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

In evaluating whether collectability of an amount of consideration is probable, the Company uses portfolio approach practical expedient for all distribution services customers. Company reasonably expects that, the effects on the financial statements from applying these requirements to the portfolio would not differ materially from applying the requirements to the individual contracts within the portfolio. For other customers collectability is assessed individually.

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

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

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

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

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

I) Revenue recognised over time

Sales of distribution services

Revenues from electricity distribution services are based on regulated tariffs that are subject to approval by the Public Utilities Commission (PUC), revenues from reactive energy are based on regulations by Cabinet of Ministers of the Republic of Latvia 'Regulations on electricity trade and usage'. The Company recognizes revenue from sales of distribution services and from reactive energy at the end of each month on the basis of the automatically made meter readings or customers' reported meter readings, on the period in which the services are rendered.

In accordance with paragraph 108 of the Transitional Provisions of the "Electricity Market Law" adopted by the Saeima of the Republic of Latvia, from 1 January 2024 to 31 December 2025, for a twelve-month period has been set a ceiling for the increase in the fixed part of the distribution tariff for household users with a connection capacity of up to 25A. The difference between the approved and applied tariffs to customers is compensated from the state budget (Note 5).

These regulations do not change agreements on the scope of provided services and do not change the approved distribution system tariffs, and respectively do not change the Company's revenue recognition principles, but the process of receiving the transaction fees and the payer for the services. The Company has the right to receive the full fee for the provided services: from customer at a reduced price within the specified period of time and the payment for the reduction in price has been received from the state.

Distribution system connection fees

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

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

II) Revenue recognised applying agent accounting principle

Mandatory procurement PSO fees

Revenue from mandatory procurement public service obligation (PSO) fees is revenue which consists from payments of electricity end–users for covering mandatory electricity procurement costs of electricity public trader Enerģijas publiskais tirgotājs SIA. The Electricity Market Law provides that all electricity end–users in Latvia shall compensate the mandatory electricity purchase costs. As a result, the PSO fees are included in bills paid by customers for electricity and system services. The Company as a system operator has the obligation to collect revenues of PSO fees from customers or traders and further to transfer these revenues to public trader.

PSO fees are based on regulated tariffs that are subject to approval by the Public Utilities Commission. Due to lack of control over PSO fees before they are transferred to a customer, Company considers itself an agent in these transactions. Therefore, PSO fees are recognised in the Company's Statement of Profit or Loss in net amount by applying the agent accounting principles. On 1 May 2023 the amendments to the Electricity Market Law came into force, canceling the PSO fees for electricity end-users.

2.10. Related parties

Related parties of the Company are the parent Company, other Latvenergo Group Companies, members of the Management board, members of the Supervisory Board and close family members of any above–mentioned persons, as well as entities over which those persons have control or significant influence.

3. FINANCIAL RISK MANAGEMENT

3.1. Financial risk factors

The Company's activities expose it to a variety of financial risks: market risks (including pricing risk for regulated activities and interest rate risk), credit risk and liquidity risk.

Risk management (except for pricing risk for regulated activities) is carried out by the Parent Company's Treasury department (the Latvenergo AS Treasury) according to Latvenergo Group's Financial Risk Management Policy approved by the Management Board of the Parent Company. The overall financial risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance of Group Companies. The Latvenergo AS Treasury identifies, evaluates and hedges financial risks in close co–operation with the Company's operating units. The Management Board of the Parent Company by approving Latvenergo Group's Financial Risk Management Policy provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, foreign exchange risk, liquidity risk, and credit risk, use of investment for excess liquidity.

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

EUR'000

	Notes	Financial assets at fair value through comprehensive income	Financial assets at amortised cost
Financial assets as of 31 December 2024			
Non–current financial investments	13	1	–
Current loan	19	–	31,101
Receivables from contracts with customers	15	–	40,127
Other trade and current receivables		–	554
Cash and cash equivalents	16	–	300
		1	**72,082**
Financial assets as of 31 December 2023			
Non–current financial investments	13	1	–
Receivables from contracts with customers	15	–	30,170
Other trade and current receivables		–	246
Cash and cash equivalents	16	–	301
		1	**30,717**

EUR'000

	Notes	Financial liabilities at amortised cost
Financial liabilities as of 31 December 2024		
Borrowings	19	573,883
Lease liabilities	12	1,828
Trade and other payables	21	69,303
		645,014
Financial liabilities as of 31 December 2023		
Borrowings	19	556,547
Lease liabilities	12	2,323
Trade and other payables	21	68,294
		627,164

a) Market risk

I) Foreign currencies exchange risk

Foreign currencies exchange risk arises when future transactions or recognised assets or liabilities are denominated in a currency that is not the Company's functional currency. As of 31 December 2024 and 31 December 2023 the Company's revenues and financial assets and liabilities were denominated in euros, therefore the Company is not exposed to significant foreign currencies exchange risk.

Latvenergo Group's Financial Risk Management Policy is to hedge all anticipated cash flows (capital expenditure and purchase of goods and services) in each major foreign currency that might create significant currency risk. During 2024 and 2023 the Company had no capital expenditure project which expected transactions would create significant currency risk.

II) Interest rate risk

The Company's interest rate risk mainly arises from long–term borrowings at variable rates. They expose the Company to a risk that finance costs might increase significantly when interest rates rise up. The Company's policy is to maintain at least 35% of its borrowings as fixed interest rates borrowings with duration between 2 – 4 years.

As of 31 December 2024, 49.24% of the total Company's borrowings (31/12/2023: 65.54%) are with fixed interest rate and average fixed rate duration is 1.08 years (2022: 1.47 years).

The Company analyses its interest rate risk exposure on a regular basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and hedging. Based on these scenarios, the Company calculates the impact on profit and loss as well as on cash flows of a defined interest rate shift.

Over the next 12 months, if interest rates on euro denominated borrowings at floating base interest rates will be 50 basis points higher compared to interest rates as of 31 December 2024 assuming that all other variables held constant, the Company's profit for the year would have been EUR 1,373 thousand lower (31 December 2023: have been EUR 871 thousand lower).

The Company's borrowings with floating rates do not impose fair value interest rate risk.

III) Price risk

Price risk is the risk that the fair value and cash flows of financial assets and liabilities will fluctuate in the future due to reasons other than changes in the market prices resulting from interest rate risk or foreign exchange risk. The purchase and sale of the services provided by the Company under the free market conditions, as well as the purchases of resources used in capital expenditure are impacted by the price risk. The most significant price risk is related to purchase of electricity, services and materials.

While from 1 April 2023, the Company purchases electricity at the fixed electricity purchase price and fixed the service provided by the trader, incl. balancing service price in certain periods in order to mitigate the impact of this market risk.

The Company acts as a distribution system operator and provides electricity distribution services in the territory of the Republic in Latvia at tariffs that include projected operational costs, investments and profitability level approved by the Public utilities commission, i.e., operates in a regulated market.

b) Credit risk

The Company's credit risk arises from cash and cash equivalents and outstanding receivables. Credit risk exposure in connection with cash and cash equivalents is managed by the Latvenergo AS Treasury according to Latvenergo Group's Financial Risk Management Policy.

Credit risk exposure in connection with trade receivables is managed by the Company's Management. This exposure has significantly concentrated on trade transactions with Latvenergo AS (distribution system services and mandatory procurement PSO fees transactions). Impairment loss has been deducted from gross accounts receivable (Note 15). The maximum credit risk exposure related to financial assets comprises of carrying amounts of cash and cash equivalents (see table below and Note 16) and receivables from contracts with customers (Note 15).

Assessment of maximum possible exposure to credit risk EUR'000

	Notes	31/12/2024	31/12/2023
Receivables from contracts with customers, net	15	40,127	30,170
Other trade and current receivables		554	246
Cash and cash equivalents	16	300	301
		40,981	**30,717**

For banks and financial institutions, independently rated parties with own or parent bank's minimum rating of investment grade are accepted. Otherwise, if there is no independent rating, Latvenergo AS Treasury according to Latvenergo Group's Financial Risk Management Policy performs risk control to assess the credit quality of the financial counterparty, taking into account its financial position, past co–operation experience and other factors and after performed assessment individual credit limits are set based on internal ratings in accordance with principles set by the Financial Risk Management Policy. The basis for estimating the credit quality of financial assets not past due and not impaired is credit ratings assigned by the rating agencies or, in their absence, the earlier credit behaviour of clients.

Under IFRS 9 the Company measures the probability of default upon initial recognition of a receivable and at each balance sheet date consider whether there has been a significant increase of credit risk since the initial recognition (Notes 2.5.1. and 2.5.2.).

Expected credit risk are regularly monitored.
Credit risk related to cash and cash equivalents is managed by balancing the placement of financial assets in order to maintain the possibility to choose the best offers and to reduce probability to incur losses.

All cash and cash equivalents at the end of the reporting period in the amount of EUR 300 thousand (31 December 2022: EUR 301 thousand) are placed in SEB Banka AS and Swedbank AS with investment level credit rating assigned for the parent companies of the banks.

No credit limits were exceeded during the reporting year, and the Company's management does not expect any losses due to occurrence of credit risk.

c) Liquidity risk

Latvenergo AS Treasury monitors the liquidity situation of the Company to ensure that subsidiary has sufficient financial resources and is able to carry its operations and settle its obligations.

Sadales tīkls AS is the member of both Group Accounts in SEB Banka AS and Swedbank AS, which were concluded to efficiently and unitedly manage financial resources of Latvenergo Group.

The Company's liquidity risk is managed through Group Accounts, Latvenergo Group mutually concluded agreement 'On provision of mutual financial resources' and long term financing agreements; therefore, sufficient amount of cash and cash equivalents, the availability of long and short term funding are provided to meet commitments according to the Company's strategic plans as well as to compensate the fluctuations in the cash flows due to occurrence of variety of financial risks.

The Company's management is monitoring rolling forecasts of the Company's liquidity reserve, which comprises of an evaluation of the amount of cash and cash equivalents (Note 16).

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

Liquidity analysis (contractual undiscounted gross cash flows) EUR'000

	Less than 1 year	From 1 to 2 years	From 3 to 5 years	Over 5 years	TOTAL
As of 31 December 2024					
Borrowings from the Parent Company	112,407	216,937	226,844	88,421	**644,609**
Lease liabilities (Note 12)*	780	615	810	208	**2,413**
Current financial liabilities (Note 21)	69,303	–	–	–	**69,303**
	182,490	**217,552**	**227,654**	**88,629**	**716,325**
As of 31 December 2023					
Borrowings from the Parent Company	121,568	106,254	253,765	127,039	**608,626**
Lease liabilities (Note 12)*	816	711	1,174	249	**2,950**
Current financial liabilities (Note 21)	68,294	–	–	–	**68,294**
	190,678	**106,965**	**254,939**	**127,288**	**679,870**

* the carrying amount of the lease (discounted) as of 31 December 2024 is EUR 1,828 thousand (31 December 2023: EUR 2,323 thousand)

3.2. Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern as well as to ensure necessary financing for investment program.

In order to maintain or adjust the capital structure, the Company may evaluate the amount and timing of raising new debt due to investment programs or initiate new investments in the share capital by shareholder.
The capital ratio figures were as follows:
EUR'000

	31/12/2024	31/12/2023
Total equity	999,955	985,972
Total assets	1,891,414	1,820,351
Capital Ratio	**53%**	**54%**

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are regularly evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

The Management of the Company has assessed the situation at the end of the reporting period and has determined that the events related to Russian military action in Ukraine and related sanctions against Russia and Belarus, have not created a significant negative impact on the Company's financial results, considering the nature and continuity of services provided by the Company.The Management of the Company continuously takes the necessary actions to ensure both the continuation of the operations of the electricity distribution system operator and the availability of the services provided to customers, and the Management of the Company does not foresee significant operational disruptions in the future that could affect the continuation of the Company's operations and the valuation of assets and liabilities. The assumptions of the Company's Management are based on the information available at the date of approval of the financial statements. The impact of future events on the Company's future operations may differ from the current assessment.

a) Estimates concerning property, plant and equipment

I) Useful lives of property, plant and equipment

The Company makes estimates concerning the expected useful lives and residual values of property, plant and equipment. These are reviewed at the end of each reporting period and are based on the past experience as well as industry practice. For the assets that are planned to be reconstructed, the remaining useful life is determined to be till the date of reconstruction. Previous experience has shown that the actual useful lives have sometimes been longer than the estimates. Values of fully depreciated property, plant and equipment are disclosed in Note 11 a. Quantifying an impact of potential changes in the useful lives is deemed impracticable therefore sensitivity analysis is not disclosed.

II) Recoverable amount of property, plant and equipment

The Company performs impairment tests for items of property, plant and equipment when the events and circumstances indicate a potential impairment. For the items of PPE are defined separate cash–generating units. According to these tests assets are written down to their recoverable amounts, if necessary. When carrying out impairment tests, management uses various estimates for the cash flows arising from the use of the assets, sales, maintenance, and repairs of the assets, as well as in respect of the inflation and growth rates. The estimates are based on the forecasts of the general economic environment, consumption and the estimated price of distribution services. The estimates are based on Latvian regulatory authority (Public Utilities Commission) stated methodology. There are no impairment charges recognised during the current reporting year (Note11 c).

III) Revaluation

Revaluation of the Company’s property, plant and equipment (distribution system assets) is performed by independent, external and certified valuers by applying the depreciated replacement cost model. Valuation has been performed according to standards on property valuation, based on current use of property, plant and equipment that is estimated as the most effective and best use of these assets. As a result of valuation, depreciated replacement cost is determined for each asset. Depreciated replacement cost is difference between the cost of replacement or renewal of similar asset at the time of revaluation and the accumulated loss of an asset's value that encompasses physical deterioration, functional (technological) obsolescence and economic (external) obsolescence (Note 11).

Revaluation of fixed assets is carried out regularly, but not less often than once every 5 years, revaluation can be carried out more often if there is a significant and long-term increase in the construction costs of civil engineering structures. The revaluation process is initiated if the increase in construction costs of engineering structures since the previous revaluation exceeds 10% for two consecutive quarters, according to the data of the Central Statistics Bureau, and a long-term increase in costs is expected.

In 2024, the Company's management has assessed the price level of electrical equipment, electrical network, power lines and general construction and has identified inflation, labour and material costs increase compared to January 2020, when the revaluation was carried out and fair value was determined, using the amortized replacement cost method. The Company's management has a reason to believe that fair value of fixed assets could be significantly higher than the current book value as of 31 December 2024 thus the recoverable value of the infrastructure of the electricity distribution system was also assessed as a result it was concluded that the total recoverable value of the assets exceeds the book value. The "Methodology of capital costs accounting and calculation" approved by the decision of the Public Utilities Commission of 29 August 2022, which stipulates that the value of assets used in calculations of regulatory asset base are without taking into account the effect of asset revaluations after 31 December 2021. After examining the recoverable value of the assets as well as the changes in the mentioned methodology, the Company's management assesses that the fair value of the assets does not differ significantly from the assets book value as of 31 December 2024. Taking into account the above, revaluation of assets as of 31 December 2024 does not need to be carried out (Note 11c).

b) Impairment of financial assets

The Company has the following types of financial assets that are subject to the expected credit loss model:

- receivables from contracts with customers,
- other trade and current receivables,
- cash and cash equivalents.

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

The Company applies two expected credit loss models: portfolio model and counterparty model.

Using the portfolio model the Company applies the IFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for trade receivables of basic business activities. To measure expected credit losses these receivables have been grouped based on shared credit risk characteristics and the days past due. The Company therefore has concluded that the expected loss rates for these receivables are a reasonable approximation of the credit risk exposure. The expected loss rates are based on the payment profiles of sales by assessing the historical credit losses experienced. There are no adjustments made to the historical loss rates that would reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables, as the Company has assumed that macroeconomical situation and its future projections do not have significant impact on expected credit loss.

Counterparty model is used on basis of evaluating individual contracts with customers and individually significant trade receivables and receivables of related parties, and cash and cash equivalents.

If no significant increase in credit risk is identified, the lifetime expected credit losses according to this model are based on assessment of the individual counterparty's or counterparty's industry risk of default and recovery rate assigned by Moody's credit rating agency for 12 months expected losses rates. The circumstances indicating a significant increase in credit risk is significant increase in Moody's default and recovery rates (by 1 percentage point) and counterparty's inability to meet payment terms (overdue 30 days or more, insolvency or bankruptcy, or initiated similar legal proceedings and other indications on inability to pay). If significant increase in credit risk is identified, calculated lifetime expected credit loss.

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

c) Estimates concerning revenue recognition from contracts with customers

Recognition of connection service fees

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

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

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

d) Recognition and revaluation of provisions

The Company has set up provisions for post–employment benefits. The amount and timing of the settlement of these obligations is uncertain. A number of assumptions and estimates have been used to determine the present value of provisions, including the amount of future expenditure, inflation rates, and the timing of settlement of the expenditure. The actual expenditure may also differ from the provisions recognised as a result of possible changes in legislative norms. For revaluation of provisions for post–employment obligations probabilities of retirement in different employees' aging groups as well as variable demographic factors and financial factors (including expected remuneration increase and determined changes in benefit amounts) have been estimated. The probabilities and other factors are determined on the basis of previous experience.

e) Lease term and classification

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and is within the control of the Company.

In order to carry out its economic activities, the Company has entered into a lease agreement for the lease of land, buildings and engineering structures related to the distribution system network infrastructure. Based on an evaluation of the terms of the agreement, such as rights of the ownership is not transferred, the lessor retains all the significant risks and rewards of ownership of these assets, and accounts lease of the agreements as operating lease until the adoption of IFRS 16.

f) Fair value measurement

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

The following methods and assumptions were used to estimate the fair values of the Company’s borrowings:

- The fair values of borrowings with floating interest rates are approximate equal to their carrying amount, as their actual floating interest rates approximate the market price of similar financial instruments available to the Company;
- The borrowings with fixed interest rates had the fixed repayment period and are not traded in the active market;
- for the financial instruments, what are not traded in the active market, the fair value is measured, using valuation techniques.
- The Company uses various methods and models and make assumptions, which are based on the market conditions regarding the interest rates and other market conditions, existing at the end of reporting period.
- The fair value calculations for borrowings are based on discounted cash flows using discount factor of respective EUR swap rates increased by the Company’s credit risk margin.

The Company’s management assessed that fair values of cash and cash equivalents, trade receivables, trade payables and other current receivables and liabilities approximate their carrying amounts largely due to the short–term maturities of these instruments.

5. REVENUE

EUR'000

	IFRS applied	2024	2023
Revenue from contracts with customers recognised over time:			
Distribution system services*	IFRS 15	347,187	320,101
Connection service fees (Note 23)	IFRS 15	17,063	15,883
Reactive energy	IFRS 15	3,303	3,225
Other services	IFRS 15	4,172	4,041
Income from lease of assets	IFRS 16	87	82
TOTAL revenue		**371,812**	**343,332**

* including the state support to all end–users in the amount of EUR 42,669 thousand (01/01 – 31/12/2023: in the amount of EUR 76,981 thousand), in accordance with the state support mechanism for reducing energy prices

In 2024 and 2023, the Company did not provide construction services.

Sales market for the services provided and goods sold by Sadales tīkls AS is the territory of Latvia.

6. RAW MATERIALS AND CONSUMABLES USED

EUR'000

	2024	2023
Transmission system services	87,303	79,542
Electricity expenses	25,462	33,732
Distribution network repair and maintenance costs	11,670	10,737
Raw materials and spare parts used	3,526	3,844
TOTAL raw materials and consumables used	**127,961**	**127,855**

7. PERSONNEL EXPENSES

EUR'000

	2024	2023
Wages and salaries	50,820	49,580
State social insurance contributions	11,935	11,637
Expenditure of employment termination	2,718	700
Pension costs – defined contribution	2,491	2,408
Benefits defined in the Collective Agreement and other benefits system costs	1,923	1,566
Capitalised personnel expenses	(1,576)	(1,959)
TOTAL personnel expenses, including remuneration to the management	**68,311**	**63,932**
Including remuneration to the management:		
Wages and salaries	*934*	*719*
State social insurance contributions	*10*	*171*
Pension costs – defined contribution	*222*	*10*
Others benefits defined in the Collective Agreement	*7*	*17*
TOTAL remuneration to the management	***1,173***	**917**

	2024	2023
Number of employees at the end of the year	1,652	1,665
Average number of employees during the year	1,654	1,659

8. OTHER OPERATING EXPENSES

EUR'000

	2024	2023
Information technology maintenance	11,734	10,788
Transportation expenses	8,744	7,750
Telecommunication services	4,930	4,877
Net loss on disposal and sales of property plant and equipment	6,626	6,877
Premises maintenance and utilities expenses	2,994	2,899
Corporate management services	3,045	3,153
Selling expenses and customer services	1,108	965
Environment protection and work safety	984	692
Public utilities regulation fee	557	568
Lease of real estate and property, plant and equipment	176	76
Audit fee*	38	21
Other expenses	2,558	2,750
TOTAL other operating expenses	**43,494**	**41,416**

*fees to the certified audit company Ernst & Young Baltic SIA for the audit of the year 2024 and 2023 annual report

9. FINANCE INCOME AND COSTS

EUR'000

	2024	2023
a) Finance income		
Interest income	(69)	(3)
TOTAL finance income	**(69)**	**(3)**
b) Finance costs		
Interest expense on borrowings	17,019	13,343
Interest expense on lease liabilities (Note 12)	35	40
Capitalised borrowing costs (Note 11 a)	(675)	(505)
TOTAL finance costs	**16,379**	**12,878**

10. INTANGIBLE ASSETS

EUR'000

	Connection usage rights	Software	Assets under development	TOTAL
As of 31 December 2022				
Cost	47,586	3,065	112	**50,763**
Accumulated amortisation	(19,940)	(2,061)	–	**(22,001)**
Net book amount	**27,646**	**1,004**	**112**	**28,762**
Year ended 31 December 2023				
Additions	–	–	1,219	**1,219**
Transfers	–	328	(328)	**–**
Amortisation charge	(2,450)	(279)	–	**(2,729)**
Closing net book amount as of 31 December 2023	**25,196**	**1,053**	**1,003**	**27,252**
As of 31 December 2023				
Cost	47,586	3,394	1,003	**51,983**
Accumulated amortisation	(22,390)	(2,341)	–	**(24,731)**
Net book amount	**25,196**	**1,053**	**1,003**	**27,252**
Year ended 31 December 2024				
Additions	–	–	1,428	**1,428**
Transfers	901		(901)	**–**
Amortisation charge	(2,488)	(273)	–	**(2,761)**
Closing net book amount as of 31 December 2024	**23,609**	**780**	**1,530**	**25,919**
As of 31 December 2024				
Cost	48,486	3,394	1,530	**53,410**
Accumulated amortisation	(24,877)	(2,614)	–	**(27,491)**
Net book amount	**23,609**	**780**	**1,530**	**25,919**

11. PROPERTY, PLANT, AND EQUIPMENT

a) *Property, plant, and equipment*

EUR'000

	Land, buildings and facilities	Distribution system electricity lines and electrical equipment	Technology equipment and machinery	Other property, plant and equipment	Assets under construction	Property, plant and equipment TOTAL
As of 31 December 2022						
Cost or revalued amount	48,686	3,049,435	2,164	75,189	22,221	**3,197,695**
Accumulated depreciation and impairment	(5,507)	(1,424,750)	(1,769)	(39,434)	(334)	**(1,471,794)**
Net book amount	**43,179**	**1,624,685**	**395**	**35,755**	**21,887**	**1,725,901**
Year ended 31 December 2023						
Additions	–	–	–	–	98,389	**98,389**
Transfers	2,145	84,967	449	5,601	(93,162)	**–**
Reclassified to investment property, net	(555)	–	–	–	–	**(555)**
Reclassified to non-current assets held for sale	–	–	–	(21)	–	**(21)**
Disposals	(50)	(7,971)	–	(67)	(13)	**(8,101)**
Reversed impairment charge	–	–	–	–	(109)	**(109)**
Depreciation	(2,046)	(69,947)	(280)	(6,745)	–	**(79,018)**
Closing net book amount as of 31 December 2023	**42,673**	**1,631,734**	**564**	**34,523**	**26,992**	**1,736,486**
As of 31 December 2023						
Cost or revalued amount	50,139	3,080,869	2,524	80,218	27,434	**3,241,184**
Accumulated depreciation and impairment	(7,466)	(1,449,135)	(1,960)	(45,695)	(442)	**(1,504,698)**
Net book amount	**42,673**	**1,631,734**	**564**	**34,523**	**26,992**	**1,736,486**
Year ended 31 December 2024						
Additions	–	–	–	–	120,904	**120,904**
Transfers	1,817	103,690	198	2,994	(108,699)	**–**
Reclassified to investment property, net	(1)	–	–	–	–	**(1)**
Reclassified to non-current assets held for sale	–	–	–	(10)	–	**(10)**
Disposals	(152)	(8,014)	–	(27)	(20)	**(8,213)**
Impairment charge	–	–	–	–	(132)	**(132)**
Depreciation	(2,173)	(72,513)	(114)	(6,565)	–	**(81,365)**
Closing net book amount as of 31 December 2024	**42,164**	**1,654,897**	**648**	**30,915**	**39,045**	**1,767,669**
As of 31 December 2024						
Cost or revalued amount	51,740	3,130,580	2,511	82,582	39,619	**3,307,032**
Accumulated depreciation and impairment	(9,576)	(1,475,683)	(1,863)	(51,667)	(574)	**(1,539,363)**
Net book amount	**42,164**	**1,654,897**	**648**	**30,915**	**39,045**	**1,767,669**

Property plant and equipment of the Company has not been pledged or exposed to other ownership constraints.

As of 31 December 2024 cost of fully depreciated property plant and equipment which are still in use amounted to EUR 38,214 thousand (31/12/2023: EUR 36,012 thousand), affected by the revaluation of electrical equipment and electricity lines.

In 2024 the Company has capitalised borrowing costs in the amount of EUR 675 thousand (2023: EUR 505 thousand) (Note 9 b). Rate of capitalised borrowing costs was of 2.86% (2023: 2.23%).

b) Property plant and equipment revaluation

Distribution system electrical equipment was revalued as of 1 April 2020. External valuation expert used cost approach and assessed how components of the replacement or renewal costs of the same property, plant and equipment items have changed since the previous revaluation.

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

External valuation expert used cost approach in valuation of electricity lines, by assessing the control estimate values of cost items of the electricity lines construction used for the construction of the Company's electricity network. The control estimate is an estimate of the median object for the construction or reconstruction of electricity lines, which corresponds to the median value of the price for each group of electricity lines (property, plant and equipment), not taking into account the extreme costs of construction. In the calculation of replacement costs, cost items of construction control estimates are priced according to market prices as of 1 January 2021.

The carrying amounts of revalued electricity lines and electrical equipment assets at revalued amounts and their cost basis are as follows:

EUR'000

	Historical cost basis	Revalued amounts
As of 31 December 2024		
Cost	3,004,215	–
Revalued amount	–	3,130,580
Accumulated depreciation and impairment	(1,581,370)	(1,475,683)
Net book amount	**1,422,845**	**1,654,897**
As of 31 December 2023		
Cost	2,946,540	–
Revalued amount	–	3,080,869
Accumulated depreciation and impairment	(1,555,983)	(1,449,135)
Net book amount	**1,390,557**	**1,631,734**

c) *Impairment*

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

Key assumptions used in asset valuation	2024	2023
Discount rate	6.15%	7.24%
Long-term growth rate	2.00%	2.29%

In 2024, economic growth continued to be affected by geopolitical instability and the resulting uncertainty, leading to persistently high material costs. However, a positive trend emerged with declining interest rates. When evaluating asset impairment, the company considered price forecasts for key revenue and cost streams, as well as assumptions related to capital investment plans (based on approval from the Regulator). Considering these factors, no asset impairment was recognized in 2024 (2023: no impairment recognized). Furthermore, an asset recoverability test confirmed that the recoverable value of assets exceeded their balance sheet value. The company's management assumptions are based on the best available information at the time of financial statement approval. However, the impact of future events on the company's operations may differ from current estimates.

For other significant accounting estimates see Note 4 a, II.

d) *Investment property*

EUR'000

	2024	2023
Cost	539	540
Accumulated depreciation and impairment	(65)	(33)
Net book amount at the beginning of the year	**474**	**507**
Reclassified from property, plant and equipment, net	1	555
Disposals, net	(196)	(587)
Net book amount at the end of the year	**279**	**475**
Cost	495	540
Accumulated depreciation and impairment	(216)	(65)
Net book amount at the end of the year	**279**	**475**

From property, plant and equipment has been reclassified land and buildings intended for disposal.

12. LEASES

a) Right–of–use assets and lease liabilities

The Company has concluded several agreements for lease of land and premises, and real estate related to assets of distribution system network infrastructure. In order to support operating activities of distribution system, Sadales tīkls AS has entered into agreement with the Parent Company – Latvenergo AS for lease of the land, buildings and facilities related to assets of distribution system network infrastructure. The Company has recognised right-of-use assets for land, buildings and facilities.

EUR'000

	31/12/2024	31/12/2023
	Land, buildings and facilities	**Land, buildings and facilities**
Right–of–use assets		
Net book amount at the beginning of the year	**2,264**	**2,731**
Recognised changes in lease agreements	204	305
Depreciation recognised	(773)	(772)
Net book amount at the end of the year	**1,695**	**2,264**

EUR'000

	31/12/2024	31/12/2023
Lease liabilities		
Net book amount at the beginning of the year	**2,323**	**2,781**
Recognised changes in lease agreements	214	299
Decrease of lease liabilities	(744)	(797)
Recognised interest liabilities (Note 5)	35	40
Net book amount at the end of the year	**1,828**	**2,323**
Of which are:		
– Non–current	*1,207*	*1,624*
– Current	*621*	*699*

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

b) Expenses from leases (IFRS 16)

The following amounts are recognised in profit or loss:

EUR'000

	2024	2023
Depreciation for the right-of-use assets (land, buildings and facilities)	773	772
Interest expense on lease liabilities (included in financial costs)	35	40
Short-term leases	88	115
Variable lease payments not included in the lease liabilities	87	82
Net gain resulting from partial termination of the lease	10	(6)
TOTAL expenses from leases	**993**	**1,003**

In the Statement of Cash Flows for the year 2024, lease payments to related parties in amount of EUR 95 thousand (2023: EUR 166 thousand) have been executed by non–cash offsetting and included in cash flows from operating activities in working capital adjustments. Other lease payments in amount of EUR 678 thousand (2023: EUR 643 thousand) are included in the cash flows from financing activities (payments of principal on leases) and in cash flows from operating activities (payments of interest on leases).

c) Income from leases

EUR'000

	2024	2023
Income from leases (the Company is the lessor) (Note 5)	87	82

Future minimum lease payments receivable under operating lease contracts by due date:

EUR'000

	2024	2023
– < 1 year	74	73
– 1–5 years	371	366
TOTAL rental income	**446**	**439**

13. NON-CURRENT FINANCIAL INVESTMENTS

Name of the company	Country of incorporation	Business activity held	31/12/2024		31/12/2023	
			Interest held%	EUR'000	Interest held%	EUR'000
Pirmais Slēgtais Pensiju Fonds AS	Latvia	Management of pension plans	0.93%	1	0.93%	1

As of 31 December 2024 the Company together with Enerģijas publiskais tirgotājs SIA owns one share of Pirmais Slēgtais Pensiju Fonds AS with a nominal value of EUR 1,422 (1.85% share in the share capital), thus each party owns 1/2 of the share in the amount of EUR 711.

However, the Company is only a nominal shareholder as all risks and benefits arising from associate's activities will accrue to the Company's employees who are members of the pension plan. While this investment is also subject to the evaluation of fair value, identified changes in fair value are immaterial.

14. INVENTORIES AND NON-CURRENT ASSETS HELD FOR SALE

EUR'000

	31/12/2024	31/12/2023
Raw materials and materials	21,098	22,172
Goods for sale	729	1,397
Non-current assets held for sale	4	13
Other inventories	49	48
Advance payments for materials	2,265	–
Provisions for impairment of raw materials and materials	(550)	(632)
TOTAL inventories	**23,595**	**22,998**

Movements in provisions for impaired inventories: EUR'000

	2024	2023
At the beginning of the year	**632**	**492**
Impairment reversal in the Statement of Profit or Loss	(82)	140
At the end of the year	**550**	**632**

Changes in provisions for impaired inventories are included as an expense during the period in the Statement of Profit or Loss position 'Raw materials and consumables used'.

15. RECEIVABLES FROM CONTRACTS WITH CUSTOMERS

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

EUR'000

	31/12/2024	31/12/2023
Receivables with lifetime ECL assessment by simplified approach (portfolio model)	5,462	5,900
Individually assessed receivables with lifetime ECL assessment (counterparty model)	34,665	24,270
Total receivables from contracts with customers	**40,127**	**30,170**

There is no significant concentration of credit risk with respect to trade receivables as the Company has a large number of customers. The major electricity distribution services customer – Latvenergo AS is assessed using counterparty model (see Note 24 b).

Receivables from contracts with customers, net EUR'000

	31/12/2024	31/12/2023
Receivables from contracts with customers:		
– electricity distribution system services customers (portfolio model)	5,465	6,119
– electricity distribution system services customers (counterparty model)	19,591	8,323
– connection fees and other distribution services customers (portfolio model)	1,624	1,886
– receivables from related parties (counterparty model)	15,111	15,978
	41,791	**32,306**
Allowances for expected credit loss from contracts with customers:		
– electricity distribution system services customers (portfolio model)	(198)	(534)
– electricity distribution system services customers (counterparty model)	(24)	(17)
– connection fees and other distribution services customers (portfolio model)	(1,429)	(1,571)
– receivables from related parties (counterparty model)	(13)	(14)
	(1,664)	**(2,136)**
Receivables from contracts with customers, net:		
– electricity distribution system services customers (portfolio model)	5,267	5,585
– electricity distribution system services customers (counterparty model)	19,567	8,306
– connection fees and other distribution services customers (portfolio model)	195	315
– receivables from related parties (counterparty model)	15,098	15,964
	40,127	**30,170**

Receivables from contracts with customers with lifetime expected credit losses (ECL) assessed on the portfolio model basis and grouped by past due days: EUR'000

Payment delay in days	ECL rate	31/12/2024			31/01/2023		
		Receivables	Allowances for ECL	Net	Receivables	Allowances for ECL	Net
On time	*0.20%*	5,084	(12)	**5,072**	5,506	(13)	**5,493**
< 30	*3%*	373	(11)	**362**	392	(12)	**380**
30 - 59	*20%*	3	(1)	**2**	5	(1)	**4**
60 - 89	*50%*	7	(3)	**4**	4	(2)	**2**
90 - 179	*60%*	16	(10)	**6**	21	(19)	**2**
180 - 359	*75%*	62	(46)	**16**	77	(58)	**19**
> 360	*100%*	1,480	(1,480)	**–**	1,909	(1,909)	**–**
Individually assessed*	*100%*	64	(64)	**–**	91	(91)	**–**
		7,089	**(1,627)**	**5,462**	**8,005**	**(2,105)**	**5,900**

*receivables under insolvency process

Movements in loss allowances for impaired receivables from contracts with customers: EUR'000

	2024	2023
At the beginning of the year	**2,136**	**2,362**
Receivables written as uncollectible	(386)	(244)
Allowances for expected credit losses	(86)	18
At the end of the year	**1,664**	**2,136**

The Company's management estimates, assumptions and methodology for the estimation of the impairment loss of financial assets and evaluation of impairment risk are described in Notes 2.5.2. and 4 b.

16. CASH AND CASH EQUIVALENTS

EUR'000

	31/12/2024	31/12/2023
Cash at bank	300	301
TOTAL cash and cash equivalents	**300**	**301**

In the current interest rate environment current account balances do not actually generate interest income.

Latvenergo AS and its subsidiaries associated and entered into two Group Accounts in SEB Banka AS and Swedbank AS to efficiently and unitedly manage financial resources of Latvenergo Group. Sadales tīkls AS is the member of both Group Accounts and with the entering into these contracts has assumed the rights and obligations of the subsidiary.

17. SHARE CAPITAL

As of 31 December 2024 the registered share capital of Sadales tīkls AS is EUR 652,693 thousand (31/12/2023: EUR 652,693 thousand) and consists of 652,693 thousand ordinary shares (31/12/2023: 652,693 thousand) with the nominal value of EUR 1 per share (31/12/2023: EUR 1 per share). All shares have been fully paid.

18. RESERVES AND DIVIDENDS

a) Reserves

As of 31 December 2024 the Company's reserves in the amount EUR 354,081 thousand (31/12/2023: EUR 361,274 thousand) consist of the property plant and equipment revaluation reserve and post–employment benefit plan revaluation reserve. The property, plant and equipment and post–employment benefit plan revaluation reserves cannot be distributed as dividends.

EUR'000

	Non–current assets revaluation reserve	Post–employment benefit plan revaluation reserve	TOTAL
As of 31 December 2022	**371,718**	**171**	**371,889**
Disposal of non–current assets revaluation reserve	(9,051)	–	**(9,051)**
Losses on remeasurement on defined benefit plan	–	(1,564)	**(1,564)**
As of 31 December 2023	**362,667**	**(1,393)**	**361,274**
Disposal of non–current assets revaluation reserve	(9,826)	–	**(9,826)**
Income on remeasurement on defined benefit plan	–	2,633	**2,633**
As of 31 December 2024	**352,841**	**1,240**	**354,081**

b) Dividends

Considering the law On Governance of Capital Shares of a Public Entity and Management of Capital Companies and ratios of the capital structure, the Management Board of Sadales tīkls AS proposes to pay out 100% profit of 2024 that equals the amount of EUR 28,256 thousand or EUR 0.04329 per share in dividends to the Parent Company. The distribution of net profit and amount of dividends for 2024 payable is subject to a resolution of the Sadales tīkls AS Shareholders' Meeting.

These financial statements do not reflect this amount as a liability as the dividends have not been approved by the Company's shareholder as of 31 December 2024.

In 2024 the dividends for 2023 declared to equity holder of the Company were EUR 16,906 thousand or EUR 0.02590 per share and corporate income tax calculated at the time of profit distribution was in amount of EUR 4,226 thousand. Dividends to the Parent Company paid with non–cash mutual offset.

19. BORROWINGS AND CURRENT LOAN

EUR'000

	31/12/2024	31/12/2023
Non–current borrowings from the Parent Company	474,309	445,553
Current portion of non–current borrowings from the Parent Company	94,860	105,839
Current borrowings from the Parent Company	–	1,961
Accrued interest on borrowings	4,714	3,194
TOTAL borrowings	**573,883**	**556,547**

Non–current and current borrowings by maturity: EUR'000

	31/12/2024	31/12/2023
– < 1 year	99,574	110,994
– 1 – 5 years	339,719	326,443
– > 5 years	134,590	119,110
	573,883	**556,547**

Movement in borrowings from the Parent Company: EUR'000

	2024	2023
At the beginning of the year	**556,547**	**602,280**
Changes in current borrovingin in cash (net), including:	89,129	42,293
- Borrowings received	*262,459*	*252,001*
- Borrowings repaid	*(173,330)*	*(209,708)*
Changes in borrowings by mutual offsetting of group companies (net), including:	(73,313)	(89,231)
- Current Borrowings repaid	(91,091)	*(50,331)*
- Non–current Borrowings received / (repaid)	17,778	*(38,900)*
Changes in accrued interest	1,520	1,205
Movement in borrowings, net	**17,336**	**(45,733)**
At the end of the year	**573,883**	**556,547**

Borrowings by maturity: EUR'000

	31/12/2024	31/12/2023
Fixed rate non–current and current borrowings:		
– < 1 year (current portion of non-current borrowings)	71,759	81,976
– 1 – 5 years	193,081	236,327
– > 5 years	15,994	43,913
	280,834	**362,216**
Floating rate non–current and current borrowings:		
– < 1 year (current borrowings)	–	1,961
– < 1 year (current portion of non-current borrowings)	27,815	27,057
– 1 – 5 years	146,638	90,116
– > 5 years	118,596	75,197
	293,049	**194,331**
TOTAL borrowings	**573,883**	**556,547**

As of 31 December 2024, as of 31 December 2023 the Company had all of its borrowings denominated in euros.

The fair value of current and non–current borrowings with floating rates equals their carrying amount, as their actual floating interest rates approximate the market price of similar financial instruments available to the Company, and the effect of fair value revaluation is not significant.

The fair value of current and non–current borrowings with fixed rates is less than their carrying amounts by EUR 10,448 thousand (2023: less than their carrying amounts by EUR 17,406 thousand). The fair value calculations are based on discounted cash flows using discount factor of respective EUR interest swap rates increased by the Company's credit risk margin. The average interest rate for discounting cash flows of non–current borrowings was 0.295% (2023: 0.46%).

I Current borrowings and loan to the Parent Company

The agreement 'On provision of mutual financial resources' is intended for the financing of mutual current assets, and within the scope of it, in the reporting year the Company both temporarily borrowed and periodically issued and received repayment.

In accordance with this agreement the annual interest rate is applied on the outstanding current borrowings and loan, which is equal to the sum of the one month EURIBOR (Euro Interbank Offer Rate) and the weighted average added rate of the external short-term financing attracted by parent company AS "Latvenergo". If the one month EURIBOR is a negative value, then the interest rate is equal to the weighted average added rate of the external short-term financing attracted by parent company AS "Latvenergo". During the reporting period the interests payable on mutual current borrowings and loan did not expose a significant interest rate risk.

Financial transactions between related parties have been carried out by using current borrowings to effectively and unitedly manage Latvenergo Group companies' financial resources, using Group accounts.

In 2024 the effective average interest rate for borrowings was 4.14% (2023: 3.70%). The rate increase is related to the one-month EURIBOR rate increase in the market.

Movement in current borrowings from the Parent Company: EUR'000

	2024	2023
At the beginning of the year	**1,961**	**10,000**
Borrowings received	342,177	309,161
Borrowings repaid	(251,664)	(260,788)
Calculated interest	473	450
Interest paid	(473)	(450)
Movement in borrowings, net	90,513	**48,373**
Borrowings toggled from current to non–current borrowings	(123,575)	(56,412)
The loans converted into non-current loans	31,101	–
At the end of the year	**–**	**1,961**

Movement in current loan to the Parent Company: EUR'000

	2024	2023
At the beginning of the year	**–**	**–**
Current loan issued	31 101	–
At the end of the year	**31 101**	**–**

II Non–current borrowings from the Parent Company, including current portion

EUR'000

Agreement conclusion date	Principal amount of the loan	Outstanding loan amount 31/12/2024	Outstanding loan amount 31/12/2023	Interest rate	Maturity date
29 September 2011	316,271	1,610	4,156	6 months EURIBOR + floating rate	1 September 2025
18 September 2013	42,686	–	–	fixed rate	10 August 2023
29 October 2014	90,000	–	10,000	fixed rate	10 September 2024
20 October 2015	90,000	10,000	20,000	fixed rate	21 October 2025
22 August 2016	60,000	13,333	20,000	fixed rate	22 August 2026
22 August 2016	50,000	15,000	20,000	fixed rate	14 June 2027
14 December 2018	260,000	119,687	147,750	fixed rate	31 January 2030
3 March 2020	200,000	131,202	154,136	fixed rate+ floating rate	25 March 2030
8 March 2022	175,000	154,412	175,350	6 months EURIBOR + floating rate	31 March 2032
31 August 2023	175,000	123,925	–	6 months EURIBOR + floating rate	31 January 2034
TOTAL	**1,326,643**	**569,169**	**551,392**		

As of 31 December 2024, the un–drawn committed non–current credit facilities amount to EUR 51 million (31/12/2023: EUR 175 million).

For 50.76% of the non–current borrowings received from the Parent Company as of 31 December 2024 (31/12/2023: 34.46%) was set floating interest rate, which was influenced by 6 months EURIBOR interbank fluctuations. During 2024 the effective average interest rate of all non–current borrowings was 2.89% (2023: 2.22%). As of 31 December 2024, for non–current floating rate borrowings 6 month EURIBOR ranged from 2.886% to 3.590% (31/12/2023: 6 month EURIBOR ranged from 4.000% to 4.125%). Non–current borrowings are not secured with a pledge or otherwise.

Movement in non–current borrowings from the Parent Company, including current portion EUR'000

	2024	2023
At the beginning of the year	**554,586**	**592,280**
Borrowings repaid	(105,798)	(95,312)
Calculated interest	16,547	12,892
Interest paid	(15,027)	(11,686)
Movement in borrowings, net	**(104,278)**	**(94,106)**
Borrowings toggled from non–current to current borrowings	123,575	56,412
At the end of the year	**573,883**	**554,586**
including:		
Non–current portion	*474,309*	*445,553*
Current portion	*94,860*	*105,839*
Accrued interest	*4,714*	*3,194*

d) Pledges

The Company's assets are not pledged to secure the borrowings.

20. FAIR VALUE MEASUREMENT

In this Note is disclosed the fair value measurement hierarchy for the Company's financial assets, liabilities, revalued property, plant and equipment

Quantitative disclosures of fair value measurement hierarchy for assets at the end of the year: EUR'000

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	TOTAL
As of 31 December 2024				
Financial assets for which fair values are disclosed				
Investment property	–	–	279	**279**
Current loan	–	31,101	–	**31,101**
Receivables from contracts with customers	–	–	40,127	**40,127**
Trade and other receivables	–	–	554	**554**
Other trade and current receivables	–	300	–	**300**
Assets measured at fair value				
Non-current financial assets	–	–	1	**1**
Revalued property, plants and equipment (Note11)	–	–	1,654,897	**1,654,897**
As of 31 December 2023				
Financial assets for which fair values are disclosed				
Investment property	–	–	475	**475**
Receivables from contracts with customers	–	–	30,170	**30,170**
Trade and other receivables	–	–	246	**246**
Other trade and current receivables	–	301	–	**301**
Assets measured at fair value				
Non-current financial assets	–	–	1	**1**
Revalued property, plants and equipment (Note11)	–	–	1,631,734	**1,631,734**

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

Summary of quantitative information about the significant unobservable inputs used for revalued property, plant and equipment and indicators of sensitivity analysis are disclosed in Note 11.

Quantitative disclosures of fair value measurement hierarchy for financial liabilities at the end of the year: EUR'000

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	TOTAL
As of 31 December 2024				
Financial liabilities for which fair values are disclosed				
Floating rate borrowings	–	288,929	–	**288,929**
Fixed rate borrowings	–	280,240	–	**280,240**
Lease liabilities	–	–	1,828	**1,828**
Trade and other payables	–	–	69,303	**69,303**
As of 31 December 2023				
Financial liabilities for which fair values are disclosed				
Floating rate borrowings	–	189,987	–	**189,987**
Fixed rate borrowings	–	361,405	–	**361,405**
Lease liabilities	–	–	2,323	**2,323**
Trade and other payables	–	–	68,294	**68,294**

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

Set out below, is a comparison by class of the carrying amounts and fair value of the Company's financial instruments, other than those with carrying amounts which approximates their fair values: EUR'000

	Carrying amount		Fair value	
	31/12/2024	**31/12/2023**	**31/12/2024**	**31/12/2023**
Financial liabilities				
Interest–bearing liabilities including:				
– fixed rate borrowings	280,240	361,405	269,792	343,998

21. TRADE AND OTHER PAYABLES

EUR'000

	31/12/2024	31/12/2023
Financial liabilities		
Trade payables to related parties (Note 24 b)	37,115	39,518
Trade payables for materials and services	21,774	18,558
Accrued expenses on transactions with related parties (Note 24 c)	1,443	288
Accrued expenses	8,456	9,346
Other current financial payables	515	584
TOTAL financial liabilities	**69,303**	**68,294**
Financial liabilities		
State social security contributions and other taxes	8,327	6,077
Advances received from related parties (Note 24 d)	1,388	831
Advances received	24,404	20,912
Other current payables	1,858	1,785
TOTAL financial liabilities	**35,977**	**29,605**
TOTAL trade and other payables	**105,280**	**97,899**

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

22. PROVISIONS

EUR'000

	31/12/2024	31/12/2023
Non-current post–employment benefits	8,125	9,663
TOTAL trade and other payables	**8,125**	**9,663**

Movement in provisions for post–employment benefits: EUR'000

	2024	2023
At the beginning of the year	**9,663**	**8,006**
Current service cost	1,153	100
Interest cost	351	265
Post–employment benefits paid	(542)	(272)
Losses / (gain) as a result of changes in actuarial assumptions	(2,633)	1,564
Transfer of Latvenergo AS employees to Sadales tīkls AS	133	–
At the end of the year	**8,125**	**9,663**

Total charged / (credited) provisions are included in the Company's Statement of Profit or Loss position 'Personnel expenses' within expenditure of employment termination (Note 7) while gains / (losses) as a result of changes in actuarial assumptions - in the Company's Statement of Comprehensive Income: EUR'000

	2024	2023
At the beginning of the year	**9,663**	**8,006**
Charged to the Statement of Comprehensive Income	(2,633)	1,564
Charged / (credited) to the Statement of Profit or Loss	1,095	93
At the end of the year	**8,125**	**9,663**

Weighted average discount rate used for discounting benefit obligations in 2024 was 3.62% (2023: 2.98%) considering weighted average discount rate of EIOPA risk-free interest rate and EURBMK BBB electricity industry rate at the end of the reporting year. The Company's Collective Agreement provides indexation of employees' wages at least at the level of inflation. Long–term inflation determined for 2024 at the level of 5.0% (2023: 5.0%) when calculating non–current post–employment benefits. In calculation of these liabilities also the probability determined on the basis of previous experience of retirement in different employees' aging groups was also considered.

A quantitative sensitivity analysis for significant assumptions as of the end of the year is as shown below:

EUR'000

Assumptions	Date of valuation	Discount rate		Future salary changes		Retirement probability changes	
		1% increase	1% decrease	1% increase	1% decrease	1% increase	1% decrease
Impact on provisions for post–employment benefits	**31/12/2024**	887	(747)	922	(790)	985	(834)
	31/12/2023	1,162	(971)	1,139	(971)	1,257	(1,059)

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

23. DEFERRED INCOME

EUR'000

	31/12/2024	31/12/2023
a) Non–current deferred income		
Connection fee agreements with customers	150,436	138,367
On financing from European Union funds	33,851	1,405
TOTAL non–current deferred income	**184,287**	**139,772**
b) Current deferred income		
Connection fee agreements with customers (Note 5)	17,581	16,537
Contract liabilities on use of allowed effective electrical load (distribution system service)	341	370
On financing from European Union funds	134	8
TOTAL current deferred income	**18,056**	**16,915**
TOTAL	**202,343**	**156,687**

Movement in deferred connection (non–current and current) fees:

EUR'000

	2024	2023
At the beginning of the year	**154,904**	**147,772**
Received fees	30,176	23,015
Credited to Statement of Profit or Loss (Note 5)	(17,063)	(15,883)
At the end of the year	**168,017**	**154,904**

Deferred income from connection fees by receipt period:

EUR'000

	31/12/2024	31/12/2023
– < 1 year	17,581	16,537
– 1 – 5 years	70,324	66,148
– > 5 years	80,112	72,219
	168,017	**154,904**

Movement on financing from European Union funds (non–current and current) fees:

EUR'000

	2024	2023
At the beginning of the year	**12,673**	**168**
Received financing from European Union	22,562	12,570
Transferred financing from European Union to the parent company as a cooperation partner	(678)	–
Credited to Statement of Profit or Loss	(572)	(65)
At the end of the year	**33,985**	**12,673**

The Company received European Union funds' financing from the Ministry of Economics of the Republic of Latvia and was implementing the project "Modernisation of the electricity distribution system of AS "Sadales tīkls" within the framework of the Recovery Fund", No. 1.2.1.5.i.0/1/22/I/EM/002.

The Company received European Union funds' financing from the Central Finance and Contracting Agency and was implementing "The electricity distribution network modernization project – REPowerEU", No. 7.1.1.2.i.0/1/24/I/CFLA/001 within the framework of the Recovery Fund plan supplement.

The EU co-financing project "Research and Innovation Programmes" on the creation of a single European-wide energy system information technology platform "OneNet" (NUMBER 957739) has been completed in 2024.

24. RELATED PARTY TRANSACTIONS

The Company is 100% subsidiary of Latvenergo AS. The Parent Company and, indirectly, Sadales tīkls AS and other companies of Latvenergo Group, are controlled by the Latvian state. Related parties of the Company are Shareholder of the Company, the Parent Company, members of the Company's Management board, members of the Supervisory Board and close family members of any above–mentioned persons, as well as entities over which those persons have control or significant influence.

Trading transactions taking place under normal business activities with the Latvian government including its departments and agencies and transactions between state–controlled entities and providers of public utilities are excluded from the scope of related party quantitative disclosures. The Company makes transactions with many of these institutions, in accordance with the principle of fair competition.

Transactions with government related entities include sales of a distribution system services and its related services and does not contain individually significant transactions and quantitative disclosure of transactions with those related parties is impossible due to broad range of the Company's customers, except for transactions with transmission system operator – Augstsprieguma tīkls AS.

EUR'000

	2024		2023	
	Latvenergo Group's Company's	Other related parties*	Latvenergo Group's Company's	Other related parties*
a) Sales/purchases of goods, PPE and services to/from related parties				
Sales of goods, PPE and services, finance income				
– Sales of goods and services	166,368	58	146,589	45
– Lease of assets	7	–	5	–
– Interest income	69	–	3	–
	166,444	**58**	**146,597**	**45**
Purchases of goods, PPE, and services, finance cost				
– Purchases of goods and services	52,475	87,439	53,635	79,678
– Purchases of property, plant and equipment and installation of connections	–	2,801	–	3,461
– Lease of assets	104	364	113	380
– Interest expense	17,019	–	13,341	–
	69,598	**90,604**	**67,089**	**83,519**

EUR'000

	31/12/2024	31/12/2023
b) Receivables and payables at the end of the year arising from sales/purchases of goods, PPE and services		
Trade receivables (Note 15)		
– Latvenergo AS	14,365	14,817
– Elektrum Lietuva, UAB	–	2
– Other related parties*	2	4
	14,367	**14,823**
Trade payables (Note 21)		
– Latvenergo AS	28,784	31,320
– Liepājas enerģija SIA	10	14
– Other related parties*	8,321	8,184
	37,115	**39,518**
c) Accrued income and accrued expenses raised from transactions with related parties		
Accrued income		
–for services received to Enerģijas publiskais tirgotājs SIA	–	1
–for services received to to Latvenergo AS	732	1,143
	732	**1,144**
Accrued expenses		
– for interest payable to Latvenergo AS (Note 19)	4,714	3,194
– for purchased goods and received services from Latvenergo AS (Note 21)	1,443	288
	6,157	**3,482**
d) Received advance payments from related parties		
– AS "Latvenergo"	1,388	831
	1,388	**831**
e) Advance payments to related parties		
– Other related parties*	728	32
	728	**32**

* Other related parties included transmission system operators – Augstsprieguma tīkls AS and Pirmais Slēgtais Pensiju Fonds AS

Sadales tīkls AS receives borrowings from the Parent Company, please refer to Note 19. Information of remuneration to the Company's management disclosed in Note 7.

25. CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

As of 31 December 2024 the Company had commitments amounting to EUR 78,191 thousand (31/12/2023: EUR 40,167 thousand) for capital expenditure contracted but not delivered at the end of the reporting year according to contracts signed for construction of distribution system assets.

26. EVENTS AFTER THE REPORTING PERIOD

There have been no significant events subsequent to the end of the reporting year that might have a material effect on the Financial Statements of the Company for the year ended 31 December 2024.

Sandis Jansons
Chairman of the
Management Board

Baiba Priedīte
Member of the
Management Board

Kristīne Sarkane
Member of the
Management Board

Vīgants Radziņš
Member of the
Management Board

Raimonds Skrebs
Member of the
Management Board

Liāna Ķeldere
Accounting director of Latvenergo AS

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

SIA „Ernst & Young Baltic“
Muitas iela 1a
Rīga, LV-1010
Latvija
Tālr.: +371 6704 3801
riga@lv.ey.com
www.ey.com

Reģ.Nr. 40003593454
PVN maksātāja Nr. LV40003593454

Ernst & Young Baltic SIA
Muitas iela 1a
Rīga, LV-1010
Latvia
Tel.: +371 6704 3801
riga@lv.ey.com
www.ey.com

Reg. No: 40003593454
VAT payer code: LV40003593454

Shape the future with confidence

Translation from Latvian

INDEPENDENT AUDITORS' REPORT

DOCUMENT DATE IS THE TIME OF ITS ELECTRONIC SIGNATURE

To the Shareholder of Sadales tīkls AS

Opinion

We have audited the accompanying financial statements of Sadales tīkls AS (the Company) set out on pages 17 to 48 of the accompanying annual report, which comprise the balance sheet as at 31 December 2024, and the statement of profit or loss, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Sadales tīkls AS as at 31 December 2024, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

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

Reporting on other information

Management is responsible for the other information. The other information comprises:

- the General information about the Company as set out on page 3 of the accompanying annual report;
- the Management Report as set out on pages 4 to 16 of the accompanying annual report.

Other information does not include the financial statements and our auditors report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, except as described in the *Other reporting responsibilities in accordance with the legislation of the Republic of Latvia* section of our report.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed and in light of the knowledge and understanding of the entity and its environment obtained in the course of our audit, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Other reporting responsibilities in accordance with the legislation of the Republic of Latvia

We have other reporting responsibilities in accordance with the Law on Audit Services of the Republic of Latvia with respect to the Management Report. These additional reporting responsibilities are beyond those required under the ISAs.

Our responsibility is to consider whether the Management Report is prepared in accordance with the requirements of the Law on the Annual Reports and Consolidated Annual Reports of the Republic of Latvia.

Shape the future with confidence

Based solely on the work undertaken in the course of our audit, in our opinion:

- the information given in the Management Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Management Report has been prepared in accordance with the requirements of the Law on Annual Reports and Consolidated Annual Reports of the Republic of Latvia.

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 Law on Annual Reports and Consolidated Annual Reports of the Republic of Latvia and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

ERNST & YOUNG BALTIC SIA
Licence No. 17

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

Riga,

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