



LATVENERGO AS

(incorporated in the Republic of Latvia as a public limited company with registration number 40003032949)

Third Programme for the Issuance of Notes in the Amount of EUR 200,000,000

Under this Third Programme for the Issuance of Notes in the Amount of EUR 200,000,000 (the “**Programme**”) described in this base prospectus (the “**Base Prospectus**”) Latvenergo AS, a public limited company (in Latvian – *akciju sabiedrība*) incorporated in and operating under the laws of the Republic of Latvia, registered with the Commercial Register of the Republic of Latvia under registration number: 40003032949 and having its legal address at Pulkveža Brieža iela 12, Riga, LV-1230 (the “**Issuer**” or the “**Company**”), may issue and offer from time to time in one or several series (the “**Series**”) non-convertible unsecured and unguaranteed notes denominated in EUR, having maturity up to 10 years and with fixed interest rate (the “**Notes**”). Each Series may comprise one or more tranches of Notes (the “**Tranches**”). The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will not at any time exceed EUR 200,000,000.

This Base Prospectus supersedes the previous base prospectus dated 14 April 2020 in relation to the Programme. Any Notes issued under the Programme on or after the date of this Base Prospectus are issued in accordance with the provisions described herein.

To the extent not set forth in this Base Prospectus, the specific terms of any Notes will be included in the relevant final terms (the “**Final Terms**”) (a form of which is contained herein). This Base Prospectus should be read and construed together with any supplement hereto and with any other documents incorporated by reference herein, and, in relation to any Tranche of Notes and with the Final Terms of the relevant Tranche of Notes.

This Base Prospectus has been prepared in connection with the offering and listing of the Notes pursuant to the requirements of the Regulation (EU) 2017/1129 (the “**Prospectus Regulation**”), the Financial Instruments Market Law (in Latvian - *Finanšu instrumentu tirgus likums*) and the Commission Delegated Regulation No 2019/980/EU (the “**Delegated Regulation**”), in particular the Annexes 6 and 14 thereof. The Financial and Capital Market Commission (in Latvian - *Finanšu un kapitāla tirgus komisija*), as competent authority under the Prospectus Regulation, has approved this Base Prospectus and has notified the approval of the Base Prospectus to the competent authority in Lithuania (the Bank of Lithuania (in Lithuanian - *Lietuvos Bankas*)). The Financial and Capital Market Commission only approves this Base Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the Prospectus Regulation. Such approval should not be considered as an endorsement of the Issuer nor as an endorsement of the quality of any Notes that are the subject of this Base Prospectus. Investors should make their own assessment as to the suitability of investing in the Notes.

This Base Prospectus is valid for a period of twelve months from the date of approval. The obligation to supplement the Base Prospectus in the event of significant new factors, material mistakes or material inaccuracies does not apply when the Base Prospectus is no longer valid.

Application will be made to Akciju sabiedrība “Nasdaq Riga”, registration number: 40003167049, legal address: Vaļņu 1, Riga, LV- 1050, Latvia (“**Nasdaq Riga**”) for admitting each Tranche to listing and trading on the official bond list (the Baltic Bond List) of Nasdaq Riga according to the requirements of Nasdaq Riga not later than within 3 (three) months after the Issue Date of the respective Tranche. Nasdaq Riga is a regulated market for the purposes of the Markets in Financial Instruments Directive 2014/65/EU, as amended (“**MiFID II**”).

The Notes shall be issued in the bearer dematerialised form and registered with Nasdaq CSD SE, registration number: 40003242879, legal address: Vaļņu 1, Riga, LV-1050, Latvia (the “**Depository**”) in book-entry form. Investors may hold the Notes through participants of the Depository, including credit institutions and investment brokerage firms.

The Notes have not been, and will not be, registered under the U.S. Securities Act 1933 (as amended) (the “**Securities Act**”), or with any securities regulatory authority of any state of the United States. This Base Prospectus or the Final Terms are not to be distributed to the United States or in any other jurisdiction where it would be unlawful. The Notes may not be offered, sold, pledged or otherwise transferred, directly or indirectly, within the United States or to, for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act (the “**Regulation S**”)), except to a person who is not a U.S. Person (as defined in Regulation S) in an offshore transaction pursuant to Regulation S.

Investment in the Notes to be issued under the Programme involves certain risks. Prospective investors should carefully acquaint themselves with such risks before making a decision to invest in the Notes. The principal risk factors that may affect the Issuer’s ability to fulfil its obligations under the Notes are discussed in Section “*Risk Factors*” below.

Arrangers and Dealers

Luminor Bank AS

Swedbank AB (publ)

The date of this Base Prospectus is 20 April 2021

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RESPONSIBILITY STATEMENT

This Base Prospectus comprises a base prospectus for the purposes of Article 8 of the Prospectus Regulation and for the purpose of giving information with regard to the Issuer, the Issuer and its subsidiaries taken as a whole (the “**Group**”) and the Notes which, according to the particular nature of the Issuer and the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position and profit and losses of the Issuer.

The Issuer, represented by the members of its Management Board, accepts responsibility for the information contained in this Base Prospectus and in any Final Terms which complete this Base Prospectus for each Tranche of Notes issued hereunder and declares that, to the best of its knowledge, the information contained in this Base Prospectus is in accordance with the facts and that the Base Prospectus does not omit anything likely to affect the import of such information.

Management Board of Latvenergo AS:

Chairman of the Management Board
Guntars Baļčūns

Member of the Management Board
Kaspars Cikmačs

Member of the Management Board
Uldis Mucinieks

Member of the Management Board
Arnis Kurgs

IMPORTANT INFORMATION

To the fullest extent permitted by law, the Arrangers and Dealers accept no responsibility whatsoever for the contents of this Base Prospectus. Each Arranger and Dealer accordingly disclaims all and any liability which it might otherwise have in respect of this Base Prospectus.

Neither the Arrangers and Dealers nor any of their respective affiliates have authorised the whole or any part of this Base Prospectus and none of them make any representation or warranty or accepts any responsibility as to the accuracy or completeness of the information contained in this Base Prospectus or any responsibility for any acts or omissions of the Issuer or any other person in connection with issue and offering of the Notes.

No person is authorised to give any information or to make any representation not contained in this Base Prospectus and any information or representation not so contained must not be relied upon as having been authorised by or on behalf of the Issuer, the Arrangers or the Dealers. Neither the delivery of this Base Prospectus nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer since the date hereof or the date upon which this Base Prospectus has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Issuer since the date hereof or the date upon which this Base Prospectus has been most recently amended or supplemented or that the information contained in it or any other information supplied in connection with the Notes is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

Neither this Base Prospectus, any Final Terms nor any other information supplied in connection with the offering of the Notes (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Issuer or any of the Arrangers or Dealers that any recipient of this Base Prospectus, any Final Terms or any other information supplied in connection with the offering of the Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Base Prospectus nor any other information supplied in connection with the offering of the Notes constitutes an offer or invitation by or on behalf of the Issuer or any of the Arrangers or Dealers, to any person to subscribe for or to purchase any Notes.

Each potential investor in the Notes must make their own assessment as to the suitability of investing in the Notes. In particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in this Base Prospectus;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments is different from the potential investor's currency;
- (iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant financial markets; and
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) Notes are legal investments for it, (ii) Notes can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

The Notes are governed by Latvian law and any disputes arising in relation to the Notes shall be settled exclusively by the courts of the Republic of Latvia in accordance with Latvian law.

DISTRIBUTION OF THE BASE PROSPECTUS AND SELLING RESTRICTIONS

The distribution of this Base Prospectus and any Final Terms may in certain jurisdictions be restricted by law, and this Base Prospectus and any Final Terms may not be used for the purpose of, or in connection with, any offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such offer or solicitation. No actions have been taken to register or qualify the Notes, or otherwise to permit a public offering of the Notes, in any jurisdiction other than the Republic of Latvia and the Republic of Lithuania. The Issuer, the Arrangers and the Dealers expect persons into whose possession this Base Prospectus or any Final Terms comes to inform themselves of and observe all such restrictions. Neither the Issuer nor the Arrangers or Dealers accept any legal responsibility for any violation by any person, whether or not a prospective purchaser of the Notes is aware of such restrictions. In particular, this Base Prospectus and any Final Terms may not be sent to any person in the United States, Australia, Canada, Japan, Hong Kong, Singapore or any other jurisdiction in which it would not be permissible to deliver the Notes, and the Notes may not be offered, sold, resold, transferred or delivered, directly or indirectly, in or into any of these countries.

The Notes have not been, and will not be, registered under the U.S. Securities Act 1933 (as amended) (the "**Securities Act**"), or with any securities regulatory authority of any state of the United States. This Base Prospectus or the Final Terms are not to be distributed to the United States or in any other jurisdiction where it would be unlawful. The Notes may not be offered, sold, pledged or otherwise transferred, directly or indirectly, within the United States or to, for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act (the "**Regulation S**")), except to a person who is not a U.S. Person (as defined in Regulation S) in an offshore transaction pursuant to Regulation S.

The Financial and Capital Market Commission (in Latvian - *Finanšu un kapitāla tirgus komisija*), as competent authority under the Prospectus Regulation, has approved this Base Prospectus and has notified the approval of the Base Prospectus to the competent authority in Lithuania (the Bank of Lithuania (in Lithuanian - *Lietuvos Bankas*)). However, in relation to each member state of the European Economic Area (the "**EEA**") (except the Republic of Latvia and the Republic of Lithuania), the Dealers have represented and agreed that they have not made and will not make any public offer of Notes prior to that EEA member state's authority receiving a certificate of approval of the Financial and Capital Market Commission attesting that the Base Prospectus has been drawn up in accordance with the Prospectus Regulation together with a copy of the Base Prospectus.

Accordingly, any person making or intending to make an offer within the EEA of Notes which are the subject of an offering contemplated by this Base Prospectus and the relevant Final Terms (other than the offer of Notes in the Republic of Latvia and in the Republic of Lithuania) may only do so in circumstances in which no obligation arises for the Issuer or the Dealers to publish a prospectus pursuant to Article 3 of the Prospectus Regulation or supplement a prospectus pursuant to Article 23 of the Prospectus Regulation, in each case, in relation to such offer.

MIFID II PRODUCT GOVERNANCE/TARGET MARKET: The Final Terms in respect of any Notes will include a legend entitled "MiFID II Product Governance" which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the MiFID Product Governance rules under EU Delegated Directive 2017/593 (the "**MiFID Product Governance Rules**"), any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arrangers nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MiFID Product Governance Rules.

IMPORTANT – EEA RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to, and should not be offered, sold or otherwise made available to, any retail investor in the EEA. For

these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II, (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended or superseded), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Regulation. Consequently, no key information document required by Regulation (EU) No 1286/2014 (the "**PRIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIPs Regulation.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

With the exception of certain alternative performance measures (“**APMs**”), the financial information as of and for the year ending 31 December 2020 and as of and for the year ending 31 December 2019, included in this Base Prospectus has been derived from the Group's consolidated and the Company's annual report, representing audited consolidated and standalone financial statements for the financial year ending 31 December 2020 prepared in accordance with the International Financial Reporting Standards as adopted by the E.U. (“**IFRS**”) (the “**2020 Financial Statements**”), and the Group's consolidated and the Company's annual report, representing audited consolidated and standalone financial statements for the financial year ending 31 December 2019 prepared in accordance with IFRS (the “**2019 Financial Statements**”, and together with the 2020 Financial Statements, the “**Audited Financial Statements**”).

PricewaterhouseCoopers SIA (“**PwC**”) audited the 2020 Financial Statements and issued an unqualified auditor's report on the aforementioned financial statements. In addition, PwC audited the 2019 Financial Statements and issued an unqualified auditors' report on the aforementioned financial statements.

Changes in accounting policies and presentation of financial information

Discontinued operation

On 8 October 2019, the Cabinet of Ministers of the Republic of Latvia supported the implementation of the "full ownership unbundling" model for the electricity transmission system operator. On 10 June 2020, the Company terminated its ownership in subsidiary Latvijas elektriskie tīkli AS and transmission system assets in the amount of EUR 694.3 million were separated from the Group, transferring all the shares of Latvijas elektriskie tīkli AS in the amount of EUR 222.7 million to the Ministry of Economics.

In the Audited Financial Statements the subsidiary Latvijas elektriskie tīkli AS was classified as a discontinued operation in accordance with IFRS 5, "Non-current Assets Held for Sale and Discontinued Operations". In the Statement of Financial Position the Group disclosed assets, reserves and liabilities held for distribution as of 31 December 2019 and in the Statement of Profit or Loss – profit from discontinued operation for 2020 and for 2019. In the Group's operating segments financial results of Latvijas elektriskie tīkli AS are disclosed in transmission system assets lease segment because until the termination of its ownership on 10 June 2020 the Management Board of the Company continued to review financial results of this operating segment.

Alternative performance measures

This Base Prospectus includes certain references to APMs derived from the Group's Financial Statements such as EBITDA, net debt, return on equity (ROE), net debt to equity and net debt to EBITDA. The Group uses these APMs to evaluate its performance, and this additional financial information is presented in this Base Prospectus. This information should be viewed as supplemental to the Audited Financial Statements. Investors are cautioned not to place undue reliance on this information and should note that the APMs, as calculated by the Group, may differ materially from similarly titled measures reported by other companies, including the Group's competitors.

The APMs presented in this section are not defined in accordance with IFRS. An APM should not be considered in isolation from, or as substitute for any analysis of, financial measures defined according to IFRS. Investors are advised to review these APMs in conjunction with the Audited Financial Statements contained in this Base Prospectus.

The following tables present the selected APMs of the Group for the indicated periods or as of the indicated dates:

		Year ended 31 December				
		2016	2017	2018	2019	2020
EBITDA *	€ million	347	498	282	244	278
Net Debt (adjusted) *	€ million	529	497	505	564	556

Return on equity (ROE)	per-cent	5.8	12.2	2.9	4.1	5.3
Net debt to equity (adjusted) *	per-cent	22	17	22	25	26
Net debt to EBITDA (adjusted) *		1.6	1.0	1.8	2.2	2.0

(*) Excluding discontinued operation (transmission system assets). On 10 June 2020, transmission system assets were separated from the Group

EBITDA, net debt, return on equity (ROE), net debt to equity and net debt to EBITDA measures should not be used instead of, or considered as alternatives to, the Group's consolidated historical financial results based on IFRS. The non-IFRS measures relate to the reporting periods and are not meant to be predictive of future results. Management of the Group uses EBITDA, net debt, return on equity (ROE), net debt to equity and net debt to EBITDA measures because the Company believes that these measures are commonly used by lenders, investors and analysts.

These measures are presented for purposes of providing investors with a better understanding of the Group's financial performance, cash flows or financial position as they are used by the Group when managing its business.

EBITDA

EBITDA should not be considered as alternative to profit before tax as defined by IFRS or to cash flows from operating activities (or any other performance measure determined in accordance with IFRS) or as indicator of operating performance or as measure of the Group's liquidity. In particular, EBITDA should not be considered as measures of discretionary cash available to the Group to invest in the growth of the Group's businesses.

EBITDA has certain limitations as an analytical tool, and should not be considered in isolation, or as a substitute for financial information as reported under IFRS. Investors should not place undue reliance on this data. EBITDA in this Base Prospectus is presented, for each period, as: earnings before interest, corporate income tax, share of profit or loss of associates, depreciation and amortisation, and impairment of intangible and fixed assets, excluding discontinued operation (ownership unbundling of transmission system assets).

No statement in this Base Prospectus is intended as a profit/EBITDA forecast and no statement in this Base Prospectus should be interpreted to mean that the earnings of the Group for the current or future years would necessarily match or exceed the historical published earnings of the Group.

The table below presents reconciliation of EBITDA to the net profit:

		Year ended 31 December				
		2016	2017	2018	2019	2020
Net profit	€ million	131	322	76	94	116
Profit from discontinued operation	€ million	10	52	10	10	10
Income tax*	€ million	(18)	65	(9)	(8)	(6)
Finance costs, net*	€ million	(12)	(10)	(7)	(8)	(9)
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment*	€ million	(196)	(283)	(200)	(143)	(157)
EBITDA*	€ million	347	498	282	244	278

(*) Excluding discontinued operation (transmission system assets). On 10 June 2020, transmission system assets were separated from the Group

Net Debt (adjusted)

Until 9 June 2020, net debt consists of borrowings at the end of the year, less the amount of Latvijas Elektriskie tīkli AS borrowings at the end of the year, less cash and cash equivalents, excluding Latvijas Elektriskie tīkli

AS cash and cash equivalents at the end of the year. As of 10 June 2020, net debt consists of borrowings at the end of the year, less the amount of loans to Augstsprieguma tīkls AS at the end of the year, less cash and cash equivalents at the end of the year. It is used for the purpose of calculating the debt ratio by which the Group monitors its capital.

The following table illustrates the methodology the Group uses to determine its net debt:

		Year ended 31 December				
		2016	2017	2018	2019	2020
Borrowings	€ million	791.6	826.8	814.3	882.7	743.2
Less Latvijas elektriskie tīkli AS borrowings from the Company / loans to Augstsprieguma tīkls AS*	€ million	78.9	95.6	179.7	196.3	86.6
Less Cash and cash equivalents	€ million	184.0	236.0	129.5	122.7	100.7
Plus Latvijas elektriskie tīkli AS Cash and cash equivalents	€ million	0.3	1.5	0.3	0.3	-
Net Debt (adjusted)*	€ million	529.0	496.7	505.4	564.0	555.9

(*) Excluding discontinued operation (transmission system assets). On 10 June 2020, transmission system assets were separated from the Group

Return on equity (ROE)

Return on equity (ROE) is the ratio of net profit at the end of the year to the average value of total equity at the beginning and the end of the year. Return on equity (ROE) is a measure of profitability of the equity. It is a measure of efficiency of equity usage in profit generation of the Group.

Net Debt to Equity (adjusted)

Net debt to equity is the ratio of net debt at the end of the year to equity at the end of the year and is used as a measure of both indebtedness and borrowing capacity.

Net Debt to EBITDA (adjusted)

Net debt to EBITDA is the ratio of the average value of net debt at the beginning and the end of the year divided by 12-months rolling EBITDA and is used as a measure of financial leverage and the Group's ability to pay off its debt. Essentially, the net debt to EBITDA ratio gives an indication as to how long the Group's would need to operate at its current level to pay off all its debt.

Rounding

Certain figures included in this Base Prospectus have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

Currencies

In this Base Prospectus, financial information is presented in euro (EUR), the official currency of the European Union Member States in the Eurozone.

Date of information

This Base Prospectus is drawn up based on information which was valid as of the date of the Base Prospectus. Where not expressly indicated otherwise, all information presented in this Base Prospectus (including the consolidated financial information of the Group, the facts concerning its operations and any information on the markets in which it operates) must be understood to refer to the state of affairs as of the aforementioned date. Where information is presented as of a date other than the date of the Base Prospectus, this is identified by specifying the relevant date.

Certain publicly available information

Certain statistical data and other information appearing in this Base Prospectus have been extracted from public sources identified in this Base Prospectus. None of the Arrangers, the Dealers or the Issuer accepts responsibility for the factual correctness of any such statistics or information, but the Issuer accepts responsibility for accurately extracting and transcribing such statistics and information and believes, after due inquiry, that such statistics and information represent the most current publicly available statistics and information from such sources at the dates and for the periods with respect to which they have been presented. The Issuer confirms that all such third-party information has been accurately reproduced and, so far as the Issuer is aware and has been able to ascertain from that published information, no facts have been omitted which would render the reproduced information inaccurate or misleading.

Websites

Information contained in any website referred to herein does not form part of this Base Prospectus, other than the Issuer's Green Bond Framework, which is available for viewing on the following website: www.latvenergo.lv and is incorporated by reference to this Base Prospectus and forms a part of the Base Prospectus.

FORWARD-LOOKING STATEMENTS

This Base Prospectus includes statements that are, or may be deemed to be, “forward-looking statements”. These forward-looking statements may be identified by the use of forward-looking terminology, including the terms “believes”, “estimates”, “plans”, “projects”, “anticipates”, “expects”, “intends”, “may”, “will” or “should” or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this Base Prospectus and include, but are not limited to, statements regarding the Group’s or the Issuer’s intentions, beliefs or current expectations concerning, among other things, the Group’s results of operations, financial condition, liquidity, prospects, growth, strategies and the industry in which the Group operates.

By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances. Forward-looking statements are not guarantees of future performance and the financial position and results of operations of the Group, and the development of the markets and the industries in which members of the Group operate, may differ materially from those described in, or suggested by, the forward-looking statements contained in this Base Prospectus. In addition, even if the Group’s results of operations and financial position, and the development of the markets and the industries in which the Group operates, are consistent with the forward-looking statements contained in this Base Prospectus, those results or developments may not be indicative of results or developments in subsequent periods. A number of risks, uncertainties and other factors could cause results and developments to differ materially from those expressed or implied by the forward-looking statements. See Section “*Risk Factors*” below.

These forward-looking statements are made only as of the date of this Base Prospectus. Except to the extent required by law, the Issuer is not obliged to, and does not intend to, update or revise any forward-looking statements made in this Base Prospectus whether as a result of new information, future events or otherwise. All subsequent written or oral forward-looking statements attributable to the Issuer, or persons acting on the Issuer's behalf, are expressly qualified in their entirety by the cautionary statements contained throughout this Base Prospectus. As a result of these risks, uncertainties and assumptions, a prospective purchaser of the Notes should not place undue reliance on these forward-looking statements.

OVERVIEW OF THE PROGRAMME

The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Base Prospectus and, in relation to the General Terms and Conditions of any particular Tranche of Notes, the applicable Final Terms. This overview must be read as an introduction in conjunction with the other parts of the Base Prospectus (including any documents incorporated therein). Any decision to invest in the Notes should be based on a consideration by the investor of the Base Prospectus as a whole.

Words and expressions defined in the General Terms and Conditions of the Notes below or elsewhere in this Base Prospectus have the same meanings in this overview.

This overview constitutes a general description of the Programme for the purposes of Article 25(1) of the Delegated Regulation.

Issuer:	Latvenergo AS
Legal Entity Identifier (LEI):	213800DJRB539Q1EMW75
Programme Limit:	Up to EUR 200,000,000 aggregate nominal amount of Notes outstanding at any one time.
Risk Factors:	Investing in Notes issued under the Programme involves certain risks. The principal risk factors that may affect the ability of the Issuer to fulfil its obligations under the Notes are discussed in Section “ <i>Risk Factors</i> ” below.
Arrangers or the Programme:	Luminor Bank AS Swedbank AB (publ)
Dealers:	Luminor Bank AS Swedbank AB (publ)
Method of Issue:	The Notes shall be issued in Series. Each Series may comprise one or more Tranches of Notes. The Notes of each Tranche will all be subject to identical terms, except that the Issue Dates and the Issue Prices thereof may be different in respect of different Tranches.
Form of the Notes:	The Notes will be issued in dematerialized form and book-entered with Nasdaq CSD SE.
Status and Security:	The Notes constitute direct, unsecured and unguaranteed obligations of the Issuer ranking <i>pari passu</i> without any preference among each other and with all other unsecured, unguaranteed and unsubordinated indebtedness of the Issuer, save for such obligations as may be preferred by mandatory provisions of law.
Currency:	EUR
Denomination:	The nominal amount of each Note shall be specified in the Final Terms.
Issue Price:	The Notes may be issued at their nominal amount or at a discount or a premium to their nominal amount.
Minimum Investment Amount:	The Notes will be offered for subscription for a minimum investment amount EUR 100,000 (one hundred thousand euro).
Interest:	The Notes will bear interest at a fixed annual interest rate.
Maturity:	The Notes shall be repaid in full at their nominal amount on the date which will be specified in the Final Terms. Each Series of Notes may have a maturity up to 10 (ten) years.

Early Redemption:	The Issuer is entitled to redeem each Series of Notes, in whole but not in part, at any time during the period of 3 (three) month prior to their maturity at a price equal to the nominal amount of the Notes together with the accrued interest, as more fully set out in Clauses 9.3 and 9.4 of the General Terms and Conditions of the Notes.
Redemption for tax reasons:	The Issuer is entitled to redeem the Notes, in whole but not in part, at a price equal to the nominal amount of the Notes together with the accrued interest for tax reasons as described in Clause 11 of the General Terms and Conditions of the Notes.
Change of Control:	Following the occurrence of a Change of Control the Noteholders will be entitled to request the Issuer to redeem or, at the Issuer's option, procure the purchase of their Notes, as more fully set out in Clause 14 of the General Terms and Conditions of the Notes.
Negative Pledge:	The Notes will have the benefit of a negative pledge as described in Clause 15 of the General Terms and Conditions of the Notes.
Cross Default:	The Notes will have the benefit of a cross default provision as described in Clause 16 of the General Terms and Conditions of the Notes.
Listing:	Application will be made to Nasdaq Riga for admitting each Tranche to listing and trading on the official bond list (the Baltic Bond List) according to the requirements of Nasdaq Riga not later than within 3 (three) months after the Issue Date of the respective Tranche.
Taxation:	All payments in respect of the Notes by the Issuer shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature (" Taxes "), unless the withholding or deduction of the Taxes is required by the laws of the Republic of Latvia. In such case, the Issuer shall pay such additional amounts as will result in receipt by the Noteholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Note held by or on behalf of a Noteholder which is liable to such Taxes in respect of such Note by reason of its having some connection with the Republic of Latvia other than the mere holding of the Note.
Rating:	As of the date of this Base Prospectus, the Issuer has a credit rating Baa2 by Moody's. The outlook is stable. A Series of Notes to be issued under the Programme may be rated or unrated. A rating is not a recommendation to buy or sell or hold Notes and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. Up-to-date information should always be sought by direct reference to the relevant rating agency.
Governing Law:	Latvian law.
Dispute Resolution:	Any disputes relating to or arising in relation to the Notes shall be settled solely by the courts of the Republic of Latvia of competent jurisdiction.
Selling Restrictions:	For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of the Base Prospectus in the United States of America, the EEA (with respect to retail investors), the Republic of Latvia, the Republic of Lithuania and other jurisdictions, see Section " <i>Distribution of the Base Prospectus and Selling Restrictions</i> ".

RISK FACTORS

Prospective investors are advised to carefully consider the risk factors and other information provided in this Base Prospectus. Investing in the Notes involves certain risks including but not limited to the risks described herein.

The Issuer believes that if one or more of the risk factors described herein emerges, it could have a negative effect on the Issuer's business operations, financial position and/or business results and, thereby, the Issuer's ability to fulfil its obligations under the Notes as well as the market price and value of the Notes. If these risks were to lead to a decline in the market price of the Notes, prospective investors could lose all or part of their investment.

The risks and uncertainties described herein are the risks which the Issuer has deemed material; however, they are not the only factors affecting the Issuer's activities. Therefore, the Issuer does not claim that the statements below regarding the risks of acquiring and/or holding any Notes are exhaustive. Also, other factors and uncertainties than those mentioned herein, which are currently unknown or deemed immaterial, could negatively affect the Issuer's business operations, financial position and/or business results and, thereby, the Issuer's ability to fulfil its obligations under the Notes as well as the market price and value of the Notes.

Most of these risk factors are contingencies which may or may not occur and the Issuer is not in a position to assess or express a view on the likelihood of any such contingency occurring.

The most material risk factors have been presented at the beginning in each category. The order of presentation of the remaining risk factors in each category in this Base Prospectus is not intended as an indication of the probability of their occurrence or of their potential effect on the Issuer's ability to fulfil its obligations under the Notes.

All investors should make their own evaluations of the risks associated with an investment in the Notes and should consult with their own professional advisers if they consider it necessary.

Risks related to macroeconomic conditions

Exposure of business results to macroeconomic developments

The results of the Group's operations are dependent on Latvia's macroeconomic situation. In particular, the Group's operations are affected by such factors as the level of Latvia's GDP, the level of industrial production, the rate of inflation, fuel prices, the unemployment rate, changes in consumer affluence levels, and the fiscal policy of the Republic of Latvia. The Baltic region is a small open economy that is closely linked to the global economy and especially to the macroeconomic conditions in the Eurozone countries and global developments.

The Group's expansion into neighbouring energy markets creates growing exposure of its business and financial results to regional and international macroeconomic developments. The Group's business is influenced by electricity price trends in local and Nordic markets, commodities prices (including, but not limited to, natural gas and oil), consumer behaviour and electricity demand in the Baltic countries, and other indices that may reflect local and global macroeconomic trends and have a material adverse effect on the Group's business and financial position.

The Group has a strong balance sheet and operates in a relatively non-cyclical or late-cyclical industry. However, an unexpected downturn in the economy could have an impact on the Group's customers and negatively affect its growth and results of operations through reduced electricity consumption. Also, households' capability to fulfil their obligations towards the Group may deteriorate, which could lead to an increase in the Group's overdue portfolio, creating adverse effect on the Group's business and financial position.

COVID-19 has affected investment sentiment on a global scale, causing a significant volatility in the global capital markets. In addition, the outbreak has resulted in restrictions on international travel and public transport, delays in transportation of goods, and prolonged closures of workplaces which may continue to have a material adverse effect on the global economy and Latvia.

Latvia has taken a number of temporary preventative measures to contain the outbreak and slow the spread of COVID-19, including implementing restrictions on international travel, restrictions on gatherings of groups of people and the closure of universities, schools and other public institutions. To overcome these short-term difficulties, the government offers a number of support solutions to entrepreneurs and workers. As of the date of this Base Prospectus, the priority groups of people are being vaccinated in the country, and it is planned to start mass vaccination in April 2021 in order to gain herd immunity.

In 2020, the global COVID-19 pandemic had a significant impact on the global economy, including the dynamics of energy prices. The restrictions implemented in the Baltics in order to limit the spread of COVID-19 reduced economic activity, including electricity consumption. In 2020, electricity consumption in Latvia decreased by 2.2 per-cent, and this was due to both the warmer weather and spread of Covid-19.

Herd immunity should limit the spread of COVID-19 in Latvia and the support measures introduced by the government should mitigate the impact on the Latvian economy.

Any negative effect on the economy may decrease incomes of the Group's customers and the demand for the Group's products. Such effects may also result in insolvency of the Group's business partners, which could affect the operations of the Group, as well as its financial standing.

The Group's estimate for the exposure of business results to macroeconomic developments is medium.

Risks related to strategy

Capital investment projects risk

The Group has a capital investment programme, aimed at upgrading the Group's generating facilities, as well as its distribution system assets.

The Group has commenced an upgrading of the Daugava hydropower plants (the "HPPs"). The project includes reconstruction of 23 hydro units in 3 HPPs.

The main areas of investment in the distribution segment are restoration of power lines, reconstruction of transformer substations, installation of remote-controlled circuit breakers and fault location detectors. The Group commenced the "smart electricity meters" project in 2014, which is scheduled for completion in 2022, and will improve customer awareness of electricity consumption and promote electricity consumption efficiency and cost reduction for the distribution system operator, customers and electricity traders.

There is a risk, that cost overruns and project delays or similar aspects related to the execution of current or future capital investment projects could have a material adverse effect on the Group's business and financial position.

Besides the above-mentioned projects, the Group may implement other capital-intensive investment and maintenance projects that could increase its exposure to operational and/or financial risk levels or negatively impact its value or reputation, thus creating an adverse effect on its business and financial position.

The Group's estimate for the capital investment project risk profile is medium.

Strategic decision risk

Strategic decisions risk is a possible source of loss that might arise from the pursuit of faulty strategic decisions when entering into the new markets or new businesses.

Simultaneously with the opening of the electricity markets in neighbouring countries Estonia and Lithuania, the Group commenced its operations in these markets. There are risks and opportunities inherent to the further developments of these markets, such as an expected increase in the number of clients switching between electricity suppliers and possible changes in the legal environment, which could influence the Group's operations. The market share in the Baltic countries indicates the Group's current standing, but there is a risk that the market share could decrease or that the Group could be unable to attain its anticipated market share

growth, thus causing adverse effects on its business and financial position. Furthermore, there is also a risk of exiting any of the current markets subject to various reasons, including economic and strategic, as well as suffering losses upon entering new markets. This could affect the Group's operations and financial position.

With increased competition in energy trading, the Group is ready to invest in new businesses and develop new products or services that complement traditional ones, promoting synergies with the existing businesses and customer base. After careful evaluation of the electricity market and entry barriers, the Group is ready to start electricity trading in its geographically closest markets – the Nordic countries, Poland and Lithuania, offering existing products. The Group may also face risks related to failure to introduce new technology and new products, given the rapid evolution of the energy sector.

The Group's strategic risk is mitigated through business plans and analyses, as well as engaging experienced professionals from the energy sector. Furthermore, entries into new markets and businesses are preceded by an analysis and engaging experts in the particular field. However, despite the measures taken by the Group, the materialisation of strategic decision risk could have a material adverse effect on the Group's operations, financial condition and results of operations.

The Group's estimate for the strategic decisions risk profile is medium.

Corporate governance risk

The sole shareholder of the Company is the Republic of Latvia and the rights and duties of the shareholder are awarded to the Ministry of Economics of the Republic of Latvia. Certain and substantial shareholder's decisions altering the Group's strategy or decisions in respect of dividend policy, capital structure and other relevant issues could have a material adverse effect on the Group.

The Law on the Management of Public Persons' Capital Shares and Capital Companies (in Latvian - *Publiskas personas kapitāla daļu un kapitālsabiedrību pārvaldības likums*) stipulates formation of the Supervisory Board as a supervisory body in large state-owned companies. The Company and the Company's subsidiary Sadales tīkls AS qualify in this category. The Supervisory Board of the Company approves the Group's strategy, major investment decisions, development plans, and key policies and elects and recalls members of the Management Board. The Supervisory Board of the Company is elected by the Shareholders Meeting of the Company. The current Supervisory Board is composed of five independent members. Changes in the composition of the Supervisory Board may influence the Company's currently selected strategic direction, development plans, goals and policies, lower risk aversion, thus adversely affecting the Group.

The management of the Group is ensured by the Company's Management Board, whose main duties include defining the Group's strategic development plans, goals and policies. As of the date of this Base Prospectus the Management Board of the Company consists of four of five Members of the Management Board, of which two are appointed as temporary members until the establishment of the permanent composition of the Management Board. Chairman of the Management Board of the Company and two Members of the Management Board of the Company responsible for generation and commercial activities will be selected through the competition, which as of the date of this Base Prospectus is in progress. Changes in the composition of the Company's Management Board could negatively influence the Company's strategic direction, development plans, goals and policies, thus adversely affecting the Group.

The Group's estimate for the corporate governance risk profile is low.

Operational Risks

Daugava hydropower plant geotechnical failure risk

Most of the electricity produced by the Company comes from the three largest HPPs in the country - Plavinas HPP, Riga HPP and Kegums HPP. Operating hydro facilities includes operational risks that can lead to physical damage, technical disruptions, third-party liabilities, environmental issues and other damage or loss events. To manage such risks, the Company continuously monitors the condition of the dams and performs regular inspections and measurements to ensure their safety. There is a systematic long-term investment programme

(“*Safety improvement action plan*”) to ensure that the dams are maintained in an appropriate condition and to transfer risks to the insurance market, where such insurance is commercially available. In certain circumstances adequate insurance coverage may not be available, as a result of either a lack of relevant insurance or excessive costs. In addition, insurance proceeds received may be inadequate to fully cover replacement costs for damaged assets, sequential financial losses due to business interruption, liabilities to third parties, and similar costs and expenses associated with such asset damages. Despite the measures taken, no assurance can be given that a HPP geotechnical failure will not occur in the future. Should such risk materialise, it could result in a compensation of damages and additional operating costs for the Group, thus adversely affecting the Group’s financial position and the Issuer’s ability to fulfil its obligations under the Notes.

The Group's estimate for the Daugava hydropower plant geotechnical failure risk profile is high.

Combined heat and power plant damage risk

Most of the Company's thermal energy generation volume is generated by two combined heat and power plants (the “**CHPPs**”). In the case of a fire or explosion in a CHPP, there is a risk of losing either the entire CHPP or a single power unit. To minimize such risks, the Company continuously monitors the condition of the CHPPs, performs regular inspections and measurements to ensure their safety and transfers risks to the insurance market, where such insurance is commercially available. In certain circumstances adequate insurance coverage may not be available, as a result of either a lack of relevant insurance or excessive costs. In addition, insurance proceeds received may be inadequate to fully cover replacement costs for damaged assets, sequential financial losses due to business interruption, liabilities to third parties, and similar costs and expenses associated with such asset damages. Should such risk materialise, it could result in a compensation of damages and additional operating costs for the Group, thus adversely affecting the Group’s financial position and the Issuer’s ability to fulfil its obligations under the Notes.

The Group's estimate for the CHPP damage risk profile is high.

Electricity distribution infrastructure damage risk

Major risks related to distribution infrastructure failures include mass failures in the distribution infrastructure caused by atmospheric surges, branches or trees falling on power lines or power equipment, strong winds, ice, and rapid changes in air temperature. Based on the experience of the last 20 years, the largest mass failures in the distribution infrastructure occurred in 2005 and 2010/2011. To minimize the risk, there is a long-term investment programme for electricity distribution infrastructure renovation and reconstruction. In addition, the Group also transfers risks to the insurance market, where such insurance is commercially available. In certain circumstances, adequate insurance coverage may not be available, as a result of either a lack of relevant insurance or excessive costs. In addition, insurance proceeds received may be inadequate to fully cover replacement costs for damaged assets, sequential financial losses due to business interruption, liabilities to third parties, and similar costs and expenses associated with such asset damages. Should such risk materialise, it could result in a compensation of damages and additional operating costs for the Group, thus adversely affecting the Group’s financial position and the Issuer’s ability to fulfil its obligations under the Notes.

The Group's estimate for the electricity distribution infrastructure damage risk profile is medium.

Energy market price fluctuation risk

The Company operates a vertically integrated power portfolio. At the first instance the generation assets are used to cover the open retail fixed price commitments. Where the market price risk is covered by the production of the CHPPs, the natural gas procurement costs and carbon emission costs are hedged forward. The Group’s electricity generation portfolio does not fully cover the needs of the electricity supply portfolio, thus throughout the year approximately one third of the Group's annual electricity supply to the retail sector is subject to market price risk. The Group uses financial derivative contracts to mitigate electricity market price risk for the part of its supply portfolio without generation asset coverage and for fixing of natural gas procurement costs.

Hedging is an efficient way to protect the Group against unfavourable changes in energy market prices. However, currently the availability of hedging instruments in the Baltic markets is limited due to low liquidity in

the electricity derivatives' market, and for that reason hedging costs might be high. Therefore, the Group implements a proxy hedging strategy where Nordic system futures contracts and Finnish area price contracts are used for hedging the market price risk. In recent years Nordic-Baltic market interconnectivity has increased with the opening and stabilisation of operations of new transmission capacities between Lithuania and Sweden. The Nordic and Baltic markets are demonstrating greater price convergence, thus a proxy hedge effectively closes the market price risk for the Group's retail portfolio. Since usually the pricing of natural gas physical deliveries are based on Dutch TTF Month ahead indices, Dutch TTF swap contracts are used for fixing the price for major part of the planned natural gas procurement.

Usually, the Group has hedged the market price risk for most of its electricity sales portfolio.

Notwithstanding this, there is a risk that hedging will not provide the required efficiency. This could have a material adverse effect on the Group's financial position.

The Group's estimate for the energy market price fluctuation risk profile is medium.

Seasonality and climate changes

The Group's core business operations, particularly electricity generation at the HPPs and the CHPPs, are influenced by weather conditions. The HPPs' ability to generate electricity is dependent on the water inflow in the Daugava River; thus, total electricity generation volumes fluctuate annually. Effective operation of the CHPPs is largely dependent on thermal energy consumption, which is affected by weather conditions, i.e. external air temperature and duration of the heating season.

Due to this, the Group's overall financial position may be influenced by seasonality, weather fluctuations, and long-term shifts in climate affecting electricity generated at the HPPs and/or the number of working hours of the CHPPs operating in an effective cogeneration mode. A decrease in the annual water inflow volume in the Daugava River below long-term average flow level and/or untypically mild weather conditions during autumn and winter months could result in a reduced volume of annual electricity generation at the Group's power plants, exposing the Group to electricity procurement price risk and lower profitability margins. Long-term shifts in climate conditions could result in more permanent changes to the generation patterns and thus create an adverse effect on the Group's business and financial position.

The Group's estimate for the seasonality and climate risk profile is medium.

COVID-19 pandemic and possible similar future outbreaks

Different regions in the world have from time to time experienced outbreaks of various viruses. At this time, a wide-spread global pandemic of coronavirus Covid-19 (COVID-19), is taking place. Nearly a year after the global COVID-19 pandemic started, the issue of mutations looms large. New variants capable of spreading faster are emerging and leading to inevitable questions about whether they will make the newly approved vaccines less effective.

As of the date of this Base Prospectus, certain sectors of the economy of Latvia are being significantly affected, including, but not limited to, tourism, and the accommodation and transport sector, especially, airport traffic.

While COVID-19 is still spreading and the final implications of the pandemic are difficult to estimate at this stage, it is clear that it affects the lives of a large portion of the global population and causes significant effects. At this time, the pandemic has caused state of emergencies being declared in various countries, travel restrictions being imposed, quarantines being established, and various institutions and companies being closed.

The ongoing COVID-19 pandemic and any possible future outbreaks of viruses may have a significant adverse effect on the Group. Firstly, a spread of such virus amongst the employees of the Group and any quarantines affecting the employees of the Group or the Group's facilities, may reduce the ability of the Group's personnel to carry out their work and thereby affect the Group's operations. Secondly, any quarantines or spread of viruses may affect the ability of the customers of the Group to carry out their operations, which may adversely

affect the volume of energy consumption and credit risk exposure, thus create adverse effect on the Group's business and financial position.

The Group's estimate for the COVID-19 pandemic and possible similar virus risk profile is medium.

Information systems, communication network infrastructure and cyber-attack risks

An important element of the Group's operations is *the Latvenergo Corporate Network* (data and voice transmission services) consisting of backbone cables, access cables, radio towers and radio masts, communication rooms, a data transmission channel, and other network related equipment. The main factors that could critically affect *the Latvenergo Corporate Network* are physical damage (optical fibre and copper cable damage), technological failures (network equipment damage, software errors), power failure (interruptions, overvoltage effects), fire, floods, human error, third party malicious actions, cyber-attacks and a distributed denial of service attack on the Company's Internet resources.

The Group has developed, procured and uses a variety of off-the-shelf and custom-made information systems (IS) and web-based solutions in carrying out its everyday business operations and providing services to its customers. The main factors that could lead to total or partial loss of IS data are physical infrastructure damage (server, backup, disk array), technological failures, software failures, power failure (power outages, power surges), fire, floods, natural disasters, human error, third party failures to perform their duties (supplying faulty software or hardware, failing to provide support or maintenance service), distributed denial of service attack, cyber-attacks, viruses, ransomware, and other forms of malware.

The Group has made significant investments in developing well-functioning and secure IS and is constantly working on improving such systems and developing adequate contingency procedures:

- IS infrastructure is located in several data centres;
- various IS virtualization technologies are used;
- backup of IS according to data backup and a maintenance plan of every IS;
- regular continuity tests of IS.

The Group applies the contingency procedures mentioned above and this reduces the probability of the risk; however, the continuity tests are not able to assess all possible scenarios, and there is a possibility of system unavailability or breakdown. Breakdowns and interruptions in the IS could jeopardize the Group's operations, causing errors in the execution of transactions, loss of customers, production breakdowns and other business interruptions.

The organizational complexity of the Group exposes the Group's assets to the risk of cyber-attack or threats of intentional disruption. The Group manages cyber security activities, which provide for the involvement of the relevant business areas, compliance with legal requirements and recommendations and monitoring critical controls, yet the Group could be subject to cyber-attack and other security threats to its IS. In such circumstances, the Group could be unable to continue conducting its business in an effective manner, or to prevent, respond promptly and adequately to or mitigate the adverse effects of breakdowns or interruptions in its IS infrastructure, with possible adverse effects on its reputation, financial condition, assets, business, and results of operations.

The Group's estimate for the IS, communication network infrastructure and cyber-attack risk profile is medium.

Environmental, health and safety risks

The Group's core business activities, such as electricity generation and distribution include operations with certain assets, mixtures, substances and processes that inherently have increased levels of riskiness, thus exposing the Group's personnel, third parties and the environment to potential damages or harm due to operational accidents or other sudden and unforeseen occurrences. Certain technological processes,

including, but not limited to, the operation of the CHPPs and the HPPs, the operation of distribution system assets and other processes, involve materials, mixtures or substances that are potentially dangerous in uncontrolled chemical processes, such as fires, explosions, emissions, major accidents or failures of equipment or structures. The consequences of an uncontrolled release of dangerous substances or other environmental risks, such as subsequent loss mitigation activities and clean-up costs, fines, penalties and similar costs imposed in accordance with relevant legislation, third party claims and other legal actions could adversely affect the Group's business and financial position.

The Group has made substantial investments into technologies and processes and takes risk mitigation measures, aimed at minimising any negative impact on the environment. Furthermore, the introduction of new legislative initiatives aimed at minimising environmental impact could impose additional costs on the Group.

The Group's personnel, as well as the personnel of the Group's subcontractors are exposed to increased health and safety risks by operating certain assets of the Group. Notwithstanding that the Group has implemented a wide array of activities and procedures aimed at mitigation of occupational health and safety risks, third party claims or claims by the Group's personnel in relation to personal damage or harm caused at the workplace could incur substantial costs to the Group, as well as negative publicity, leading to a material adverse effect on the Group.

The Group's estimate for the environmental, health and safety risk profile is medium.

Counterparty risk

Counterparty risk is inherent to all business activities the Group is engaged in. A counterparty's financial distress or suspension of its operation by any governmental and/or other institutional body due to, among other things, enforced economic sanction laws, regulations or embargoes could have a material adverse effect on the Group's business and/or financial position. Counterparty risk could result in material financial losses to the Group, including, but not limited to, revenues not being received from customers, the Group's own funds not being accessible in its current accounts, committed funding not being available, committed capital expenditure projects being suspended or delayed, etc. Suspension of or material delay in any counterparty's committed capital expenditure project that is significant in nominal amount could harm not only the Group's financial position but also its business operations, thus further affecting the quality of services provided by the Group itself or harming the Group's reputation.

The Group assesses its counterparties to mitigate risk. There are internal procedures in place for identifying and assessing counterparties. As to financial counterparties, the Group's policy is, among other things, to evaluate and group financial counterparties by the credit rating assigned to them by an independent credit rating agency. There are limits set for each group of financial institutions with respect to the transaction amount and expected maturity to be undertaken by the Group.

Although, the Group monitors and manages its counterparty risk, an occurrence of the risk could have an adverse impact on the Group's business and financial position.

The Group's estimate for the counterparty risk profile is medium.

Risk of resource supply disruption

The Group's operations depend on consistent and commercially adequate resource supplies of natural gas required for the operation of the CHPPs and supply of electricity. Risk factors associated with resource availability include non-availability of supplies due to technological and/or other errors and accidents (including, but not limited to, accidents in natural gas supply networks and storage as well as accidents in high voltage transmission system networks connecting Latvia with neighbouring countries) and limitations on resource availability due to commercial, technological, geopolitical or other reasons. The risk that required supplies might not be available, or might only be available on commercially unfavourable terms, would affect the Group's profitability, which could adversely affect the Group's business and financial position.

The Group's estimate for the resources supply risk profile is low.

Legal and Regulatory Risks

The cancellation of mandatory procurement and capacity payment support scheme

Legislative acts of the Republic of Latvia currently entitle the Company's subsidiary Enerģijas publiskais tirgotājs SIA to act as an agent in the mandatory procurement administration process.

With the political objective of reducing the amount of the mandatory procurement component in customer bills in Latvia, there is a risk that the cost of mandatory procurement could be reduced at the expense of the Group by stopping the CHPPs capacity support, which has already been reduced by 75 per-cent. On 17 September 2020, at the first reading the Saeima supported the amendments to the Electricity Market Law (in Latvian – *Elektroenerģijas tirgus likums*). The draft law provides reduction of support for electrical capacity installed and electricity generated under mandatory procurement scheme. Also, it provides termination of the order that mandatory procurement costs are borne by the final consumers, but still envisages the current role of the public trader in mandatory procurement scheme and that mandatory procurement administration costs are compensated to the public trader by the State budget. As of the date of this Base Prospectus, Economic, Agricultural, Environmental and Regional Policy Committee of Saeima continues to review the submitted proposals to second reading of the amendments to the Electricity Market Law. For the time being it is difficult to foresee whether or when the amendments to the Electricity Market Law could be adopted and come into force.

The amendments to the Electricity Market Law may have impacts on the Group's profits and asset value. The interruption of the payment of capacity support to the CHPPs and a stipulated obligation to repay the State compensation (for more details on the compensation, please see Note 14 d (I) in the Group's Annual Report 2020) of 75 per-cent of the CHPP capacity support could potentially lead to a material adverse effect on the financial position of the Group and consequently reduce the dividend potential of the Group.

The amendments in the regulation of the mandatory procurement resulting in changes of the mandatory procurement administration process or in incurred mandatory procurement costs not being recoverable to their full amount could have a material adverse effect on the Group's financial position.

The Group's estimate for the mandatory procurement risk is high.

Regulated market risk

The Group's revenues from regulated market activities are highly dependent on tariffs approved by the Public Utilities Commission and/or regulated by legislative acts of the Republic of Latvia. Electricity distribution system service and heat tariffs are reviewed or approved by the Public Utilities Commission based on their approved calculation methodology.

In 2020, approximately 40 per-cent revenues and EBITDA of the Group were generated from regulated activities (distribution, payment for the installed electrical capacity and generation of thermal energy at the Company's CHPPs, generation of electricity and thermal energy at the Liepaja generation facilities and Aiviekste HPP). There is a risk that not all costs will be covered by such regulated tariffs due to an unduly low regulatory asset base or because the rate of return on capital included in the calculation of the price of the electricity distribution system service tariffs will not correspond to the market rate. Also, there is a risk of material adverse effect on the Group due to delayed regulatory decisions by state authorities in the markets where the Group operates or due to changes in the local or EU legislative environment governing relevant regulatory matters.

The Group's estimate for the regulated market risk profile is medium.

Regulatory actions and investigations risk

Several authorities (such as the Public Utilities Commission, the State Audit Office, the Competition Council, and the State Revenue Service) regularly perform investigations, examinations, inspections or audits of the Group's business, including, but not limited to, anti-money laundering (AML), payments, reporting, corporate

governance, etc. Any determination by the authorities that the Company or any Group entities have not acted in compliance with all the applicable laws and regulations could have serious legal, reputational and financial consequences for the Group, including exposure to fines, criminal and civil penalties and other damages, increased prudential requirements or even business disruption in the respective fields.

Money laundering and terrorist financing risk

The Group is exposed to money laundering and terrorist financing risk. The Group's AML policy and procedures are clearly specified in writing, and communicated to all personnel. The procedures contain a clear description for employees of their obligations and instructions as well as guidance on how to keep the activity of the Group in compliance with regulations. There are internal procedures for detecting and reporting suspicious transactions. Failure in providing accounting and legal services, granting loans, or opening an account for the Group's companies as a result of non-compliance with AML requirements would most likely lead to serious financial, legal and reputational consequences for the Group, including exposure to fines, as well as criminal and civil penalties.

General Data Protection Regulation (GDPR) risk

The Group's data protection policy and regulations were revised in 2018 to align with the requirements of the General Data Protection Regulation (EU) 2016/679 (GDPR). The Group has created data protection specialist positions, the objective of which is to monitor GDPR compliance and carry out reviews and controls of GDPR fulfilment. The Group regularly monitors GDPR compliance. Failure in establishing and implementing appropriate technical and organizational measures to meet the data protection requirements of the GDPR could have serious financial, legal and reputational consequences for the Group, including exposure to fines and penalties.

International and national sanctions risk

Failure to comply with Latvian national sanctions or sanctions of international organizations (UN, EU, US) could have serious legal and reputational consequences for the Group, including exposure to fines as well as criminal and civil penalties. To mitigate this risk the Group has developed internal control system – a package of measures including activities to be taken to ensure compliance with sanctions requirements.

Fraud risk

Notwithstanding all the detection and prevention activities implemented within the Group with the aim to prevent any corruptive, fraudulent, coercive or collusive practices on the part of the Group's employees, directors and representatives, and with respect to any transaction the Group is involved in, there is a risk of such prohibited practices being performed. This could adversely affect the Group's reputation, business and financial position, as well as involve the Group in legal proceedings and disputes, including claims in relation to actions by regulatory and supervisory institutions.

Competition risk

According to the Competition Law (in Latvian – *Konkurences likums*), the Group is the dominant player in the heat and electricity market. In addition, a new provision of the Competition Law prohibits companies from violating the principles of equal competition and unjustifiably restricting the ability for private entrepreneurs to operate in the market. If the Competition Council found violations of the Competition Law, this could have serious legal, financial and reputational consequences for the Group.

REMIT regulation risk

As the Company operates in the wholesale energy market, there is a potential breach of the European Parliament and Council Regulation No 1227/2011 on Wholesale Energy Market Integrity and Transparency (REMIT), including a prohibition on insider dealing, a prohibition on market manipulation and a duty to provide information to the regulator and the Agency for the Cooperation of Energy Regulators. This could have serious legal, financial and reputational consequences for the Group.

Information disclosure risk

The Company's debt securities are listed on the Nasdaq Riga Baltic Bond List. There are information disclosure requirements that the Company must follow on an ongoing basis. These requirements stipulate when and how the information should be disclosed to the market. In circumstances where the Company fails to comply with information disclosure requirements, the Financial and Capital Market Commission or Nasdaq Riga may impose a fine for violation of these requirements, in the worst case scenario ending with delisting of securities. This exposes the Group to reputation risk, and the costs incurred due to such failure might negatively impact the Group's financial situation.

To mitigate this risk the Group has developed the Inside Information Disclosure Rules, which, among other things, contain a list of potential events that would require disclosure to investors.

The Group's estimate for the regulatory actions and investigations risk profile is medium.

Failure to comply with the EU State aid rules or the capacity payment support criteria

The Treaty on the Functioning of the EU provides that Member States are obliged to notify the European Commission (EC) regarding any State aid scheme. There are certain criteria under which the State aid can be considered lawful and compatible with EU competition law. The State aid scheme implemented by Latvia has been harmonized with the EC, which means that the principle of support in the form of capacity payments to the CHPPs of the Company has also been harmonized. The operating aid for CHPPs of the Company was approved under the State aid scheme SA.43140 "Support to renewable energy and CHP in Latvia" and SA.56310 "Support to the TEC-2 CHP plant in Latvia" by the EC.

The CHPPs receive State aid for their installed capacity. To be eligible for the State aid, the following criteria must be met:

- the primary energy savings of each CHPP should be at least 10 per-cent per annum;
- the installed electrical capacity of the CHPPs must be used at least 1,200 hours per calendar year;
- each CHPP should be operational for at least 4,500 hours per year.

There is a risk of failure to comply with the State aid criteria due to incorrect forecasts, a fire or explosion in the CHPPs, loss of the heat market share for other heat producers using biomass as fuel in the production process and other reasons. To manage such risk, the Group coordinates generation plans and continuously monitors actual developments at annual, monthly, next and current day levels. Should such risk materialise, it could adversely affect the Group's financial position.

The Group's estimate for the failure to comply with the EU State aid rules or the capacity payment support criteria risk profile is medium.

Changes in legislation

The Group is dependent on the legislative environment in the markets where it operates, and on political and social decisions in these markets, as well as in the European Union (EU). One of such initiatives is the European Green Deal, aimed at transforming the EU into a fair and prosperous society, with a modern, resource-efficient and competitive economy where there are no net emissions of greenhouse gases in 2050 and where economic growth is decoupled from resource use. This exposes the Group to additional costs and commitments that might negatively impact the Group's financial situation.

The Group's estimate for pertaining to changes in legislation risk is low.

Financial Risks

Mandatory prepayment of the Group's debt portfolio

The Group's existing long-term loan agreements and bond documentation include certain financial covenant clauses and other obligations and representations, the violation of which could lead to an event of default and acceleration of repayment of the loans and bonds issued. While the Group has not breached such provisions in the past, its ability to comply with covenants and restrictions contained in the loan agreements and bond documentation may be affected by events beyond its control, including prevailing economic, financial, legal, and industry conditions. If these obligations were to be breached, the creditors involved would be able to declare an event of default pursuant to the relevant loan agreements and bond documentation and require prepayment of the entire outstanding loan amounts and redemption of the outstanding bonds. Due to the cross-default clauses in the loan agreements and bond documentation, the Group might need to refinance a substantial part of its outstanding debt. The ability to raise funding for the refinancing of bank and market debt or negotiate other terms with existing lenders might be limited, thus causing significant going concern risk for the Group.

The Group has a policy for raising and managing borrowed funds to address the risk of mandatory prepayment of the Group's debt portfolio. The Group's policy is, among other things, to maintain a common list of covenants included in the loan agreements and bond documentation. Furthermore, financial covenants are considered in the business planning process.

The Group's estimate for the mandatory prepayment of the Group's debt portfolio risk profile is high.

Downgrade of the Company's credit rating

A downgrade of the Company's credit rating could increase the Group's costs of funding and/or reduce its access to funding and could require the Group to provide additional security for contracts, which could increase the costs of the transactions. In addition to a deterioration in the Company's own credit quality, the Company's credit rating might be downgraded if the credit rating of the Republic of Latvia is downgraded due to weak macroeconomic conditions or a change of the support assumptions provided by the Republic of Latvia.

The Group's estimate for downgrade of the Company's credit rating risk profile is low.

Financing and refinancing risk

The Group will need to raise further debt from time to time in order, among other things:

- to finance or refinance capital expenditures;
- to refinance debt.

Therefore, the Group is exposed to financial and capital market risk resulting from mismatches between the Group's capital requirements and its access to capital. The Group's ability to raise funding may be influenced by, among other things, its own operating performance and general economic, financial, legal and industry conditions. If these conditions deteriorate, there could be an adverse effect on the Group's ability to finance or refinance capital expenditures and/or to refinance its existing debt as and when they are due.

The Group has a policy for raising and managing borrowed funds to address the funding issues and financing risk. The Group's policy is, among other things, to maintain centralized fundraising and to diversify funding sources. The Group has a Financial Risk Management Policy in place to address refinancing risk.

The Group's estimate for the financing and refinancing risk profile is low.

Liquidity risk

The Group is exposed to liquidity risk resulting from mismatches between the revenue generated by its business and the Group's capital requirements to meet its payment obligations as they fall due or to fund its capital investments. The Group's future capital requirements and level of costs will depend on numerous factors, including, weather conditions, the amount of cash generated from its operations and general industry and economic conditions. An inability to cover funding costs through revenue streams could have a material adverse effect on the Group's business, financial condition, and results of operations or prospects, which could impact the ability of the Company to meet its payment obligations under the Notes.

The Group has a Financial Risk Management Policy in place to address the liquidity risk. The Group's policy is, among other things, to maintain sufficient reserves of cash and cash equivalents and the availability of long and short term funding through an adequate amount of committed credit facilities to meet its payment commitments according to its strategic plans and to balance fluctuations in the cash flows.

The Group's estimate for the liquidity risk profile is low.

Interest rate risk

The Group's interest rate risk mainly arises from long-term borrowings at variable rates. This exposes the Group to the risk that borrowing costs might increase significantly in the event that the relevant benchmark market interest rates rise.

The Group has a Financial Risk Management Policy in place to address interest rate risk. The Group's policy is, among other things, to maintain a certain average duration and portion of fixed interest rate borrowings in its debt portfolio. Adverse interest rate fluctuations, if not hedged, might negatively impact the Group's operations, prospects and financial results. The Group could also find itself over-hedged which could lead to loss of financial resources. Early termination of hedging agreements could also negatively impact the Group's financial results.

The Group's estimate for the interest rate risk profile is low.

Risks related to the Notes

Possibility to forfeit interest and principle amount invested

Should the Issuer become insolvent, legal protection proceedings or out-of-court legal protection proceedings of the Issuer are initiated during the term of the Notes, an investor may forfeit interest payable on, and the principle amount of, the Notes in whole or in part. An investor is always solely responsible for the economic consequences of its investment decisions.

No guarantee or security

The Notes will not constitute an obligation of anyone other than the Issuer and they will not be guaranteed. No one other than the Issuer will accept any liability whatsoever in respect of any failure by the Issuer to pay any amount due under the Notes.

The Notes are unsecured debt instruments and the Noteholders would be unsecured creditors in the event of the Issuer's insolvency.

Claims cannot be enforced against the Issuer's key assets

The Issuer holds a number of assets which under applicable laws of the Republic of Latvia can be owned only by the Issuer, the Issuer's wholly-owned subsidiaries or the companies that are wholly-owned by the state. As a consequence, such assets are not transferable to any other party except for the Issuer, its subsidiaries or the companies that are wholly-owned by the state. Section 20.¹ (2) of the Energy Law (in Latvian - *Enerģētikas likums*) lists the following non-transferable assets: (i) Plavinas, Kegums and Riga HPPs on the River Daugava; (ii) Latvenergo AS CHPP-1 and Latvenergo AS CHPP-2; and (iii) electricity distribution grid, telecommunication

grid and equipment owned by the Issuer. Because of their non-transferable nature, no claims, either on the ground of the Notes or otherwise, can be enforced against these assets. Furthermore, in case of the Issuer's insolvency these assets will not be used for settling the creditors' claims.

The Notes do not contain covenants governing the Issuer's operations and do not limit its ability to merge or otherwise affect significant transactions that may have a material adverse effect on the Notes and the Noteholders

The Notes do not contain provisions designed to protect the Noteholders from a reduction in the creditworthiness of the Issuer. In particular, the General Terms and Conditions of the Notes do not, except for the Change of Control (see Clause 14 the General Terms and Conditions of the Notes), restrict the Issuer's ability to increase or decrease its share capital, to enter into a merger or other significant transaction that could materially alter its existence, jurisdiction of organization or regulatory regime and/or its composition and business. In the event that the Issuer enters into such a transaction, Noteholders could be materially adversely affected. Furthermore, the Change of Control condition does not restrict the current shareholder of the Issuer, namely, the Republic of Latvia, from disposing any or all of its shareholdings, in case the law, which at the date of this Base Prospectus restricts privatisation or alienation of the shares of the Issuer, is changed.

No limitation on issuing additional debt

The issuer is not prohibited from issuing further debt. If the Issuer incurs significant additional debt of an equivalent seniority with the Notes, it will increase the number of claims that would be equally entitled to receive the proceeds, including those related to the Issuer's possible insolvency. Further, any provision which confers, purports to confer, or waives a right to create security interest in favour of third parties, such as a negative pledge, is ineffective against third parties since: (i) it is an issue of a contractual arrangement only being binding upon the parties to such contractual arrangement; (ii) there is no specific legislation in Latvia providing beneficiaries of negative pledge undertakings or covenants with a preferred position vis-a-vis the claims of third parties; and (iii) no registry or public record exists in Latvia through which negative pledge undertakings or covenants could be filed to obtain a preferred position. Should the Issuer breach its obligations under such undertakings and covenants and create a security interest in favour of a third party, such third party would obtain a valid and enforceable security interest over the pledged asset.

In respect of any Notes issued as Green Bonds, there can be no assurance that such use of proceeds will be suitable for the investment criteria of an investor. Any failure to use the net proceeds of any Tranche of Notes issued as Green Bonds in connection with green projects, and/or any failure to meet, or to continue to meet, the investment requirements of certain environmentally focused investors with respect to such Green Bonds may affect the value and/or trading price of the Green Bonds, and/or may have consequences for certain investors with portfolio mandates to invest in green assets

The Issuer may issue Notes under the Base Prospectus where the use of proceeds is specified in the applicable Final Terms to be for the financing and/or refinancing of projects and activities that promote climate and other environmental purposes, in accordance with certain prescribed eligibility criteria set out in the Issuer's Green Bond Framework (as defined below) (any Notes which have such a specified use of proceeds are referred to as "**Green Bonds**").

In respect of any Notes issued as Green Bonds, there can be no assurance that such use of proceeds will be suitable for the investment criteria of an investor. The Final Terms relating to any specific Tranche of Notes may provide that it will be the Issuer's intention to apply the proceeds from an offer of those Notes specifically for one or more Eligible Green Projects (as defined under the Issuer's Green Bond Framework available on its website from time to time (the "**Green Bond Framework**")). Prospective investors should have regard to the information set out on the Issuer's website and must determine for themselves the relevance of such information for the purpose of any investment in the Notes together with any other investigation such investor deems necessary.

In particular no assurance is given by the Issuer that the use of such proceeds for any Eligible Green Projects will satisfy, whether in whole or in part, any present or future investor expectations or requirements as regards

any investment criteria or guidelines with which such investor or its investments are required to comply, whether by any present or future applicable law or regulations or by its own by-laws or other governing rules or investment portfolio mandates, in particular with regard to any direct or indirect environmental, sustainability or social impact of any projects or uses, the subject of or related to, any Eligible Green Projects.

Furthermore, a basis for the determination of the definitions of “green” and “sustainable” has been established in the EU with the publication in the Official Journal of the EU on 22 June 2020 of Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 (the “**Sustainable Finance Taxonomy Regulation**”) on the establishment of a framework to facilitate sustainable investment (the “**EU Sustainable Finance Taxonomy**”). The EU Sustainable Finance Taxonomy is subject to further development by way of the implementation by the European Commission through delegated regulations of technical screening criteria for the environmental objectives set out in the Sustainable Finance Taxonomy Regulation. While the intention is that the applicable green projects would be in alignment with the relevant objectives for the EU Sustainable Finance Taxonomy, until the technical screening criteria for such objectives have been developed it is not known whether the Eligible Green Projects will satisfy those criteria. Accordingly, alignment with the EU Sustainable Finance Taxonomy, once the technical screening criteria are established, is not certain.

No assurance or representation is given as to the suitability or reliability for any purpose whatsoever of any opinion or certification of any third party (whether or not solicited by the Issuer) which may be made available in connection with the issue of any Notes and in particular with any Eligible Green Projects to fulfil any environmental, sustainability, social and/or other criteria. For the avoidance of doubt, any such opinion or certification is not, nor shall be deemed to be, incorporated in and/or form part of this Base Prospectus. Any such opinion or certification is not, nor should be deemed to be, a recommendation by the Issuer or any other person to buy, sell or hold any such Notes. Any such opinion or certification is only current as of the date that opinion was initially issued. Prospective investors must determine for themselves the relevance of any such opinion or certification and/or the information contained therein and/or the provider of such opinion or certification for the purpose of any investment in such Notes. Currently, the providers of such opinions and certifications are not subject to any specific regulatory or other regime or oversight.

While it is the intention of the Issuer to apply the proceeds of any Notes so specified for Eligible Green Projects in, or substantially in, the manner described in this Base Prospectus, there can be no assurance that the relevant project(s) or use(s) the subject of, or related to, any Eligible Green Projects will be capable of being implemented in or substantially in such manner and/or accordance with any timing schedule and that accordingly such proceeds will be totally or partially disbursed for such Eligible Green Projects. None of the Arrangers or the Dealers will verify or monitor the proposed use of proceeds of the Notes issued under the Base Prospectus. Nor can there be any assurance that such Eligible Green Projects will be completed within any specified period or at all or with the results or outcome (whether or not related to the environment) as originally expected or anticipated by the Issuer. Any such event or failure by the Issuer will not constitute an Event of Default under the Notes.

Any such event or failure to apply the proceeds of any issue of Notes for any Eligible Green Projects as aforesaid and/or withdrawal of any such opinion or certification or any such opinion or certification attesting that the Issuer is not complying in whole or in part with any matters for which such opinion or certification is opining or certifying on may have a material adverse effect on the value of such Notes and also potentially the value of any other Notes which are intended to finance Eligible Green Projects and/or result in adverse consequences for certain investors with portfolio mandates to invest in securities to be used for a particular purpose.

Refinancing risk

The Issuer may be required to refinance certain or all of its outstanding debt, including the Notes. The Issuer’s ability to successfully refinance its debt depends on the conditions of debt capital markets and its own financial condition. The Issuer’s inability to refinance its debt obligations on favourable terms, or at all, could have a negative impact on the Group’s operations, financial condition, earnings and on the Noteholders’ recovery under the Notes.

Since the Notes bear interest at a fixed interest rate, movements in market interest rates can adversely affect the value of the Notes

The Notes bear interest on their outstanding principal amount at a fixed interest rate. A holder of a security with a fixed interest rate is exposed to the risk that the value of such security could fall as a result of changes in the market interest rate. While the nominal compensation rate of the Notes is fixed during the life of the Notes, the current interest rate on the capital market (market interest rate) typically changes on a daily basis. If the market interest rate increases, the value of a security such as the Notes typically falls, until the yield of such security is approximately equal to the market interest rate. If the market interest rate falls, the value of a security such as the Notes typically increases, until the yield of such a security is approximately equal to the market interest rate. Consequently, Noteholders should be aware that movements of the market interest rate can adversely affect the value of the Notes and can lead to losses for the Noteholders if they sell their Notes.

The market price of the Notes may be volatile

The market price of the Notes could be subject to significant fluctuations in response to actual or anticipated variations in the Group's operating results and those of its competitors, adverse business developments, changes to the regulatory environment in which the Group operates, changes in financial estimates by securities analysts and the actual or expected sale of a large number of the Notes, as well as other factors. In addition, in recent years the global financial markets have experienced significant price and volume fluctuations, which, if repeated in the future, could adversely affect the market price of the Notes without regard to the Group's results of operations, prospects or financial condition. Factors including increased competition or the Group's operating results, the regulatory environment, general market conditions, natural disasters, pandemics, terrorist attacks and war may have an adverse effect on the market price of the Notes.

An active market for the Notes may not develop

Although application(s) will be made for the Notes to be admitted to trading on Nasdaq Riga stock exchange, there is no assurance that such application(s) will be accepted and the Notes will be admitted to trading. In addition, admission of the Notes on a regulated market will not guarantee that a liquid public market for the Notes will develop or, if such market develops, that it will be maintained, and neither the Issuer, nor the Arrangers or Dealers are under any obligation to maintain such market. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. A lack of liquidity may have a material adverse effect on the market value of the Notes.

Exchange rate risk

The Issuer will pay principal and interest on the Notes in EUR. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than EUR. These include the risk that exchange rates may significantly change (including changes due to devaluation of EUR or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify currency exchange controls. An appreciation in the value of the Investor's Currency relative to EUR would decrease the Investor's Currency-equivalent: (i) yield on the Notes; (ii) value of the principal payable on the Notes; and (iii) market value of the Notes.

Credit ratings

The Issuer's credit ratings are an assessment by the relevant rating agency of its ability to pay its debts when due. Consequently, real or anticipated changes in its credit ratings will generally affect the market value of the Notes. One or more independent credit rating agencies may assign credit ratings to the Notes. In case the Notes are rated by credit rating agencies, such ratings may not reflect the potential impact of all risks related to the structure, market, additional factors discussed above, or other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn

by the rating agency at any time. Any adverse change in an applicable credit rating of the Issuer could adversely affect the trading price of the Notes.

No assurance on change of laws or practices

The Notes are governed by the laws of the Republic of Latvia. Latvian laws (including but not limited to tax laws) and regulations governing the Notes may change during the life of the Notes, and new judicial decisions can be issued and/or new administrative practices may be adopted. No assurance can be given as to the impact of any of such possible changes of laws or regulations, or new judicial decision or administrative practice taking place after the date of this Base Prospectus. Hence, such change may have a material adverse effect on the Issuer's business, financial condition, results of operations and/or future prospects and, thereby, the Issuer's ability to fulfil its obligations under the Notes, as well as taxation of the Notes, and the market price of the Notes. Such events may also result in material financial losses or damage to the Noteholders.

Redemption prior to maturity

The Notes are redeemable at the Issuer's option at a price equal to the nominal amount of the Notes together with the accrued interest (as more fully set out in Clauses 9.3 and 9.4 of the General Terms and Conditions of the Notes). The Notes are also redeemable due to tax reasons at a price equal to the nominal amount of the Notes together with the accrued interest (as more fully set out in Clause 11 of the General Terms and Conditions of the Notes). In addition, the Notes are redeemable on the occurrence of a Change of Control at a price equal to the nominal amount of the Notes together with the accrued interest (as more fully set out in in Clause 14 of the General Terms and Conditions of the Notes). Furthermore, if 75 (seventy-five) per-cent or more in principal amount of the Notes then outstanding have been redeemed based on a Change of Control, the Issuer is entitled to redeem the remaining Notes at a price equal to the nominal amount of the Notes together with the accrued interest.

It is possible that the Notes are redeemed at a time when the prevailing interest rates may be relatively low. In such circumstances an investor may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as that of the Notes. It is further possible that the Issuer will not have sufficient funds at the time of the occurrence of a Change of Control to make the required redemption of Notes.

No voting rights

Only the shareholder of the Issuer has voting rights in the shareholders' meetings of the Issuer. The Notes carry no such voting rights. Consequently, the Noteholders cannot influence any decisions by the Issuer's shareholder concerning, for instance, the capital structure of the Issuer.

Amendments to the Notes bind all Noteholders

The General Terms and Conditions of the Notes contain provisions for Noteholders to consider matters affecting their interests generally. The decisions of Noteholders (including amendments to the General Terms and Conditions of the Notes), subject to defined majorities requirements, will be binding to all Noteholders, including Noteholders who did not vote and Noteholders who voted in a manner contrary to the majority. This may cause financial losses, among other things, to all Noteholders, including the Noteholders who did not vote and Noteholders who voted in a manner contrary to the majority.

Certain material interests

The Arrangers and Dealers have engaged in, and may in the future engage in, investment banking and/or commercial banking or other services provided to the Group in the ordinary course of business. Therefore, conflicts of interest may exist or may arise as a result of an Arranger's or a Dealer's current or future engagement in transactions with other parties, having multiple roles or carrying out other transactions for third parties with conflicting interests.

Risks relating to the clearing and settlement in the Depository's book-entry system

The Notes will be affiliated to the account-based system of the Depository, and no physical notes will be issued. Clearing and settlement relating to the Notes will be carried out within the Depository's book-entry system as well as payment of interest and repayment of the principal. Investors are therefore dependent on the functionality of the Depository's account-based system.

GENERAL TERMS AND CONDITIONS OF THE NOTES

1. Principal amount and issuance of the Notes

- 1.1. Under this third programme for the issuance of notes (the “**Programme**”) the Issuer may issue notes up to an aggregate principal amount of EUR 200,000,000 (two hundred million euro) (the “**Notes**”).
- 1.2. The Notes shall be issued in series (the “**Series**”).
- 1.3. Each Series may comprise one or more tranches of Notes (the “**Tranches**”). The Notes of each Tranche will all be subject to identical terms, except that the Issue Dates (as defined below) and the Issue Prices (as defined below) thereof may be different in respect of different Tranches.
- 1.4. In order to identify each Series and Tranches, the Final Terms (as defined below) shall stipulate a serial number of the respective Series and a serial number of the respective Tranche.
- 1.5. The terms and conditions of each Tranche shall consist of these general terms and conditions of the Notes (the “**General Terms and Conditions**”) and the final terms (the “**Final Terms**”). The General Terms and Conditions shall apply to each Tranche.
- 1.6. Each Final Terms will be approved by the management board of the Issuer, published on the Issuer’s website www.latvenergo.lv and submitted to the Financial and Capital Market Commission, which will forward them to the Bank of Lithuania (in Lithuanian - *Lietuvos Bankas*).
- 1.7. The aggregate principal amount of a Tranche shall be specified in the Final Terms. The Issuer may increase or decrease the aggregate principal amount of a Tranche as set out in the Final Terms during the Placement Period (as defined below) of that Tranche.
- 1.8. The nominal amount of each Note shall be specified in the Final Terms.
- 1.9. The Notes will be offered for subscription for a minimum investment amount EUR 100,000 (one hundred thousand euro) (the “**Minimum Investment Amount**”).

2. Form of the Notes and ISIN

- 2.1. The Notes are freely transferable non-convertible debt securities, which contain payment obligations of the Issuer towards the holders of the Notes (the “**Noteholders**”).
- 2.2. The Notes are dematerialized debt securities in bearer form which are disposable without any restrictions and can be pledged. However, the Notes cannot be offered, sold, resold, transferred or delivered in such countries or jurisdictions or otherwise in such circumstances in which it would be unlawful or require measures other than those required under Latvian laws, including the United States, Australia, Japan, Canada, Hong Kong, South Africa, Singapore and certain other jurisdictions. In addition, the Noteholders are prohibited to resell, transfer or deliver the Notes to any person in a manner that would constitute a public offer of securities.
- 2.3. The Notes shall be book-entered with Nasdaq CSD SE (registration number: 40003242879, legal address: Valņū 1, Riga, LV-1050, Latvia) (the “**Depository**”).
- 2.4. A separate ISIN will be assigned to each Series, which will be different from ISIN of other Series.
- 2.5. Before commencement of the offering of the Notes of the first Tranche of each Series, the Depository upon request of the Issuer will assign ISIN to the respective Series. Where a further Tranche is issued, which is intended to form a single Series with an existing Tranche at any point after the Issue Date of the existing Tranche, a temporary ISIN may be assigned to the Notes of such further Tranche, which is different from ISIN assigned to the relevant Series, until such time as the Tranches are consolidated and form a single Series.

- 2.6. ISIN of the respective Series and a temporary ISIN of the respective Tranche, if applicable, will be specified in the Final Terms.

3. Status and security

The Notes constitute direct, unsecured and unguaranteed obligations of the Issuer ranking *pari passu* without any preference among each other and with all other unsecured, unguaranteed and unsubordinated indebtedness of the Issuer, save for such obligations as may be preferred by mandatory provisions of law.

4. Currency of the Notes

The Notes will be issued in EUR.

5. Issue price and yield

- 5.1. The Notes may be issued at their nominal amount or at a discount or a premium to their nominal amount (the “**Issue Price**”). The Issue Price shall be determined by the Issuer and specified in the Final Terms.
- 5.2. The yield of each Tranche set out in the applicable Final Terms will be calculated as of the relevant Issue Date on an annual basis using the relevant Issue Price. It is not an indication of future yield.

6. Underwriting

None of the Tranches will be underwritten.

7. Issue date

The issue date of each Tranche (the “**Issue Date**”) shall be specified in the Final Terms.

8. Interest

- 8.1. The Notes shall bear interest at a fixed annual interest rate (the “**Interest Rate**”) which shall be determined by the Issuer and specified in the Final Terms.
- 8.2. The interest on the Notes will be paid annually on the dates specified in the Final Terms (“**Interest Payment Date**”) until the Maturity Date (as defined below) and will be calculated on the aggregate outstanding principal amount of the Notes of the respective Series.
- 8.3. Interest shall accrue for each interest period from and including the first day of the interest period to (but excluding) the last day of the interest period on the principal amount of the Notes of the respective Series outstanding from time to time. The first interest period commences on the Issue Date and ends on a day preceding the first Interest Payment Date (the “**First Interest Period**”). Each consecutive interest period begins on the previous Interest Payment Date and ends on a day preceding the following Interest Payment Date. The last interest period ends on the Maturity Date (as defined below).
- 8.4. Interest in respect of the Notes will be calculated on the basis of the actual number of days elapsed in the relevant interest period divided by 365 (or, in the case of a leap year, 366), i.e. a day count convention Act/Act (ICMA) will be used.
- 8.5. When interest is required to be calculated in respect of a period of less than a full year (other than in respect of the First Interest Period) it shall be calculated on the basis of (i) the actual number of days in the period from and including the date from which interest begins to accrue (the “**Accrual Date**”) to but excluding the date on which it falls due, divided by (ii) the actual number of days from and including the Accrual Date to, but excluding the next following Interest Payment Date.

- 8.6. Interest on the Notes shall be paid through the Depository in accordance with the applicable rules of the Depository. The Noteholders list eligible to receive the interest on the Notes will be fixed at the end of the 8th (eighth) Business Day immediately preceding the Interest Payment Date.
- 8.7. Should any Interest Payment Date fall on a date which is not a Business Day, the payment of the interest due will be postponed to the next Business Day. The postponement of the payment date shall not have an impact on the amount payable.

“**Business Day**” means a day on which the Depository system is open and operational.

9. Redemption

- 9.1. The Notes shall be repaid in full at their nominal amount on the date which will be specified in the Final Terms (the “**Maturity Date**”), unless the Issuer has prepaid the Notes in accordance with Clauses 9.3 and 9.4, Clause 14 (*Change of control*) or Clause 16 (*Events of Default*) below or in case the Noteholders, upon proposal of the Issuer, pursuant to Clause 22 (*Decisions of the Noteholders*) have decided that the Notes shall be redeemed prior to the Maturity Date.
- 9.2. Each Series of Notes may have a maturity up to 10 (ten) years.
- 9.3. The Issuer may redeem each Series of Notes, in whole but not in part, at any time during the period commencing on the first Business Day falling 3 (three) months prior to the Maturity Date (such Business Day included) and ending on the Maturity Date (the Maturity Date excluded) (the “**Voluntary Redemption Period**”), at an amount equal to 100 (one hundred) per-cent of their nominal amount together with any accrued but unpaid interest to, but excluding, the date of voluntary redemption (the “**Voluntary Redemption Date**”).
- 9.4. Redemption in accordance with Clause 9.3 shall be made by the Issuer giving not less than 30 (thirty) but no more than 60 (sixty) calendar days’ irrevocable notice specifying the Voluntary Redemption Date, which shall be a Business Day within the Voluntary Redemption Period, to the Noteholders in accordance with Clause 20 (*Notices*).
- 9.5. The principal of the Notes shall be paid through the Depository in accordance with the applicable rules of the Depository. The Noteholders list eligible to receive the principal of the Notes will be fixed at the end of the Business Day immediately preceding the payment of the principal of the Notes.
- 9.6. Should the payment date fall on a date which is not a Business Day, the payment of the amount due will be postponed to the next Business Day. The postponement of the payment date shall not have an impact on the amount payable.

10. Taxation

All payments in respect of the Notes by the Issuer shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature (“**Taxes**”), unless the withholding or deduction of the Taxes is required by the laws of the Republic of Latvia. In such case, the Issuer shall pay such additional amounts as will result in receipt by the Noteholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Note held by or on behalf of a Noteholder which is liable to such Taxes in respect of such Note by reason of its having some connection with the Republic of Latvia other than the mere holding of the Note.

11. Redemption for tax reasons

- 11.1. The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time on giving 30 (thirty) but no more than 60 (sixty) calendar days’ irrevocable notice to the Noteholders at an amount

equal to 100 (one hundred) per-cent of their nominal amount together with any accrued but unpaid interest to, but excluding, the date of redemption, if:

- (i) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Clause 10 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of the Republic of Latvia or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date of issue of the first Tranche of the Notes; and
- (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it,

provided, however, that no such notice of redemption shall be given earlier than 90 (ninety) days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Notes were then due.

11.2. Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall obtain an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment.

11.3. Upon the expiry of any such notice as is referred to in this Clause 11, the Issuer shall be bound to redeem the Notes in accordance with this Clause 11.

12. Placement of the Notes

12.1. Initially the Notes of the respective Tranche will be book-entered in the distribution account of a Dealer specified in the Final Terms (the "**Settlement Agent**") with the Depository.

12.2. The placement period for each Tranche (the "**Placement Period**") will be specified in the Final Terms. The Issuer may decide on shortening or lengthening the Placement Period.

12.3. The investors wishing to purchase the Notes shall submit their orders to the Dealers to purchase the Notes (the "**Purchase Orders**") at any time during the Placement Period.

12.4. Total amount of the Notes to be purchased and provided in each Purchase Order shall be no less than the Minimum Investment Amount.

12.5. Purchase Orders by the same legal entity or person will be aggregated into one if all order parameters (except the purchase amount) are the same.

12.6. All Purchase Orders are binding and irrevocable commitment to acquire the allotted Notes.

12.7. On the same Business Day following the Placement Period the Issuer will decide whether to proceed with the issuance of the Notes of a respective Tranche or cancel the issuance. In case the issuance of the Notes of a respective Tranche is cancelled, the Issuer will publish an announcement on the Issuer's website www.latvenergo.lv.

12.8. The Issuer in consultation with the Dealers will decide on allotment of the Notes to the Investors. The Issuer reserves a right to reject any Purchase Order, in whole or in part, at its sole discretion.

12.9. The Dealers shall send to each investor by way of e-mail or through Bloomberg system a confirmation which will contain information on the extent of satisfaction or rejection of the Purchase Order submitted by the investor, the number of Notes allotted to the investor and the amount (price) payable for the Notes.

12.10. The settlement for the Notes will take place on the Issue Date and will be carried out by the Settlement Agent in accordance with the DVP (*Delivery vs Payment*) principle pursuant to the applicable rules of the Depository.

12.11. All paid up Notes shall be treated as issued. The Notes which are not paid up shall be cancelled.

12.12. Information about the issue results of the Notes will be published on the Issuer's website www.latvenergo.lv within 1(one) Business Day following the Issue Date.

13. Admission to trading

13.1. The Issuer shall submit an application regarding inclusion of each Tranche in the Baltic Bond List of Akciju sabiedrība "Nasdaq Riga", registration number: 40003167049, legal address: Valņu 1, Riga, LV-1050, Latvia ("**Nasdaq Riga**"). An application shall be prepared according to the requirements of Nasdaq Riga and shall be submitted to Nasdaq Riga within 3 (three) months after the Issue Date of the respective Tranche.

13.2. The Issuer shall use its best efforts to ensure that the Notes remain listed in the Baltic Bond List of Nasdaq Riga or, if such listing is not possible, to obtain or maintain, listed or traded on another regulated market. The Issuer shall, following a listing or admission to trading, take all reasonable actions on its part required as a result of such listing or trading of the Notes.

13.3. The Issuer will cover all costs which are related to the admission of the Notes to the relevant regulated market.

14. Change of control

14.1. If at any time while any Note remains outstanding: (i) there occurs a Change of Control (as defined below), and (ii) within the Change of Control Period (as defined below), a Rating Event (as defined below) in respect of that Change of Control occurs (such Change of Control and Rating Event not having been cured prior to the expiry of the Change of Control Period, together, a "**Change of Control Put Event**"), each Noteholder will have the option (the "**Change of Control Put Option**") (unless, prior to the giving of the Change of Control Put Event Notice (as defined below), the Issuer gives notice to redeem the Notes according to Clauses 9.3 and 9.4) to require the Issuer to redeem or, at the Issuer's option, to procure the purchase of, all or part of its Notes, on the Optional Redemption Date (as defined below) at an amount equal to 100 (one hundred) per-cent of their nominal amount together with any accrued but unpaid interest to, but excluding, the Optional Redemption Date.

A "**Change of Control**" shall be deemed to have occurred if at any time following the Issue Date of the first Tranche of the Notes, the Republic of Latvia ceases to own, directly or indirectly, at least 51 (fifty one) per-cent of the issued share capital of the Issuer or ceases to have the power, directly or indirectly, to cast, or control the casting of, at least 51 (fifty one) per-cent of the maximum number of votes that might be casted at a Shareholders' Meeting of the Issuer.

"**Change of Control Period**" means the period beginning on the date of the first public announcement by or on behalf of the Issuer by any bidder or any designated advisor, of the relevant Change of Control and ending 90 days after completion of the relevant Change of Control.

A "**Rating Event**" shall be deemed to have occurred in respect of a Change of Control if (within the Change of Control Period) either:

- (i) (A) the rating previously assigned to the Issuer by any Rating Agency solicited by the Issuer is (x) withdrawn or (y) changed from an investment grade rating (Baa3/BBB- or its equivalent for the time being, or better) to a non-investment grade rating (Ba1/BB+ or its equivalent for the time being, or worse) or (z) (if the rating previously assigned to the Issuer by any Rating Agency solicited by the Issuer was below an investment grade rating (as described above)), lowered by at least one full rating notch (for example, from Ba1 to Ba2, or their respective equivalents) and (B) such rating is not subsequently upgraded (in the case of a downgrade) or reinstated (in the case of a withdrawal) within the Change of Control Period either to an investment grade credit rating (in the case of (x) and (y)) or to its earlier credit rating or better (in the case of (z)) by such Rating Agency; or

- (ii) the Issuer has not been previously assigned a credit rating solicited by the Issuer, and no Rating Agency assigns the Issuer an investment grade rating solicited by the Issuer within the Change of Control Period;

provided that the Rating Agency making the reduction in rating or deciding not to assign an investment grade rating announces or publicly confirms or, having been so requested by the Issuer, informs the Issuer in writing that the lowering or failure to assign an investment grade rating was the result, in whole or in part, of any event or circumstance comprised in or arising as a result of, or in respect of, the applicable Change of Control (whether or not the applicable Change of Control shall have occurred at the time of the Rating Event).

“Rating Agency” means Moody’s Deutschland GmbH, S&P Global Ratings Europe Limited or Fitch Ratings Ireland Limited.

- 14.2. Promptly upon the Issuer becoming aware that a Change of Control Put Event has occurred, the Issuer shall give notice (a **“Change of Control Put Event Notice”**) to the Noteholders in accordance with Clause 20 (*Notices*) specifying the nature of the Change of Control Put Event and the circumstances giving rise to it, and the procedure for exercising the Change of Control Put Option.
- 14.3. To exercise the Change of Control Put Option, a Noteholder within the period (the **“Change of Control Put Period”**) of 45 (forty-five) days after a Change of Control Put Event Notice is given must provide to the Issuer in writing a notice on exercise of the Change of Control Put Option (a **“Change of Control Put Option Notice”**).
- 14.4. A Change of Control Put Option Notice once given shall be irrevocable. The Issuer shall redeem or, at the option of the Issuer procure the purchase of, the Notes in respect of which the Change of Control Put Option has been validly exercised as provided above by the date which is the 5th (fifth) Business Day following the end of the Change of Control Put Period (the **“Optional Redemption Date”**).
- 14.5. For the avoidance of doubt, the Issuer shall have no responsibility for any cost or loss of whatever kind (including breakage costs) which the Noteholder may incur as a result of or in connection with such Noteholder’s exercise or purported exercise of, or otherwise in connection with, any Change of Control Put Option (whether as a result of any purchase or redemption arising therefrom or otherwise).
- 14.6. If 75 (seventy-five) per-cent or more in principal amount of the Notes then outstanding have been redeemed pursuant to this Clause 14, the Issuer may, on not less than 30 (thirty) nor more than 60 (sixty) days’ irrevocable notice to the Noteholders in accordance with Clause 20 (*Notices*) given within 30 (thirty) days after the Optional Redemption Date, redeem on a date to be specified in such notice at its option, all (but not some only) of the remaining Notes at 100 (one hundred) per-cent of their nominal amount, together with interest accrued to, but excluding, the date of redemption.

15. Negative pledge

So long as any Note remains outstanding, the Issuer shall not, and shall procure that none of its Material Subsidiaries create or permit to subsist mortgage, pledge or any other security interest (each a **“Security Interest”**), other than a Permitted Security Interest, upon the whole or any part of its present or future business, undertaking, assets or revenues to secure any Relevant Indebtedness or Guarantee of Relevant Indebtedness without (a) at the same time or prior thereto securing the Notes equally and rateably therewith, or (b) providing such other security for the Notes or other arrangement (whether or not it includes the granting of a security) as may be approved by the Noteholders pursuant to Clause 22 (*Decisions of the Noteholders*).

“Subsidiary” means a company:

- (i) whose affairs and policies the Issuer controls or has the power to control, whether by ownership of share capital, contract, the power to appoint or remove members of the governing body or otherwise; or

- (ii) whose financial statements are, in accordance with applicable law and generally accepted accounting principles, consolidated with those of the Issuer.

“Material Subsidiary” means at any time any Subsidiary:

- (i) whose total consolidated (or, if applicable, unconsolidated) assets (excluding intercompany loans, intercompany payables, intercompany receivables and intercompany unrealised gains and losses in inventories) represent not less than 10 (ten) per-cent of the total consolidated assets of the Issuer, or whose gross consolidated EBITDA (or, if applicable, unconsolidated) represents not less than 10 (ten) per-cent of the gross consolidated EBITDA of the Issuer, in each case as determined by reference to the most recent publicly available annual or interim financial statements of the Issuer prepared in accordance with IFRS and the latest financial statements of the Subsidiary determined in accordance with IFRS; or
- (ii) to which is transferred the whole or substantially all of the assets and undertakings of a Subsidiary which, immediately prior to such transfer, is a Material Subsidiary.

“EBITDA” means (i) the consolidated operating profit of the Group or (ii) in the case of a Material Subsidiary, the consolidated or unconsolidated operating profit of such Material Subsidiary, in the case of both (i) and (ii) before taking into account:

- (a) depreciation and amortisation;
- (b) finance income and finance costs;
- (c) revaluation of property, plant and equipment, and investment property;
- (d) impairment of property, plant and equipment;
- (e) current year income tax expense and deferred income tax (expense)/benefit;
- (f) any revaluation of non-current assets; and
- (g) exceptional items, as defined by IFRS or separately identified as such within the most recent publicly available annual or interim financial statements of the Issuer or the relevant Material Subsidiary (as the case may be), prepared in accordance with IFRS.

“Group” means the Issuer and its Subsidiaries from time to time.

“IFRS” means the International Financial Reporting Standards as adopted by the European Union.

“Permitted Security Interest” means any Security Interest created over any asset of any company which becomes a Subsidiary after the Issue Date of the first Tranche of the Notes, where such Security Interest is created prior to the date on which the company becomes a Subsidiary, provided that:

- (i) such Security Interest was not created in contemplation of the acquisition of such company; and
- (ii) the principal amount secured was not increased in contemplation of or since the acquisition (or proposed acquisition) of that company.

“Indebtedness” means any indebtedness (whether principal, premium, interest or other amounts) in respect of any bonds, notes or other debt securities or borrowed money by the Issuer or any of its Subsidiaries (other than from the Issuer to any of its wholly-owned Subsidiaries and from any of the Issuer's wholly-owned Subsidiaries to the Issuer or to another wholly-owned Subsidiary).

“Relevant Indebtedness” means any Indebtedness which is in the form of, or represented by any bond, note or other debt security which is, or is capable of being, quoted, listed or traded on any stock exchange or in any securities market (including, without limitation, any over-the-counter market).

“**Guarantee**” means, in relation to any Indebtedness, any obligation to pay such Indebtedness including (without limitation):

- (i) any obligation to purchase such Indebtedness;
- (ii) any obligation to lend money, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness;
- (iii) any indemnity against the consequences of a default in the payment of such Indebtedness; and
- (iv) any other agreement to be responsible for such Indebtedness.

16. Events of Default

16.1. If an Event of Default (as defined below) occurs, any Noteholder may by written notice to the Issuer declare any Note held by it and the interest accrued on such Note to be prematurely due and payable at the earliest on the 10th (tenth) Business Day from the date such notice was received by the Issuer, provided that an Event of Default is continuing on the date of receipt of the notice by the Issuer and on the early repayment date (the “**Early Repayment Date**”). Interest on such Note accrues until the Early Repayment Date (excluding the Early Repayment Date).

16.2. The Issuer shall notify the Noteholders about the occurrence of an Event of Default (and the steps, if any, taken to remedy it) in accordance with Clause 20 (*Notices*) promptly upon becoming aware of its occurrence.

16.3. Each of the following events shall constitute an event of default (an “**Event of Default**”):

- (i) **Non-payment:** the Issuer fails to pay any amount of principal in respect of the Notes on the due date for payment thereof or fails to pay any amount of interest in respect of the Notes on the due date for payment thereof and the default continues for a period of 5 (five) days in the case of principal and for a period of 14 (fourteen) days in the case of interest;
- (ii) **Breach of other obligations:** the Issuer defaults in the performance or observance of any of its other obligations in respect of the Notes, and such default is not capable of remedy or remains unremedied for at least 30 (thirty) days after written notice thereof, addressed to the Issuer by any Noteholder, has been received by the Issuer;
- (iii) **Cross-default:**
 - (a) any Indebtedness of the Issuer or any of its Material Subsidiaries is not paid when due or (as the case may be) within any originally applicable grace period;
 - (b) any such Indebtedness becomes due and payable prior to its stated maturity otherwise than at the option of the Issuer or (as the case may be) the relevant Material Subsidiary or (**provided that** no event of default, howsoever described, has occurred) any person entitled to such Indebtedness;
 - (c) the Issuer or any of its Material Subsidiaries fails to pay when due any amount payable by it under any Guarantee of any Indebtedness;

provided that the amount of Indebtedness referred to in sub-paragraph (a) and/or sub-paragraph (b) above and/or the amount payable under any Guarantee referred to in sub-paragraph (c) above individually or in the aggregate exceeds EUR 25,000,000 (twenty-five million euro) (or its equivalent in any other currency or currencies);

- (iv) **Security enforced:** a secured party enforces a security over the whole or any substantial part of the undertaking, assets and revenues of the Issuer or any of its Material Subsidiaries;

- (v) **Cessation of business:** the Issuer or any of its Material Subsidiaries cease to carry on its current business in its entirety or a substantial part thereof, other than:
 - (a) pursuant to any sale, disposal, demerger, amalgamation, reorganization or restructuring or any cessation of business in each case on a solvent basis and within the Group;
 - (b) in relation to a Material Subsidiary, if the cessation of the respective business (or substantial part thereof) of the Material Subsidiary is required by any specific EU regulations or laws of the Republic of Latvia or decisions of any regulatory authority in relation to the operation of the electricity markets, and it does not materially affect the Issuer's ability to fulfil its obligations with regard to the Notes; or
 - (c) for the purposes of, or pursuant to any terms approved by the Noteholders in accordance with Clause 22 (*Decisions of the Noteholders*);
- (vi) **Liquidation:** an effective resolution is passed for the liquidation of the Issuer or any of its Material Subsidiaries other than, in case of a Material Subsidiary:
 - (a) pursuant to an amalgamation, reorganization or restructuring in each case within the Group; or
 - (b) as a result of the cessation of the respective business required by any specific EU regulations or laws of the Republic of Latvia or decisions of any regulatory authority in relation to the operation of the electricity markets, and it does not materially affect the Issuer's ability to fulfil its obligations with regard to the Notes; or
 - (c) for the purposes of, or pursuant to any terms approved by the Noteholders in accordance with Clause 22 (*Decisions of the Noteholders*);
- (vii) **Insolvency:**
 - (a) the Issuer or any of its Material Subsidiaries is declared insolvent or bankrupt by a court of competent jurisdictions or admits inability to pay its debts; or
 - (b) the Issuer or any of its Material Subsidiaries enters into any arrangement with majority of its creditors by value in relation to restructuring of its debts or any meeting is convened to consider a proposal for such arrangement; or
 - (c) an application to initiate insolvency, restructuring (including proceedings such as legal protection proceedings and out-of-court legal protection proceedings) or administration of the Issuer or any of its Material Subsidiaries or any other proceedings for the settlement of the debt of the Issuer or of any of its Material Subsidiaries is submitted to the court by the Issuer or any of its Material Subsidiaries.

16.4. In case of the Issuer's liquidation or insolvency the Noteholders shall have a right to receive payment of the outstanding principal amount of the Notes and the interest accrued on the Notes according to the relevant laws governing liquidation or insolvency of the Issuer.

17. Further Issues

The Issuer may from time to time, without the consent of and notice to the Noteholders, create and issue further Notes whether such further Notes form a single Series with already issued Notes or not. For the avoidance of doubt, this Clause 17 shall not limit the Issuer's right to issue any other notes.

18. Purchases

The Issuer or any of its Subsidiaries may at any time purchase the Notes in any manner and at any price in the secondary market. Such Notes may be held, resold or surrendered by the purchaser through the

Issuer for cancellation. Notes held by or for the account of the Issuer or any of its Subsidiaries for their own account will not carry the right to vote at the Noteholders' Meetings or within Written Procedures and will not be taken into account in determining how many Notes are outstanding for the purposes of these General Terms and Conditions.

19. Time bar

In case any payment under the Notes has not been claimed by the respective Noteholder entitled to this payment within 10 (ten) years from the original due date thereof, the right to such payment shall be forfeited by the Noteholder and the Issuer shall be permanently released from such payment.

20. Notices

Noteholders shall be advised of matters relating to the Notes by a notice published in English and Latvian in the Central Storage of Regulated Information, on the website of Nasdaq Riga and on the Issuer's website www.latvenergo.lv. Any such notice shall be deemed to have been received by the Noteholders when published in the manner specified in this Clause 20.

21. Representation of the Noteholders

The rights of the Noteholders to establish and/or authorize an organization/person to represent interests of all or a part of the Noteholders are not contemplated, however, such rights are not restricted. The Noteholders should cover all costs/fees of such representative(s) by themselves.

22. Decisions of the Noteholders

22.1. General provisions

- (i) The decisions of the Noteholders (including decisions on amendments to these General Terms and Conditions or the Final Terms of the Tranches of the relevant Series or granting of consent or waiver) shall be passed at a meeting of the Noteholders (the "**Noteholders' Meeting**") or in writing without convening the Noteholders' Meeting (the "**Written Procedure**") at the choice of the Issuer. However, the Issuer shall have a right to amend the technical procedures relating to the Notes in respect of payments or other similar matters without the consent of the Noteholders, if such amendments are not prejudicial to the interests of the Noteholders.
- (ii) The Issuer shall have a right to convene the Noteholders' Meeting or instigate the Written Procedure at any time and shall do so following a written request from the Noteholders who, on the day of the request, represent not less than one-tenth of the principal amount of the Notes outstanding or the principal amount of the Notes of the relevant Series outstanding (as applicable) (excluding the Issuer and its Subsidiaries).
- (iii) In case convening of the Noteholders' Meeting or instigation of the Written Procedure is requested by the Noteholders, the Issuer shall be obliged to convene the Noteholders' Meeting or instigate the Written Procedure within 1 (one) month after receipt of the respective Noteholders' written request.
- (iv) Only those who were registered as the Noteholders by the end of the 6th (sixth) Business Day prior to convening the Noteholders' Meeting or instigation of the Written Procedure or proxies authorised by such Noteholders, may exercise their voting rights at the Noteholders' Meeting or in the Written Procedure.
- (v) Quorum at the Noteholders' Meeting or in respect of the Written Procedure only exists if one or more Noteholders holding 50 (fifty) per-cent in aggregate or more of the principal amount of the Notes outstanding or the principal amount of the Notes of relevant Series outstanding (as applicable):
 - (a) if at the Noteholders' Meeting, attend the meeting; or

- (b) if in respect of the Written Procedure, reply to the request.
- (vi) If the Issuer and/or its Subsidiaries are the Noteholders, their principal amount of the Notes will be excluded when a quorum is calculated.
- (vii) If quorum does not exist at the Noteholders' Meeting or in respect of the Written Procedure, the Issuer shall convene a second Noteholders' Meeting (in accordance with Clause 22.2 (a)) or instigate a second Written Procedure (in accordance with Clause 22.3 (a)), as the case may be. The quorum requirement in paragraph (iv) above shall not apply to such second Noteholders' Meeting or Written Procedure, except for exclusion of Issuer and its Subsidiaries from calculation of a quorum.
- (viii) Consent of the Noteholders holding at least 75 (seventy-five) per-cent of the aggregate principal amount of the outstanding Notes attending the Noteholders' Meeting or participating in the Written Procedure (i.e. replying to the request) is required for agreement with the Issuer to amend Clause 3 (*Status and security*), Clause 14 (*Change of control*), Clause 15 (*Negative pledge*), Clause 16 (*Events of Default*), Clause 22 (*Decisions of the Noteholders*) or Clause 23 (*Governing law and dispute resolution*).
- (ix) Consent of at least 75 (seventy-five) per-cent of the aggregate principal amount of the outstanding Notes of the respective Series attending the Noteholders' Meeting or participating in the Written Procedure (i.e. replying to the request) is required for the following decisions:
 - (a) agreement with the Issuer to change the date, or the method of determining the date, for the payment of principal, interest or any other amount in respect of the relevant Series, to reduce or cancel the amount of principal, interest or any other amount payable on any date in respect of the relevant Series or to change the method of calculating the amount of interest or any other amount payable on any date in respect of the relevant Series;
 - (b) agreement with the Issuer to change the currency of the relevant Series;
 - (c) agreement with the Issuer on any exchange or substitution of the Notes of relevant Series for, or the conversion of the Notes of relevant Series into, any other obligations or securities of the Issuer or any other person;
 - (d) in connection with any exchange, substitution or conversion of the type referred to in paragraph (c) agreement with the Issuer to amend any of the provisions of the relevant Series describing circumstances in which the relevant Series may be redeemed or declared due and payable prior to their scheduled maturity.
- (x) Consent of simple majority of all Noteholders or the Noteholders of the respective Series (as applicable) attending the Noteholders' Meeting or participating in the Written Procedure (i.e. replying to the request) is required to the decisions not covered in paragraph (viii) or (ix) above (as applicable).
- (xi) The Issuer shall have a right to increase the aggregate principal amount of the Notes to be issued under the Programme without the consent of the Noteholders.
- (xii) Information about decisions taken at the Noteholders' Meeting or by way of the Written Procedure shall promptly be provided to the Noteholders in accordance with Clause 20 (*Notices*), provided that a failure to do so shall not invalidate any decision made or voting result achieved.
- (xiii) Decisions passed at the Noteholders' Meeting or in the Written Procedure shall be binding on all Noteholders irrespective of whether they participated at the Noteholders' Meeting or in the Written Procedure.
- (xiv) All expenses in relation to the convening and holding the Noteholders' Meeting or a Written Procedure shall be covered by the Issuer.

22.2. Noteholders' Meetings

- (i) If a decision of the Noteholders is intended to be passed at the Noteholders' Meeting, then a respective notice of the Noteholders' Meeting shall be provided to the Noteholders in accordance with Clause 20 (*Notices*) no later than 10 (ten) Business Days prior to the meeting. Furthermore, the notice shall specify the time, place and agenda of the meeting, as well as any action required on the part of the Noteholders that will attend the meeting. No matters other than those referred to in the notice may be resolved at the Noteholders' Meeting.
- (ii) The Noteholders' Meeting shall be held in Riga, Latvia, and its chairman shall be the Issuer's representative appointed by the Issuer.
- (iii) The Noteholders' Meeting shall be organised by the chairman of the Noteholders' Meeting.
- (iv) The Noteholders' Meeting shall be held in English with translation into Latvian, unless the Noteholders present in the respective Noteholders' Meeting unanimously decide that the respective Noteholders' Meeting shall be held only in Latvian or English.
- (v) Representatives of the Issuer and persons authorised to act for the Issuer may attend and speak at the Noteholders' Meeting.
- (vi) Minutes of the Noteholders' Meeting shall be kept, recording the day and time of the meeting, attendees, their votes represented, matters discussed, results of voting, and resolutions which were adopted. The minutes shall be signed by the keeper of the minutes, which shall be appointed by the Noteholders' Meeting. The minutes shall be attested by the chairman of the Noteholders' Meeting, if the chairman is not the keeper of the minutes, as well as by one of the persons appointed by the Noteholders' Meeting to attest the minutes. The minutes from the relevant Noteholders' Meeting shall at the request of a Noteholder be sent to it by the Issuer.

22.3. Written Procedure

- (i) If a decision of the Noteholders is intended to be passed by the Written Procedure then a respective communication of the Written Procedure shall be provided to the Noteholders in accordance with Clause 20 (*Notices*).
- (ii) Communication in paragraph (i) above shall include:
 - (a) each request for a decision by the Noteholders;
 - (b) a description of the reasons for each request;
 - (c) a specification of the Business Day on which a person must be registered as a Noteholder in order to be entitled to exercise voting rights;
 - (d) instructions and directions on where to receive a form for replying to the request (such form to include an option to vote "yes" or "no" for each request), as well as a form of a power of attorney; and
 - (e) the stipulated time period within which the Noteholder must reply to the request (such time period to last at least 10 (ten) Business Days from the communication pursuant to paragraph (i) above) and a manner of a reply.
- (iii) When the requisite majority consents pursuant to paragraphs (viii), (ix) or (x) (as applicable) of Clause 22.1 have been received in a Written Procedure, the relevant decision shall be deemed to be adopted pursuant to paragraphs (viii), (ix) or (x) (as applicable) of Clause 22.1 even if the time period for replies in the Written Procedure has not yet expired.

23. Governing law and dispute resolution

23.1. The Notes are governed by the laws of the Republic of Latvia.

23.2. Any disputes relating to or arising in relation to the Notes shall be settled solely by the courts of the Republic of Latvia of competent jurisdiction.

FORM OF FINAL TERMS

Set out below is the form of Final Terms which will be completed for each Tranche of Notes issued under the Base Prospectus

PROHIBITION OF SALES TO RETAIL INVESTORS IN THE EUROPEAN ECONOMIC AREA

The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“**EEA**”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended) (“**MiFID II**”); (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended or superseded), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (as amended, the “**Prospectus Regulation**”). Consequently, no key information document required by Regulation (EU) No 1286/2014 (the “**PRIIPs Regulation**”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

MiFID II Product Governance / Eligible Counterparties and Professional Clients Only Target Market

Solely for the purposes of [the] [each] manufacturer[’s][’s] product approval process, the target market assessment in respect of the Notes has led to the conclusion that (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. *[specify further target market criteria] [specify negative target market, if applicable]*. Any person subsequently offering, selling or recommending the Notes (a “**Distributor**”) should take into consideration the manufacturer[’s][’s] target market assessment; however, a Distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer[’s][’s] target market assessment) and determining appropriate distribution channels.

Final Terms dated [●]

Latvenergo AS

Legal entity identifier (LEI): 213800DJRB539Q1EMW75

Issue of [Aggregate Nominal Amount of Tranche] Notes due [●]

under the Third programme for the issuance of Notes in the amount of EUR 200,000,000

[to be consolidated and form a single series with [●]]

Terms used herein shall be deemed to be defined as such for the purposes of the General Terms and Conditions set forth in the Base Prospectus dated 20 April 2021 [and the supplement(s) to it dated [●] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Regulation] (the “**Base Prospectus**”) for the purposes of Regulation (EU) 2017/1129 (the “**Prospectus Regulation**”).

This document constitutes the Final Terms of the Notes described herein for the purposes of the Prospectus Regulation and must be read in conjunction with the Base Prospectus. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus.

The Base Prospectus has been published on the Issuer’s website www.latvenergo.lv.

A summary of the individual issue is annexed to these Final Terms.

1. Issuer: Latvenergo AS

2. Series Number: [●]
3. Tranche Number: [●]
4. ISIN: [[●]]/[Temporary ISIN: [●]. Upon admission of the Notes to the regulated market the Notes will be consolidated and form a single series with [●] and will have a common ISIN [●]]
5. Aggregate principal amount: [EUR [●] [in addition to [●]]]
6. Nominal amount of the Note: EUR [●]
7. Issue Date: [●]
8. Annual Interest Rate: [●]
9. Interest Payment Date: [●] each year
10. Maturity Date: [●]
11. Minimum Investment Amount: [●]
12. Issue Price: [●]
13. Yield: [●]

The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield

14. Placement Period: [●]
15. Name of the Settlement Agent: [●]
16. Rating: the Notes to be issued [are not/have been/are expected to be] rated [by:[●]]
17. Use of Proceeds: [General Corporate Purposes]/[Green Bonds].
18. Information about the securities of the Issuer that are already admitted to trading: [●]

These Final Terms have been approved by the Management Board of the Issuer at its meeting on [date] [month] [year].

Riga, [date] [month] [year]

[●]

USE OF PROCEEDS

The net proceeds from the issue of each Series of Notes will, unless otherwise specified in the applicable Final Terms, be used by the Issuer as follows:

- (i) where “General Corporate Purposes” is specified in the applicable Final Terms, for its general corporate purposes; or
- (ii) where “Green Bonds” is specified in the applicable Final Terms, the Issuer will apply an amount equivalent to the net proceeds from such issue of Notes specifically to finance or refinance, in part or in full, projects in renewable energy and related infrastructure, energy efficiency and environmentally sustainable management of living natural resources and land use, as set out in the Green Bond Framework available on the Issuer's website www.latvenergo.lv.

INFORMATION ABOUT THE GROUP

General information

The legal and commercial name of the Company is Latvenergo AS. The Company is a public limited company (*akciju sabiedrība*) incorporated pursuant to the laws of the Republic of Latvia on 8 October 1991. The Company is registered with the Commercial Register of the Republic of Latvia and operates according to the legislation of the Republic of Latvia. All the shares of the Company are owned by the Republic of Latvia and held by the Ministry of Economics of the Republic of Latvia.

Basic information

Registration number: 40003032949
Legal Entity Identifier (LEI): 213800DJRB539Q1EMW75
Registered address: Pulkveža Brieža 12, Riga, LV-1230, Latvia
Website: www.latvenergo.lv
Telephone number: +371 67 728 222
E-mail: info@latvenergo.lv

The information on the Company's website www.latvenergo.lv does not form part of the Base Prospectus, other than the Issuer's Green Bond Framework, which is available on the Company's website www.latvenergo.lv and is incorporated by reference to this Base Prospectus and forms a part of the Base Prospectus.

History and development of the Group

In October 1939, the first hydroelectric unit of Kegums hydropower plant - the first hydropower plant on the Daugava River – was launched.

On 22 December 1939, the National Electricity Company Kegums was founded, which is the historical starting point of the Group.

In the second half of the 20th century, a power system in the territory of Latvia was developed and the electrification of Latvia was launched. The main power plants were constructed and gradually put into operation, including Plavinas HPP (1965) and Riga HPP (1974) on the Daugava River, Latvenergo AS CHPP-1 (1955) and Latvenergo AS CHPP-2 (1975). The transmission and distribution systems were established during the respective time period.

From 1990-2014, reconstruction and renovation work was carried out on the power stations and transmission and distributions systems in order to improve capacity, efficiency and safety.

In 2001, the electric power transmission segment was separated from the operations of the Company and the wholly owned subsidiary Augstsprieguma tīkls AS was established. In 2005, Augstsprieguma tīkls AS started to function as a legally independent transmission system operator.

In 2005, a 51 per-cent controlling share in Liepājas Enerģija SIA was acquired. The Company's subsidiary deals with electricity and thermal energy generation, transmission and sales in the Liepāja district (Latvia).

In 2006, the electric power distribution segment was separated from the operations of the Company and the wholly owned subsidiary Sadales tīkls AS was established. In 2007, Sadales tīkls AS started to function as a legally independent distribution system operator.

In 2007-2008, the Group expanded its business abroad. The Company's wholly owned subsidiaries Latvenergo Kaubandus OÜ (in Estonia) and Latvenergo Prekyba UAB (in Lithuania) were established within the main business area – electricity trade – in each country. In 2012, the Estonian and Lithuanian subsidiaries

were rebranded as Elektrum and registered as Elektrum Eesti OÜ (in Estonia) and Elektrum Lietuva, UAB (in Lithuania).

In 2011-2012, for the purpose of fulfilling the requirements of legal and functional unbundling of transmission system ownership from generation, distribution and supply activities, the Company's wholly-owned subsidiary Latvijas elektriskie tīkli AS was established as the owner of the electricity transmission system assets, and the transmission system operator Augstsprieguma tīkls AS was sold to the Republic of Latvia, represented by the Ministry of Finance.

In 2014, a new wholly-owned subsidiary of the Company – Enerģijas publiskais tirgotājs AS – was established. In compliance with the Energy Law (in Latvian – *Enerģētikas likums*), the subsidiary performs the functions of public trader in Latvia.

On 8 October 2019, the Cabinet of Ministers of the Republic of Latvia decided to support full unbundling of ownership of the electricity transmission system operator, and, therefore, in 2020, the transmission system asset owner Latvijas elektriskie tīkli AS was separated from the Group. All shares of Latvijas elektriskie tīkli AS were transferred to the Ministry of Economics and subsequently invested in the share capital of independent transmission system operator Augstsprieguma tīkls AS.

In 2021, the legal form of the Company's subsidiary Enerģijas publiskais tirgotājs was changed from AS (public limited company; in Latvian - *akciju sabiedrība*) to SIA (limited liability company; in Latvian – *sabiedrība ar ierobežotu atbildību*).

As of the date of this Base Prospectus, the Company is the parent company of the Group. The Group includes six subsidiaries, five of which are wholly-owned by the Company.

Key consolidated financial figures

The following table summarizes key consolidated financial data and operating figures as of and for each of the years ended 31 December 2016, 2017, 2018, 2019 and 2020. The information set out in the table below has been extracted (without any material adjustment) from, and is qualified by reference to and should be read in conjunction with the audited Group's consolidated and the Company's annual reports for the years ending 31 December 2019 and 31 December 2020.

		Year ended 31 December				
		2016	2017	2018	2019	2020
Key Financial data (the Group)						
Revenue *	€ million	886	881	839	842	773
EBITDA *	€ million	347	498	282	244	278
Operating profit *	€ million	151	214	82	100	121
Profit	€ million	131	322	76	94	116
Total assets	€ million	3,901	4,416	3,799	3,865	3,359
Total equity	€ million	2,419	2,847	2,320	2,265	2,118
Net Debt (adjusted) *	€ million	529	497	505	564	556
Investments	€ million	201	244	221	229	169
Return on equity (ROE)	per-cent	5.8	12.2	2.9	4.1	5.3
Net debt to equity (adjusted) *	per-cent	22	17	22	25	26
Net debt to EBITDA (adjusted) *	times	1.6	1.0	1.8	2.2	2.0
Net Cash-flow (the Group)						
- from operating activities	€ million	341	338	303	315	291
- from financing activities	€ million	(84)	(56)	(171)	(67)	(267)
- from investing activities	€ million	(178)	(230)	(238)	(255)	(46)
Operating Figures (the Group)						

Total electricity supply, incl.:	GWh	10,140	10,371	9,984	9,259	8,854
Retail ¹⁾	GWh	7,665	6,923	6,954	6,505	6,394
Wholesale ²⁾	GWh	2,474	3,448	3,030	2,754	2,460
Retail natural gas	GWh	0	33	147	303	516
Electricity generation	GWh	4,707	5,734	5,076	4,880	4,249
Thermal energy generation	GWh	2,675	2,612	2,274	1,842	1,702

(* Excluding discontinued operation (transmission system assets). On 10 June 2020, transmission system assets were separated from the Group

1) Including operating consumption

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

There have not been any recent material events that would be relevant for assessing solvency of the Company and the Group.

The Group's strategy

The Group's Strategy 2017-2022 defines the strategic operational and financial goals and main development tasks of the Group. By implementing the strategy and at the same time adhering to the principles of sustainability, the Group contributes to satisfying the needs of society, fosters long-term energy supply security and increases the value of the Group.

After evaluating challenges in the external environment and the strong position of the Group, three strategic goals were identified:

1. strengthening a sustainable and economically sound market position in home markets (in the Baltics), while considering geographical and/or product/service expansion;
2. developing a generation portfolio adequate for synergy with trade and increasing the Group's value;
3. developing a functional, safe and efficient network corresponding to customer needs.

As of the date of this Base Prospectus, in parallel with the implementation of the Group's Strategy 2017-2022, a strategy for the next period is being developed.

Strengthening the market position

This goal includes development of new products and services to complement the traditional ones and promote synergy with the current business lines and customer base. The goal also envisages excellence in the Group's trade operations and cost efficiency.

The Group is one of the largest energy service providers in the Baltics and currently operates in all energy trading segments in Latvia, Lithuania and Estonia, including Lithuanian household electricity market that has started to gradually open for competition at the beginning of 2021.

In 2020, the Group sold 6.4 TWh of electricity. Electricity sales outside Latvia amounted to 2.2 TWh and accounted for one third of the total retail sales of electricity.

The Group has been one of the largest consumers of natural gas in the Baltics for a long time, and this experience has made it possible to create well-considered gas offers for customers. During the strategy period, the Group sells natural gas to business customers in all three Baltic countries and since 2019, to Latvian households. In 2020, natural gas retail sales of the Group amounted to 516 GWh, which is almost two times more than in 2019. The amount of natural gas consumed by the Group for its own use and sold to customers amounted to 5.1 TWh in 2020.

During the strategy period, the Group has started to offer its customers in the Baltics a range of new products and services, such as solar panels, energy-risk insurance, *Smart House* technologies, and different electrical devices in the Elektrum online store. As of the end of 2020, the total capacity of solar panels installed for

customers has reached 6.3 MW, placing the Company among the leaders in the retail of solar panels in the Baltic region. In October 2020, the construction of *Elektrum* solar parks in Lithuania and Estonia with total capacity of 1.75 MW was started, part of which has been already put into operation in March 2021.

The Group also continues to strengthen its position in the field of electromobility. As of the end of 2020, *Elektrum*, as one of the largest charging networks in Latvia, provided 36 electric car charging ports, some of which have been installed together with cooperation partners. In the next years further development of *Elektrum* car charging ports is planned in Riga and in regional centres.

Generation portfolio adequate for synergy with trade

As of the end of 2020, the Group has a balanced portfolio of efficient, environmentally friendly electricity generation capacities – 1 039 MW at the CHPPs, 1 558 MW at the HPPs and 8 MW at other small plants – allowing the Group to operate successfully in both base and peak regimes and providing flexibility in adjusting operations to electricity market processes. The Group has also heat generation capacities – 1 617 MW at the CHPPs and 221 MW at other plants. In addition, in March 2021, the Group's first solar energy park in Lithuania was put into operation with capacity of 1.5 MW_{el}.

The renewal of the Daugava HPPs' hydropower units has continued successfully. Six of twenty-three hydropower units have been modernized over a four-year period and 5 units still to be modernized, while 12 units have been modernised in previous strategy periods. The programme increases the installed capacity, efficiency and amount of power generated in hydropower units. More efficient use of renewable energy – namely, water, also reduces the Group's impact on climate change. In addition, reconstruction of Aiviekste HPP was started in 2020.

As the HPPs and the CHPPs are complementary sources of electricity production, both CHPPs play a very important role in providing generation capacities during periods when the water inflow in the Daugava River is low. In order to increase the efficiency of production in cogeneration mode, in 2019 the construction of the largest heat storage tank in the Baltic States was started at Latvenergo AS CHPP-2. The construction was completed in March 2021, and the increase in Latvenergo AS CHPP-2's operational flexibility and efficiency will facilitate the operation of the power plant in adapting to changing market requirements while further reducing greenhouse gas emissions. In addition, Latvenergo AS CHPP-1 gas turbines were modernized during 2020, as a result of which their capacity and efficiency were improved.

Along with the above-mentioned projects, research is being conducted regarding projects for new power generation facilities compliant with the criteria of diversification of primary resources and low emissions, paying particular attention to the potential of wind and solar energy.

Functional, safe and efficient network

This goal envisages increasing operational and cost efficiency of the distribution network, enhancing the quality and safety of distribution services, and actively implementing the digitisation of the distribution network.

Significant improvements in the continuity of supply have been achieved during the strategy period so far. Reconstruction and upgrading of the distribution network, as well as improvements in work process planning and management have been carried out. All these actions, since 2016, has reduced the System Average Interruption Duration Index (SAIDI) by 24 per-cent and the System Average Interruption Frequency Index (SAIFI) by 26 per-cent. The digitisation of the distribution network is also continuing rapidly and successfully – at the end of 2020, smart meters accounted for 77 per-cent of the total meter fleet and 90 per-cent of the total amount of electricity distributed. During 2020, the customer satisfaction of the Company's subsidiary Sadales tīkls AS has significantly increased, and the Association of European Distribution System Operators *E.DSO* has recognized Sadales tīkls AS as an example of good practice for customer service solutions in Europe.

In 2017, the Group launched the Efficiency Programme, the largest optimization plan in the last decade, which will allow the Group to maintain and enhance its long-term value and competitiveness. Within the framework of the programme the structure of Sadales tīkls AS was reorganized, processes were centralized and the number of vehicles, maintenance depots and employees was significantly reduced. The cost reduction has

made it possible to reduce the variable part of the distribution service tariff by an average of 5.5 per-cent from 1 January 2020.

INFORMATION ABOUT THE GROUP'S BUSINESS OPERATIONS

The operations of the Group are organised along two operating segments:

- (i) generation and trade; and
- (ii) distribution.

The generation and trade segment includes generation of electricity and thermal energy, conducted by the Company and Liepājas enerģija SIA, as well as electricity and natural gas trade in the Baltics carried out by the Company and its subsidiaries Elektrum Eesti OÜ and Elektrum Lietuva, UAB and administration of the mandatory electricity procurement process in Latvia handled by the Company's subsidiary Enerģijas publiskais tirgotājs SIA.

The distribution segment provides electricity distribution services in Latvia. The services are provided by the Company's subsidiary Sadales tīkls AS – the largest distribution system operator in Latvia.

Until 9 June 2020, the Group's operations also included third segment - *the lease of transmission system assets*. On 10 June 2020, the Company's subsidiary Latvijas elektriskie tīkli AS (the transmission system asset owner and provider of services of this segment) was separated from the Group.

The information set out in the table below has been extracted (without any material adjustment) from, and is qualified by reference to and should be read in conjunction with the audited Group's consolidated and the Company's annual reports for the years ending 31 December 2019 and 31 December 2020.

	Year ended 31 December				
	2016	2017	2018	2019	2020
Key financial data divided in the operating segments:					
	(€ million)				
Revenue	932	926	878	878	789
Generation and trade	584	556	512	518	472
Distribution	308	321	323	320	296
Lease of transmission system assets (discontinued operation)	48	47	42	40	18
Other*	-9	2	1	0	3
EBITDA	393	542	322	281	294
Generation and trade	224	373	147	103	159
Distribution	105	112	120	125	106
Lease of transmission system assets (discontinued operation)	47	45	41	40	16
Other*	16	12	14	13	13
Assets	3,901	4,416	3,799	3,865	3,359
Generation and trade	1,557	1,957	1,329	1,354	1,264
Distribution	1,629	1,641	1,670	1,681	1,795
Lease of transmission system assets (discontinued operation)	449	501	579	642	0
Other*	266	317	221	188	300

* Including corporate functions, adjustments and eliminations

The Group reports financial results in respect of each operating segment since 2011.

Generation and trade

Generation and trade is the largest business segment of the Group by revenue.

Activities within this segment include electricity and thermal energy generation operations, electricity and natural gas trade in the Baltics and administration of mandatory procurement in Latvia.

The majority of generation and trade segment revenues are unregulated, while the tariff-regulated operational revenues comprise revenues from:

- generation of electricity (payment for installed capacity) and thermal energy at the CHPPs;
- generation of electricity and thermal energy at the Liepaja generation facilities and Aiviekste HPP.

In 2020, the majority or 89 per-cent of the revenue of the segment was comprised of electricity and natural gas trade revenue, while thermal energy revenue accounted for 11 per-cent.

The generation business is subdivided according to generation types – the HPPs, the CHPPs and other generation units. The total installed electrical capacity of the Group's plants is 2,605 MW, of which 40 per-cent is installed at the CHPPs and 60 per-cent at the HPPs. The total installed thermal energy capacity of the Group is 1,838 MW.

Trade

The Group trades electricity and natural gas in the Baltic States under the *Elektrum* brand. The Group is one of the leading energy traders in the Baltic States. In 2020, its market share accounted for about 23 per-cent of the Baltic electricity market.

The size of the Baltic electricity market was approximately 27 TWh in 2020. The largest market is in Lithuania, with 12 TWh, followed by the Estonian market with 8 TWh and the Latvian market with 7 TWh. The Lithuanian market is also the largest Baltic market in terms of number of customers. The Estonian electricity market is the largest among the three Baltic countries measured by per capita electricity consumption. The relatively higher electricity consumption level in Estonia is explained by the country's substantial level of industrialization and a relatively higher number of homes heated with electricity.

The Group is the electricity trade market leader in Latvia, holding 59 per-cent market share in 2020. The Group's market share in Estonia was 11 per-cent and in Lithuania – 10 per-cent in 2020. The Group's main competitor in the Baltic market is Eesti Energia AS, the market leader in Estonia. The market is more fragmented in Lithuania, where the Group is among the largest market players.

The amount of electricity supplied by the Group in the Baltics was 6,394 GWh in 2020. The amount of electricity supplied outside Latvia represents more than one third of the total retail electricity trade, reaching 2,159 GWh in 2020.

With the liberalization of the natural gas market, in 2017, the Group commenced natural gas sales to customers in the Baltics. In 2020, natural gas retail sales of the Group amounted to 516 GWh, which is almost 2 times more than in 2019. The increase in natural gas sales can be observed in all three Baltic States, due to the positive dynamics of the number of customers, especially in the segments of Latvian households and Lithuanian business customers.

The Group's strategic goals envisage development of new products and services to complement the traditional ones and promote synergy with the current business lines and customer base. The products and services are designed for different consumption and usage patterns, so that each customer can choose the most suitable offer. The Group provides: *Elektrum* Solar service, which allows for electricity generation using solar panels; *Elektrum* electrical vehicle charging network; *Elektrum* Insured services; *Elektrum* e-shop, which offers electric appliances and other products and services. In 2020, *Elektrum* started construction projects for two solar panel parks in Lithuania and Estonia with total planned installed capacity of 1.75 MW, part of which has been already put into operation in March 2021.

In 2020, the Group had 744,000 customers across the Baltics, including almost 50,000 outside of Latvia. Of these, 95 per-cent were households and 5 per-cent were business customers.

Mandatory procurement

Electricity mandatory procurement is a state-regulated support mechanism for electricity generators in Latvia. It is implemented as electricity procurement or guaranteed payments for the capacity installed at power plants. The right to sell electricity generated within mandatory procurement or receive guaranteed payments for the installed capacity at power plants is granted to generators who generate electricity in efficient cogeneration or from renewable energy sources. Cogeneration plants with installed capacity above 4 MW receive support in the form of a payment for the guaranteed capacity. The right to receive support in the form of mandatory procurement is granted by the Ministry of Economics; however, the issuance of new permits has been suspended since 2012. The provisions for electricity generation, the mandatory procurement pricing and the amount of guaranteed capacity payments are governed by regulations of the Cabinet of Ministers. The amount of the mandatory procurement support depends on the type of energy source used (wind, water, biomass, biogas or natural gas), the installed capacity, and, for natural gas cogeneration plants, the cost of natural gas.

In accordance with the Electricity Market Law (in Latvian – *Elektroenerģijas tirgus likums*), as of 1 April 2014, the functions of public trader (administration of mandatory procurement in Latvia) are performed by the Company's subsidiary Enerģijas publiskais tirgotājs SIA.

The public trader is compensated for mandatory procurement net expenditures¹ through the mandatory procurement public service obligation fee (the “**PSO Fee**”) paid by the end-users in Latvia and the State budget grants. The amount of the PSO Fee is determined based on actual expenditures in the preceding year as approved by the Public Utilities Commission. PSO Fee in end users' accounts consists of a variable part and a fixed part. The variable part is calculated in proportion to the electricity consumption and the fixed part (the capacity component) depends on the type of system service used. The amount of the PSO Fee is set on the basis of the mandatory procurement costs of the preceding year and is approved by the Public Utilities Commission. The average PSO Fee is reduced by 23 per-cent – from 2.268 EUR / KWh to 1.751 EUR / KWh starting from 1 January 2021. The PSO Fee reduction will be financed by a part of the State budget grants.

Since 2017, support through the reduced PSO Fee for energy-intensive processing industry companies has also been provided. The Ministry of Economics decides on the reduction of the PSO Fee payments for energy-intensive companies. The PSO Fee reduction is financed by the State budget grants.

On 17 September 2020, at the first reading the Saeima supported the amendments to the Electricity Market Law (in Latvian – *Elektroenerģijas tirgus likums*). The draft law provides reduction of support for electrical capacity installed and electricity generated under mandatory procurement scheme. Also, it provides termination of the order that mandatory procurement costs are borne by the final consumers, but still envisages the current role of the public trader in mandatory procurement scheme and that mandatory procurement administration costs are compensated to the public trader by the State budget. As of the date of this Base Prospectus, Economic, Agricultural, Environmental and Regional Policy Committee of Saeima continues to review the submitted proposals to second reading of the amendments to the Electricity Market Law. For the time being it is difficult to foresee whether or when the amendments to the Electricity Market Law could be adopted and come into force.

Wholesale

Since 2014, the Group has traded all its electricity on the Nord Pool Spot exchange and at the same time procured electricity to supply customer consumption, increasing electricity supply and turnover in the Latvian bidding area. The generation capacity of the Group also ensures the electricity supply support services, such as provision of emergency back-up capacity and supply of regulating electricity to transmission system operators as well as supply of balancing electricity.

¹ Mandatory procurement net expenditures – costs of electricity procured within the mandatory procurement process and guaranteed payments for installed capacity at power plants minus revenues from trade of procured electricity on the Nord Pool Spot exchange

The electricity wholesale process is targeted at cost optimisation and provides economic benefits to both the Group and its customers. Generation volumes of the CHPPs and the HPPs are linked to economically equivalent volumes of customer portfolios, thus achieving cost effectiveness while excluding internal price risks between sale and purchase transactions. The Group's customer portfolio can be made larger than its generation volumes by including additional electricity financial instruments in the price risk management and making use of the flexibility of the Group's generation assets, switching between electricity supply sources: the power exchange and the Group's own power plants. This way, the Group can fulfil the profit potential of sales of the electricity generated, utilise possibilities to reduce the cost of procuring electricity necessary for customers and reduce its exposure to market price fluctuation risks.

Generation

As of the end of 2020, the Group has a balanced and environmentally friendly energy generation portfolio, consisting mostly of the HPPs and highly efficient CHPPs. Most of the electricity and thermal energy is generated by the three Daugava HPPs and two CHPPs. Energy is also generated by Liepājas enerģija SIA, Aiviekste HPP and Ainazi Wind Power Plant (WPP). In March 2021, the Group's first solar energy park in Lithuania was put into operation with capacity of 1.5 MW_{el}.

The total electrical capacity of generators installed at the Group's production facilities as of 31 December 2020 was 2,605 MW_{el}, whereas the total heat generation capacity of installed thermal generation facilities was 1,838 MW_{th}.

The Group's installed electrical capacity as of 31 December 2020:

	31 December 2020
	(MW _{el})
Daugava HPPs	1,558
Latvenergo AS CHPPs*	1,039
Liepāja plants and small plants	8
Total	2,605

*installed capacity in condensation mode

The Group's thermal energy capacity of installed generation facilities as of 31 December 2020:

	31 December 2020
	(MW _{th})
CHPPs	1,617
Liepāja plants	221
Total	1,838

Generation at the HPPs

The Group's three largest HPPs – the *Plavinas*, *Kegums* and *Rīga* plants - are located on the Daugava River. These are the biggest HPPs in the country, providing a large share of renewable energy not only in the Group, but also in Latvia.

In 2020, the HPPs on the Daugava River generated more than 2.5 TWh of electricity, which constituted almost 60 per-cent of the Group's total electricity output. The output of the HPPs was 10 per-cent lower than the long-term average value for the period 1992-2020 (2.8 TWh). Although, the HPPs have a large installed capacity, their ability to generate electricity is dependent on the water inflow. The average water inflow in the Daugava River in 2020 was 500 m³/s, while in 2019 it was 401 m³/s. In 2020, it was 15 per-cent lower than the long-term average value. According to the Latvian Environment, Geology and Meteorology Centre, the average water inflow in the Daugava River was close to 600 m³/s for the period 1992–2020. In years with normal inflow levels, the HPPs usually operate at full capacity only during spring flooding, which typically lasts for about two

months annually. During this period, the water volume may exceed water inflow during low water periods (mainly during the summer months) more than ten times. During the spring flood, it is possible to cover the demand for electricity of all the Group's customers and trade the excess on the Nord Pool exchange. Outside the flooding season, the HPPs on the Daugava River provide for the possibility to accumulate water and generate electricity when the demand and prices on the exchange are higher.

The Plavinas HPP is the largest HPP in the Baltics in terms of installed capacity. It plays an important role in ensuring the stability of the Baltic power system in the event of unplanned outages or accidents at base plants. It started operations in 1968 with ten hydropower units with a total capacity of 825 MW_{el} at that time. Following a reconstruction of the hydropower units, the plant's installed capacity was increased, resulting in a total capacity of 908 MW_{el} as of 31 December 2020. The reconstruction of the hydropower units has resulted not only in increased capacities and efficiency ratios, but also in an increased share of energy produced from renewable sources.

The Kegums HPP is the oldest HPP on the Daugava River, built from 1936-1939 and restored from 1945-1947. The installed capacity of the plant reaches 248 MW_{el}. Currently, reconstruction of the plant's hydropower units is in progress.

The Riga HPP entered into service in 1974 and has six hydropower units with a total capacity of 402 MW_{el}. Currently, reconstruction of hydropower units of the plant is in progress.

Generation at the CHPPs

The CHPPs are mostly operated in a highly efficient cogeneration mode in accordance with the thermal energy demand. The CHPPs operate efficiently and flexibly, and the operating modes of the CHPPs are adjusted to the electricity market conditions. In 2020, the CHPPs generated 1.7 TWh of electricity and 1.5 TWh of thermal energy.

The CHPPs receive electricity capacity payments. The support period ends in 2028. In 2017, the Company received a one-off compensation from the state in the amount of EUR 454.4 million, at the same time opting out of the receipt of 75 per-cent of the annual electrical capacity payments for the CHPPs. In 2020, the Company received EUR 24 million as the annual electrical capacity payments for the CHPPs. After 2020, this payment will decrease to about EUR 20 million as Latvenergo AS CHPP-1 support period ended in late 2020. The compensation was financed by the capital release of the Company and was divided into two parts: EUR 140 million were recognized as other income in the profit and loss statement of the Company in 2017, while EUR 314 million were recognized as income spread evenly over the following reporting periods until fulfilment of liabilities at the end of the support period. In 2018, the Cabinet of Ministers decided to extend additional compensation in the amount of EUR 51.7 million by reducing the remaining part of the compensation proportionally to this amount until the end of the support period.

The thermal energy generated at the CHPPs is sold to Rīgas siltums AS at regulated tariffs. The Group competes with other thermal energy generators in the thermal energy market of Riga.

Latvenergo AS CHPP-1 was built from 1954 -1958 and fully reconstructed in 2005. The installed electrical capacity and thermal capacity at Latvenergo AS CHPP-1 is 158 MW_{el} and 493 MW_{th} respectively.

Latvenergo AS CHPP-2 is the most efficient and advanced combined-cycle power plant in the Baltics, which was launched in 1973. The reconstruction of Latvenergo AS CHPP-2 was commenced in 2006. The construction of the first power unit was completed in 2008, and the second unit was commissioned at the end of 2013. With the commissioning of the second power unit, the electrical capacity of Latvenergo AS CHPP-2 in cogeneration mode reached 832 MW_{el}, and the total thermal energy capacity of the two power units is 544 MW_{th}. The total thermal energy capacity of Latvenergo AS CHPP-2, including water boilers, is 1,124 MW_{th}.

The CHPPs comprise a guarantee of electricity base-load capacity and can cover almost all of Latvian electricity consumption in circumstances where due to certain factors electricity import from foreign countries is limited.

Other generation units

The Company holds 51 per-cent of the equity in Liepājas enerģija SIA. This company primary ensures generation and supply of thermal energy to Liepāja, a city in Latvia. The total installed thermal energy capacity of the Liepāja plants as of 31 December 2020 was 221 MW_{th}, including 40 MW_{th} from a renewable resource (wood chips). Installed electrical capacity totalled 6 MW_{el}.

Generation facilities within the energy system of the Group also include two small power plants: the Ainazi wind power plant (WPP) with a capacity of 1.0 MW_{el}, and the Aiviekste HPP with a capacity of 0.8 MW_{el}. Renovation of the Aiviekste HPP will increase the plant's capacity from 0.8 MW_{el} to 1.5 MW_{el}. In March 2021, the Group's first solar energy park in Lithuania was put into operation with capacity of 1.5 MW_{el}.

Distribution

Distribution is the largest operating segment within the Group in terms of asset value. Its operations involve provision of distribution services to approximately 800,000 customers in Latvia at regulated tariffs. The Public Utilities Commission develops the methodology and approves tariffs for distribution system operators. The tariff regulation methodology provides elements of a revenue cap approach with efficiency factors, a regulatory account, and a five-year regulatory period. The methodology incentives to reduce service costs and guarantees their recovery.

The distribution system service is provided by the Company's subsidiary Sadales tīkls AS, the largest distribution system operator in Latvia. The distribution system operator ensures equal access to electricity distribution networks, which is one of the prerequisites for facilitating competition on the electricity market in Latvia. The electricity distribution network ensures the flow of electricity from the electricity transmission network and electricity generators to electricity consumers. The total length of low and medium-voltage cable and overhead lines at the end of 2020 was 92,656 km, with 31,333 transformers and 28,127 transformer substations with a total installed capacity of 6,118 MVA. The total volume of distributed electricity in 2020 was 6,286 GWh, and electricity losses were 4 per-cent, which is the lowest level among distribution system operators in the Baltics.

Since 2017, Sadales tīkls AS has been implementing an efficiency programme, which comprises process reviews, decreasing the number of employees and vehicles, and optimizing the number of technical and support real estate bases. The measures taken by Sadales tīkls AS within the framework of the efficiency improvement programme contributed to a 5.5 per-cent reduction in the average distribution system service tariff as of 1 January 2020.

In the electricity distribution service tariff calculation, the pre-tax real weighted average cost of capital (WACC) rate was set at 3.31 per-cent. Since allowed revenue is calculated in real terms, an adjustment of the regulated asset base (RAB) is based on revaluation.

Investments

The Group's operations are capital intensive and require significant investments. The following table summarises the total investments of the Group for the period 2016-2020. The information set out in the table below has been extracted (without any material adjustment) from, and is qualified by reference to and should be read in conjunction with the audited Group's consolidated and the Company's annual reports for the years ending 31 December 2019 and 31 December 2020.

	2016	2017	2018	2019	2020
	(€ million)				
Investments	201	244	221	229	169
incl. transmission system assets (discontinued operation)	26	63	87	87	29

Along with the unbundling of transmission assets (see information before), the scope of investments in the coming years will decrease significantly.

On-going investments (committed capital expenditures) as of 31 December 2020

The table below provides information as of 31 December 2020 on contractually committed capital investments of the Group.

	2021	Later
	(€ million)	
Generation	17	8
<i>incl. Daugava HPPs reconstruction</i>	11	1
Distribution	37	1
Other	4	0
Total committed	57	9

According to the development plan of Sadales tīkls AS, large investments are made in the maintenance and development of distribution networks each year. In 2020, investments in the distribution segment comprised EUR 87.4 million or approximately a half of the total amount of the Group's investment. Investments in the distribution segment are focused on modernisation of lines and reconstruction of transformer substations (68 per-cent of distribution investments in 2020). Other major areas of investment include connections of new customers (17 per-cent) and introduction of smart electricity meters (6 per-cent). Distribution investments exceeded the segment's depreciation in 2020 (EUR 67.6 million).

The Group has one major on-going committed investment project - the reconstruction project of the Daugava HPPs. Other commitments comprise regular maintenance and replacements.

Daugava HPPs hydropower unit reconstruction programme

The Group is pursuing gradual reconstruction of 11 Daugava HPPs hydropower units. The total estimated costs of Daugava HPPs hydropower unit reconstruction programme exceed EUR 200 million.

As of 31 December 2020, six reconstructed hydropower units have been put into operation within the programme and work completed within the scope of the contract reached EUR 184.6 million. The Group is proceeding with a gradual overhaul of 5 Daugava HPPs' hydropower units. The rest of the HPPs' hydropower units were reconstructed fairly recently.

Financing

In order to finance committed capital investments, the Group uses cash flow from operating activities and borrowed funds. External funding consists of bilateral bank loans and issued bonds. The Group has established long-standing funding cooperation with international investment banks and commercial banks. The Group has diversified borrowing sources by issuing bonds during preceding years. The outstanding principal amount of bonds issued is EUR 100 million (which all are green bonds), representing 14 per-cent of the total debt as of 31 December 2020.

The Group's gross debt as of 31 December 2020 was EUR 743.2 million with the following debt maturity schedule:

	2021	2022	2023	2024	2025	2026-2034	Total
	(€ million)						
Debt repayment	109.2	149.5	115.8	99.5	102.8	166.4	743.2

The table below provides information about the Group's borrowings by lender category as of 31 December 2020.

31 December 2020

(€ million)

International investment banks	334.5
Commercial banks	307.4
Issued bonds	101.3
Total	743.2

Borrowings outstanding were used to fund the Group's investment programme.

As of 31 December 2020, the total amount of committed short-term credit lines available to the Group was EUR 128 million. The term of credit lines expires in 2021, except for credit lines in the amount of EUR 63 million, which term expires in 2022.

All borrowings are denominated in euros. As of 31 December 2020, the weighted average repayment period was 4.2 years. With interest rate swaps, 38 per-cent of the Group's borrowings had a fixed interest rate with an average duration of 1.6 years. The effective weighted average interest rate (with interest rate swaps) of the Group's outstanding borrowings was 1.4 per-cent.

ORGANISATIONAL STRUCTURE

As of the date of this Base Prospectus, the Group comprises the parent company Latvenergo AS and its six subsidiaries:

Company Name	Country of incorporation	Business activity	Proportion of ownership
Subsidiaries:			
Sadales tīkls AS	Latvia	Electricity distribution	100 per-cent
Enerģijas publiskais tirgotājs SIA	Latvia	Administration of electricity mandatory procurement process	100 per-cent
Elektrum Eesti OÜ	Estonia	Electricity and natural gas trade	100 per-cent
Elektrum Latvija SIA (subsidiary of Elektrum Eesti OÜ)	Latvia	Electricity and natural gas trade	100 per-cent
Elektrum Lietuva, UAB	Lithuania	Electricity and natural gas trade	100 per-cent
Liepājas Enerģija SIA	Latvia	Electricity and thermal energy generation and supply (in Liepāja city)	51 per-cent

The Company is a shareholder in an associated company, Pirmais Slēgtais Pensiju Fonds AS (Latvia), engaged in the management of retirement contributions on behalf of the Group's employees (the Company's and the Group's shareholding is 46.3 per-cent and 48.15 per-cent respectively). In addition, the Group has a financial investment in Rīgas siltums AS (0.005 per-cent), which is engaged in supply of thermal energy in Riga.

ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES

In accordance with the Commercial Law (in Latvian – *Komerclikums*), the Law on the Management of Public Persons' Capital Shares and Capital Companies (in Latvian - *Publiskas personas kapitāla daļu un kapitālsabiedrību pārvaldības likums*) and the Financial Instruments Market Law (in Latvian – *Finanšu instrumentu tirgus likums*), the Company has the following corporate governance structure:

- Shareholder;
- Supervisory Board;
- Audit Committee; and
- Management Board.

Shareholder

100 per-cent of the shares of the Company are owned by the State and held by the Ministry of Economics of the Republic of Latvia. The interests of the shareholder are represented at the Shareholder Meeting by the State Secretary of the Ministry of Economics or his/her authorised delegate. Shareholder Meetings are convened in accordance with the requirements and timelines stipulated by the Law on the Management of Public Persons' Capital Shares and Capital Companies (in Latvian - *Publiskas personas kapitāla daļu un kapitālsabiedrību pārvaldības likums*).

The Shareholders' Meeting represents the shareholder interests, rights and obligations. The State Secretary of the Ministry of Economics of the Republic of Latvia or his/her authorised representative is the sole shareholder representative in the Shareholders' Meetings.

Supervisory Board

The principal duties of the Supervisory Board of the Company include:

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

The Supervisory Board of the Company is elected by the Shareholders Meeting of the Company. The most recent Supervisory Board of the Company was elected at the Shareholders Meeting of the Company on 10 June 2020. The current Supervisory Board is composed of five independent members.

As of the date of this Base Prospectus the members of the Supervisory Board of the Company are:

- Mr. Ivars Golsts - Chairman of the Supervisory Board
- Mr. Kaspars Rokens – Deputy Chairman of the Supervisory Board
- Mr. Toms Siliņš - Member of the Supervisory Board
- Mr. Aigars Laizāns – Member of the Supervisory Board
- Mr. Gundars Ruža – Member of the Supervisory Board

As of the date of this Base Prospectus the activities of the Management Board of the Company's subsidiary Enerģijas publiskais tirgotājs SIA are supervised by the Shareholder Meeting of this subsidiary, where the interests of the Company are represented by the Company's Management Board. The supervisory body of the Company's subsidiary Sadales tīkls AS, as well as Company's subsidiaries Elektrum Eesti OÜ and Elektrum Lietuva, UAB, which operate outside the territory of Latvia, is their Supervisory Board. The Supervisory Board of Sadales tīkls AS is elected by the Shareholders Meeting and consists of four members, two of whom are independent members. The supervisory functions at Elektrum Eesti OÜ are ensured by three Management Board members of the Company and at Elektrum Lietuva, UAB by two Management Board members of the Company and one employee, who is responsible for the relevant areas of operation at the Company. The supervisory functions at Liepājas enerģija SIA, where the equity share of the Company is 51 per-cent, are carried out by the Supervisory Board of six members, half of whom are representatives of the Company.

The business address of each member of the Company's Supervisory Board is Pulkveža Brieža 12, Riga, LV-1230, Latvia.

Audit Committee

The Audit Committee operates under the Commercial Law (in Latvian – *Komerclikums*), the Financial Instruments Market Law (in Latvian – *Finanšu instrument tirgus likums*) and the Regulations of the Audit Committee approved by the Shareholder.

The principal duties of the Audit Committee are to supervise:

- the financial reporting process;
- efficiency of the internal control and risk management systems;
- the work of the internal audit and the external auditor of the Group;
- implementation of the Group's Fraud Risk Management Plan.

The Audit Committee consists of five members elected by the Shareholder Meeting, of whom at least one shall be a member of the Supervisory Board of the Company. The Audit Committee is chaired by its chairperson, elected by the members of the Audit Committee from amongst themselves.

The Audit Committee reports its assessments and findings to the Shareholder Meeting at least once a year. In addition, the Audit Committee regularly informs the members of the Supervisory Board of its conclusions and recommendations based on its work.

No restrictions have been imposed on the Audit Committee's actions, and the representatives of the Company ensure the availability of all necessary information to the Audit Committee.

As of the date of this Base Prospectus the Audit Committee consists of five independent members:

- Mr. Torben Pedersen - Chairman of the Audit Committee
- Mrs. Ilvija Grūba - Member of the Audit Committee
- Mr. Svens Dinsdorfs - Member of the Audit Committee
- Mr. Toms Siliņš - Member of the Audit Committee (also Member of the Supervisory Board)
- Mr. Gundars Ruža - Member of the Audit Committee (also Member of the Supervisory Board)

The business address of each member of the Company's Audit Committee is Pulkveža Brieža 12, Riga, LV-1230, Latvia.

Management Board

All Management Board members are executive directors of the Company, and are involved in the daily operations of the Company. Their principal duties include:

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

The Management Board and the Supervisory Board are jointly liable for compliance with all binding laws and regulations, execution of the decisions of the Shareholder Meeting and the Supervisory Board, and the financial performance of the Group.

As per the Articles of Association of the Company, the Company's Management Board shall consist of five members, who should be elected by the Supervisory Board for a term of five years based on an evaluation of necessary competences, experience and expected field of responsibility. The Supervisory Board of the Company also appoints one of the members of the Management Board as a Chairman of the Management Board.

As of the date of this Base Prospectus the Management Board of the Company consists of four Members of the Management Board:

- **Mr. Guntars Baļčūns** - Chief Financial Officer, acting Chief Executive Officer and Chairman of the Management Board, responsible for business planning and controlling, treasury, accounting, risk management and insurance, corporate strategy, international affairs and corporate social responsibility, communication, human resource management, compliance control, technical inspection, environment and occupational health and safety. Mr. Baļčūns is also a member of the supervisory boards of the Company's subsidiaries Elektrum Eesti OÜ and Elektrum Lietuva, UAB, as well as a member of the supervisory board of the Baltic Institute of Corporate Governance.
- **Mr. Kaspars Cikmačs** - Chief Technology and Support Officer, responsible for managing IT&T, energy production, HPP, CHPP management, energy production projects, development of electric vehicle charging network, research and development.
- **Mr. Arnis Kurgs** – Chief Administrative Officer, responsible for security and transport services, real estate, legal affairs, record management, procurement and logistics, and services support. Mr. Kurgs is also a member of the supervisory board of the Company's subsidiary Elektrum Eesti OÜ.
- **Mr. Uldis Mucinieks** – Chief Commercial Officer, responsible for sales, energy trading, marketing, customer service, and regulatory affairs. Mr. Mucinieks is also the chairman of the supervisory boards of the Company's subsidiaries Elektrum Eesti OÜ and Elektrum Lietuva, UAB.

Term of office for Mr. Baļčūns runs until 15 November 2025 and he is appointed as the Chairman of the Management Board until the establishment of the permanent composition of the Management Board. Term of office for Mr. Cikmačs runs until 24 September 2023. Mr. Kurgs and Mr. Mucinieks are appointed as temporary Members of the Management Board until the establishment of the permanent composition of the Management Board.

Previous Chairman of the Management Board Mr. Āris Žīgurs resigned from the Company on 30 October 2020. Resignation was linked to the criminal investigation about suspicions of corruption by the Corruption Prevention and Combatting Bureau of Latvia opened in 2018 and closed in August 2020, since no criminal offence was

identified and proven. The Company made its internal investigation, and no grounds for further actions were found.

Chairman of the Management Board and two Members of the Management Board responsible for generation and commercial activities will be selected through the competition, which as of the date of this Base Prospectus is in progress.

The business address of each member of the Company's Management Board is Pulkveža Brieža 12, Riga, LV-1230, Latvia.

Conflict of interest

In accordance with the Law on Prevention of Conflict of Interest in the Activities of Public Officials (in Latvian – *Likums "Par interešu konflikta novēršanu valsts amatpersonu darbībā"*), all members of the management boards, the supervisory boards and the audit committees of state-owned companies have the status of state officials. As such, all Management Board, Supervisory Board and Audit Committee members of the Company and its fully owned subsidiaries in Latvia are state officials and subject to detailed requirements of this law. The law permits them to combine their office of public official only with activities which are indicated by the law as compatible (e.g., offices in a trade union, association or similar organisation, teaching, scientific and creative work) in order to prevent personal or material interest in their activity as a state official. In accordance with the law, all state officials are obliged to submit an annual declaration of interest.

The Company is not aware of any conflicts of interest or potential conflicts of interest between the Company duties of the members of the Management Board, Supervisory Board and Audit Committee and their private interests and/or their other duties.

Employees

As of 31 December 2020, the Group had 3,295 employees of whom 71 per-cent were men and 29 per-cent women. The average age of the employees was 44 years. In 2020, the Group's employee turnover was 3.6 per-cent.

The strategy of the Group focuses on strengthening competitiveness and maximising efficiency. The efficiency programme launched in 2017 comprises a revision and centralisation of processes, with plans to downsize the number of employees by about 25 per-cent until 2022.

The opinions of all the Group's employees on issues pertaining to the Collective Bargaining Agreement are represented by "Enerģija" Trade Union in Latvia. In 2020, the Collective Bargaining Agreement was applicable to 96 per-cent of the Group's employees, and in recent years this percentage has not changed significantly. The Group notifies "Enerģija" Trade Union of, among other things, planned changes in the organisation of the Group and its subsidiaries or in remuneration. It also reports on the execution of the Collective Bargaining Agreement and on the fulfilment of occupational health and safety requirements. Furthermore, it agrees on terminations of employment of members of "Enerģija" Trade Union, if any.

SHAREHOLDERS

All shares of the Company are owned by the Republic of Latvia. The holder of the Company's shares is the Ministry of Economics of the Republic of Latvia, whose representative - the State Secretary of the Ministry of Economics or another authorised person appointed by the State Secretary of the Ministry of Economics, represents the Shareholder interests at Shareholder Meetings.

The Law on the Management of Public Persons' Capital Shares and Capital Companies (in Latvian - *Publiskas personas kapitāla daļu un kapitālsabiedrību pārvaldības likums*) provides that the Cabinet of Ministers has the right to appoint a specially established institution as the holder of the shares in state owned entities.

Pursuant to the current Energy Law (in Latvian - *Enerģētikas likums*), the Company's business is deemed to be of national importance and therefore, the Company's shares are not subject to privatisation or alienation.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following table is a summary of the Group's consolidated financial performance and key performance indicators for the two financial years ending 31 December 2019 and 2020. The information set out in the table below has been extracted (without any material adjustment) from, and is qualified by reference to and should be read in conjunction with the audited Group's consolidated and the Company's annual reports for the years ending 31 December 2019 and 31 December 2020 each of which is attached to this Base Prospectus and forms an integral part of this Base Prospectus. The Group's consolidated and the Company's annual reports are prepared according to International Financial Reporting Standards (IFRS).

		Year ended 31 December	
		2019	2020
Key Financial data (the Group)			
Revenue *	€ million	842	773
EBITDA *	€ million	244	278
Operating profit *	€ million	100	121
Profit	€ million	94	116
Total assets	€ million	3,865	3,359
Total equity	€ million	2,265	2,118
Net Debt (adjusted) *	€ million	564	556
Investments	€ million	229	169
Return on equity (ROE)	per-cent	4.1	5.3
Net debt to equity (adjusted) *	per-cent	25	26
Net debt to EBITDA (adjusted) *	times	2.2	2.0
Net Cash-flow (the Group)			
- from operating activities	€ million	315	291
- from financing activities	€ million	(67)	(267)
- from investing activities	€ million	(255)	(46)
Operating Figures (the Group)			
Total electricity supply, incl.:	GWh	9,259	8,854
Retail ¹⁾	GWh	6,505	6,394
Wholesale ²⁾	GWh	2,754	2,460
Retail natural gas	GWh	303	516
Electricity generation	GWh	4,880	4,249
Thermal energy generation	GWh	1,842	1,702

(*) Excluding discontinued operation (transmission system assets). On 10 June 2020, transmission system assets were separated from the Group

1) Including operating consumption

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

FINANCIAL AND TREND INFORMATION

Historical Financial Information

The Group's consolidated and the Company's annual reports as of and for the financial years ending 31 December 2019 and 31 December 2020 prepared according to IFRS are appended to this Base Prospectus and forms an integral part of it.

Legal and arbitration proceedings

Except as described below, the Group is not engaged in any governmental, legal or arbitration proceedings, nor is it aware of any such proceedings pending or threatened against it during the 12 month-period prior to the date of this Base Prospectus that may have, or have had in the recent past, a significant effect on the Company and/or the Group's financial position or profitability.

Incident of corruption

In June 2010, criminal proceedings were initiated against a number of executives of the Group suspected in corruption and money laundering. No charges have been brought against the Company or the subsidiaries of the Company. The Company has the status of a victim in the proceedings and has submitted an application for compensation in the total amount of EUR 25,249,048.80. As of January 2018, the case is being heard by the court of first instance.

The Group has reviewed internal processes for the purpose of bringing its internal control procedures in line with best practice, thus further reducing the risks of corruption, illegal activity or fraud within the Group.

Pricing commitment with the Competition Council of Latvia

On 20 November 2009, the Competition Council of the Republic of Latvia passed a decision closing the investigation against the Company regarding alleged exclusionary pricing practices in the thermal energy market in Riga City and accepting a written commitment (pricing commitment) from the Company. In 2019, the Company and the Competition Council started discussions aimed at updating the written commitment to reflect the current situation in the thermal energy market in Riga City. As of the date of this Base Prospectus, the Company has submitted a new draft written commitment explanation to the Competition Council, but so far has not received any response from the Competition Council.

Significant Changes in Financial Position

There has been no material adverse change in the Company's or the Group's financial or trading position since 31 December 2020.

Trend Information

On 17 September 2020, at the first reading the Saeima supported the amendments to the Electricity Market Law (in Latvian – *Elektroenerģijas tirgus likums*). The draft law provides reduction of support for electrical capacity installed and electricity generated under mandatory procurement scheme. Also, it provides termination of the order that mandatory procurement costs are borne by the final consumers, but still envisages the current role of the public trader in mandatory procurement scheme and that mandatory procurement administration costs are compensated to the public trader by the State budget. As of the date of this Base Prospectus, Economic, Agricultural, Environmental and Regional Policy Committee of Saeima continues to review the submitted proposals to second reading of the amendments to the Electricity Market Law. For the time being it is difficult to foresee whether or when the amendments to the Electricity Market Law could be adopted and come into force. The amendments, if adopted, may cause impact on the Group's profits and asset value.

There has been no other material adverse change in the prospects of the Company or the Group since the date of the audited consolidated annual financial statements of the Group for 2020.

There has been no significant change in in the financial performance of the Company or the Group since the date of the audited consolidated annual financial statements of the Group for 2020.

As of the date of this Base Prospectus there is no information on any known trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect on the Company's or the Group's prospects or the industries in which the Company or the Group operates.

Future Outlook

The Issuer has not made any profit forecast or profit estimate in this Base Prospectus.

ADDITIONAL INFORMATION

Share Capital

The amount of the share capital of the Company is EUR 790,347,849, and it is composed of 790,347,849 shares. All shares are paid up. All shares are registered shares and they are dematerialised. The nominal value of a share is EUR 1.

In accordance with the Energy Law (in Latvian - *Enerģētikas likums*), all shares of the Company are the property of the Republic of Latvia and they are not a subject to privatisation or alienation.

Articles of Association

The Company is registered with the Commercial Register of the Republic of Latvia under registration number 40003032949.

The objects and purposes of the Company are stated in Clause 2 of the Articles of Association of the Company; the main objects are to generate electricity and thermal energy, to trade electricity and natural gas.

Material Contracts

None of the Company nor any of its subsidiaries has entered into any contracts outside the ordinary course of its business, which could result in any of the Company or its subsidiaries being under an obligation or entitlement that is material to the ability of the Company, respectively to meet obligations in respect of the Notes being issued.

THE ECONOMY OF THE REPUBLIC OF LATVIA

General overview

2020 saw a decline in GDP in all the economies of the European Union except for Ireland. Latvian economy shrank by 3.6 per-cent, which was one of the slowest declines in Europe. Up until late 2020 Latvia had managed to contain COVID-19 virus rather well, at the same time maintaining fairly loose COVID-19 restrictions. However, the situation rapidly deteriorated in October 2020, and the Latvian government was forced to implement harsher restrictions, effectively closing all non-essential shops and certain services. As the epidemiological situation had somewhat improved since January 2021, a few of the containment measures were eased from early April 2021, e.g., part of the shops were allowed to reopen under strict safety requirements. Still, most of the restrictions that were implemented to combat the second wave of COVID-19, remained in place. Latvia started its COVID-19 vaccination programme in late December 2020. Its pace has been slow due to lack of available vaccines, partly explained by strategic mistakes in national vaccine orders early on. The fiscal policy of Latvia will remain highly accommodative in 2021, as the government has envisaged a EUR 2.8 billion fiscal stimulus package, on top of the already spent EUR 1.3 billion in 2020. The measures include, for example, an extension of furlough schemes for workers and loans and guarantees to businesses affected by the crisis, as well as new measures like wage subsidies, working capital grants to businesses, and one-time direct payments to support pensioners and families with children. The growth outlook beyond 2021 is likely to be more favourable, reflecting reduced uncertainty and less downside risks, a release of pent-up demand and an acceleration in investment spending. Moreover, the Next Generation EU package is expected to be made available in mid-2021, which will further boost economic recovery in Latvia. The financial markets' trust in Latvia's long-term outlook was demonstrated in March 2021 with a EUR 1.25 billion ten-year Eurobond issue, which was oversubscribed more than 2 times and carried a 0 per-cent coupon rate and 0.105 per-cent yield for the investors – both at record lows for this type of maturity.

Real GDP growth, per-cent	2016	2017	2018	2019	2020
Latvia	2.4	3.3	4.0	2.0	-3.6
EU (27) average	2.0	2.8	2.1	1.6	-6.2

Source: Eurostat

Inflation

In the three years prior to 2020 consumer price growth in Latvia continued at a steady rate of close to but below 3 per-cent, mainly fuelled by price pressures in the services industry. Average gross salaries in Latvia had been rising at more than 5 per-cent annually for the last seven years, inevitably putting pressure on prices. Inflation slowed in 2020 mostly due to falling transport prices and utility rates, moreover some companies reduced prices, struggling to survive in an environment of low demand and COVID-19 related restrictions. The price increases for goods were also limited by developments in the global commodity markets, especially the oil market, where prices declined significantly. Overall, the price level in 2020 was nearly unchanged from a year ago. The first quarter of 2021 saw limited recovery in consumer price growth across the EU, driven by a rebound in commodity prices, especially oil, as well as the German VAT returning to the standard 19 per-cent after a temporary reduction, aimed at helping businesses and consumers during the COVID-19 crisis. Year-on-year consumer price growth in Latvia turned positive in March 2021 – for the first time since July 2020. As vaccination against COVID-19 picks up pace and restrictions are eased starting from second quarter of 2021, certain amount of pent-up demand will be released in the market, further driving up the price level.

Inflation, HICP, average, per-cent	2016	2017	2018	2019	2020
Latvia	0.1	2.9	2.6	2.7	0.1
EU (27) average	0.2	1.6	1.8	1.4	0.7

Source: Eurostat

Unemployment

Since the end of the financial crisis in 2010, unemployment rate in Latvia fell every year, reaching 6.3 per-cent in 2019. The trend was reversed in 2020, when due to COVID-19 restrictions, businesses, especially in the services sector, had to lay-off non-essential workers. The rise in unemployment rate was limited by the government's financial support for downtime. This helped to keep the unemployment rate in single digits in 2020. After an increase in the first two months of 2021, the registered unemployment rate levelled off in March 2021. The average gross salary grew by 6.2 per-cent in 2020, indicating that the workers who managed to keep their job during the COVID-19 crisis, were better off than the year before. Once the COVID-19 induced crisis is over, the labour market will experience a sharp rebound as companies resume hiring. The labour market recovery is likely to start picking up pace in the second half of 2021.

Unemployment rate, per-cent	2016	2017	2018	2019	2020
Latvia	9.6	8.7	7.4	6.3	8.1
EU (27) average	9.1	8.1	7.2	6.7	7.1

Source: Eurostat, stat.gov.lv

Public Finance

The central government budget for 2021 accounts for 9.6 billion EUR in revenue and 10.8 billion EUR in expenditure, with certain reforms in the tax regime. The government has planned a 3.9 per-cent general budget deficit for 2021, reflecting a downturn in economic activity and a simultaneous fiscal stimulus. The budget is based on a real GDP growth forecast of 5.1 per-cent, which seems too optimistic, given that a more visible recovery from COVID-19 crisis is postponed to the second half of 2021, and the vaccination pace has been rather slow, i.e., only 10.4 per-cent of population had received at least one vaccine dose by 19 April 2021 compared to 20.4 per-cent in the EU/EEA (*source*: <https://vaccinetracker.ecdc.europa.eu>).

General government balance, per-cent of GDP	2016	2017	2018	2019	2020
Latvia	0.2	-0.8	-0.8	-0.6	N/A
EU (27) average	-1.4	-0.8	-0.4	-0.5	N/A

Source: Eurostat; official data not available for 2020

In 2020, the international credit rating agency S&P Global Ratings upgraded Latvia's credit rating from "A" to "A+", while maintaining a stable outlook. The "A+" rating with a stable outlook was affirmed on 12 February 2021. Strong credit fundamentals, low public debt along with monetary support from the EU has allowed Latvia to withstand the current waves of COVID-19 and should provide Latvia's small and open economy with further room for fiscal policy manoeuvres in case a prolonged economic downturn due to the pandemic. The ability to raise funding is particularly important for combating the adverse effects that COVID-19 outbreak is having on the economy of Latvia. It is expected that public debt will increase considerably in 2021, on top of the increase in 2020, as additional funds and support schemes are allocated to various parts of the economy.

General government gross debt, per-cent of GDP	2016	2017	2018	2019	2020
Latvia	40.4	39.0	37.1	36.9	N/A
EU (27) average	84.0	81.5	79.5	77.6	N/A

Source: Eurostat; official data not available for 2020

Foreign Trade

In 2020, the turnover of foreign trade in goods of Latvia at current prices reached EUR 28.3 billion – 2.0 per-cent less than in 2019. The goods exports value constituted EUR 13.2 billion (an increase of 1.8 per-cent), whereas

the imports value – EUR 15.1 billion (a drop of 5.1 per-cent). The goods export growth was largely driven by increase in exports of machinery and electrical equipment, as well as agricultural products (mostly grain and rapeseed). The increase was limited by a decline in export of vehicles and mineral products. In 2020, wood and its products lost its position as the dominant constituent of overall goods exports to the exports of machinery, mechanical appliances and electrical equipment, from which more than half of the value is re-export. The other Baltic States, Russia, Germany, Sweden, and Poland continued to be the main trading partners for Latvia both in export and import of goods. Exports of services, which account for about 30 per-cent of total exports, fell by 21.2 per-cent in 2020 led by a decline in export of transport services and tourism. In 2020, Latvia recorded current account surplus of 3 per-cent of GDP as income balance saw a surge in its surplus, due to falling investment income of foreign residents, and trade balance turned positive, as a sharp drop in consumption reduced import demand while goods exports performed relatively well.

Current account balance, per-cent of GDP	2016	2017	2018	2019	2020
Latvia	1.6	1.3	-0.3	-0.6	3.0
EU (27) average	1.3	1.3	1.4	1.4	N/A

Source: Eurostat, Bank of Latvia, stat.gov.lv, official data not available for 2020

TAXATION

Tax legislation of the investor's member state and of the Issuer's country of incorporation may have an impact on the income received from the Notes.

The following is a general summary of certain tax consideration in the Republic of Latvia in relation to the Notes. It is not exhaustive and does not purport to be a complete analysis of all tax consequences relating to the Notes, as well as does not take into account or discuss the tax implications of any country other than the Republic of Latvia. The information provided in this section shall not be treated as legal or tax advice; and prospective investors are advised to consult their own tax advisors as to the tax consequences of the subscription, ownership and disposal of the Notes applicable to their particular circumstances.

This summary is based on the laws of Latvia as in force on the date of this Base Prospectus and is subject to any change in law that may take effect after such date, provided that such changes could apply also retroactively.

Latvia has entered into a number of tax conventions on elimination of the double taxation, which may provide more favourable taxation regime. Therefore, if there is a valid tax convention with the country of a non-resident prospective investor, it should be also examined. The procedures for application of tax conventions are provided in the Republic of Latvia Cabinet of Ministers' Regulations No. 178 "Procedures for Application of Tax Relief Determined in International Agreements for Prevention of Double Taxation and Tax Evasion" of 30 April 2001.

Taxation of the Noteholders individuals

Resident Individuals

An individual will be considered as a resident of Latvia for taxation purposes:

- if the individual's declared place of residence is in the Republic of Latvia; or
- if the individual stays in the Republic of Latvia 183 days or more within any 12-month period, starting or ending in the taxation year; or
- if the individual is a citizen of the Republic of Latvia employed abroad by the government of the Republic of Latvia.

In accordance with the Law on Personal Income Tax (in Latvian – *Likums "Par iedzīvotāju ienākuma nodokli"*) the interest income from the Notes for resident individuals will be subject to 20 per-cent withholding tax, deductible by the Issuer before the payment. The income from the alienation of the Notes will be subject to 20 per-cent tax, but the tax would be payable by the individual him/herself.

Non-resident individuals

In accordance with the Law on Personal Income Tax (in Latvian – *Likums "Par iedzīvotāju ienākuma nodokli"*) the interest income from the Notes being circulated publicly as well as income from the alienation of the publicly circulated Notes will not be subject to tax in Latvia.

Taxation of the Noteholders entities

Resident entities

An entity will be considered as a resident of Latvia for tax purposes if it is or should have been established and registered in the Republic of Latvia in accordance with the legislative acts of the Republic of Latvia. This also include permanent establishments of foreign entities in Latvia.

Interest payments on the Notes and proceeds from the disposal of the Notes received by Latvian resident companies will not be subject to withholding tax in Latvia. Under the Corporate Income Tax Law (in Latvian – *Uzņēmumu ienākuma nodokļa likums*) retained earnings are exempt from corporate income tax and only distributions are taxed. Corporate income tax rate on gross profit distribution is 20 per-cent. Corporate income tax on net amount of profit distribution is determined by dividing net amount with a coefficient of 0.8 (i.e., effective tax rate on net distributed profit is 25 per-cent).

Non-resident entities

In accordance with the Corporate Income Tax Law (in Latvian – *Uzņēmumu ienākuma nodokļa likums*) the interest income and income from the alienation of the Notes for non-resident entities will not be taxable in Latvia.

Taxation of low-tax non-residents

In general, payments (including interest payments) to non-residents located, registered or incorporated in a no-tax or low-tax country or territory as defined in the Regulations of the Cabinet of Ministers No.819 “Regulations on No-Tax or Low-Tax Countries and Territories”, adopted on 17 December 2020; effective as of 1 January 2021 (“**Low-Tax Non-Latvian Residents**”) are subject to withholding tax of 20 per-cent if the payer is a Latvian legal entity or 23 per-cent if the payer is a Latvian individual resident having obligation to withhold tax. However, pursuant to Article 5(6) of the Corporate Income Tax Law (in Latvian – *Uzņēmumu ienākuma nodokļa likums*) payments by Latvian legal entities to Low-Tax Non-Latvian Residents for securities publicly circulated in the EU or EEA are exempt from withholding tax if made at the market price. The State Revenue Service of the Republic of Latvia in a legally non-binding explanation to the Issuer has confirmed that pursuant to Article 5(6) of the of the Corporate Income Tax Law (in Latvian – *Uzņēmumu ienākuma nodokļa likums*) there is no withholding tax also on the interest payments made by the Issuer to the holders of the notes publicly circulated in the EU or EEA who are Low-Tax Non-Latvian Residents, provided that the payments are made at the market price.

GLOSSARY

Aiviekste HPP	The Company's hydro power plant located at "Aiviekste 66", Aiviekste, Kalsnava county, Madona district, Latvia.
Ainazi Wind Power Plant (WPP)	The Company's wind power plant located at "Pūķi", Ainazi county, Salacgriva district, Latvia.
CHPPs	The Company's combined heat and power plants.
GW	Gigawatts, a unit for measuring the capacity to produce electricity. One gigawatt equals 1,000,000,000 watts.
GWh	Gigawatt hours, a unit for measuring the generation and consumption of electricity.
HPPs	The Company's hydro power plants.
Kegums HPP	The Company's hydro power plant located at Keguma prospekts 7/9, Kegums, Kegums district, Latvia.
kV	Kilovolts, a unit for measuring voltage or electrical tension. One kilovolt equals 1,000 volts.
Latvenergo AS CHPP-1	The Company's combined heat and power plant located at Viskalu street 16, Riga, Latvia, LV-1026.
Latvenergo AS CHPP-2	The Company's combined heat and power plant located at Granita street 31, Acone, Salaspils county, Salaspils district, Latvia.
MW	Megawatts, a unit for measuring the capacity to produce electricity. One megawatt equals 1,000,000 watts.
MWeI	The capacity to produce electrical energy.
MWth	The capacity to produce thermal energy.
Plavinas HPP	The Company's hydro power plant located at Energetiku street 2, Aizkraukle, Aizkraukle district, Latvia.
Riga HPP	The Company's hydro power plant located at "Rīgas HES", Salaspils county, Salaspils district, Latvia.
TW	Terawatts. A unit for measuring the capacity to produce electricity. One terawatt equals 1,000,000,000,000 watts.
TWh	Terawatt hours, a unit for measuring the generation and consumption of electricity. One terawatt hour is equal to sustained electricity consumption of approximately 114 MW for a period of one year.

GENERAL INFORMATION

Authorisation

The shareholder of the Issuer has at the Shareholders' Meeting held on 9 October 2019 authorised the issue of the Notes and authorised the Management Board of the Issuer to approve the characteristics of the Notes, the Base Prospectus and any of the documents thereto, as well as any amendments and supplements thereof.

Management Board of the Issuer has at its meeting held on 20 April 2021 approved the Base Prospectus and the General Terms and Conditions of the Notes.

Each Final Terms issued in respect of each issue of Notes shall be approved by a separate resolution of the Management Board of the Issuer.

Auditors

PricewaterhouseCoopers SIA, registration number: 40003142793, legal address: Kr.Valdemāra street 21-21, Riga, LV – 1010, Latvia, has audited the 2020 Financial Statements and the 2019 Financial Statements included in this Base Prospectus and issued an unqualified auditors' reports on the aforementioned financial statements.

PricewaterhouseCoopers SIA is included in the register of audit firms maintained by the Latvian Association of Certified Auditors and holds audit company license No.5. On behalf of PricewaterhouseCoopers SIA, the auditors' reports on the 2020 Financial Statements and the 2019 Financial Statements were signed by Ilandra Lejiņa, holding auditor's certificate No. 168.

Listing

Application will be made to Nasdaq Riga for admitting each Tranche to listing and trading on the official bond list (the Baltic Bond List) of Nasdaq Riga according to the requirements of Nasdaq Riga not later than within 3 (three) months after the Issue Date of the respective Tranche. Nasdaq Riga is a regulated market for the purposes of MiFID II.

Clearing of the Notes

The Notes shall be issued in the bearer dematerialised form and registered with Nasdaq CSD SE, registration number: 40003242879. The International Securities Identification Number (ISIN) in relation to the Notes of each Tranche will be specified in the relevant Final Terms.

The address of Nasdaq CSD SE is Valņu iela 1, Riga, LV-1050, Latvia.

Legal Entity Identifier

The Issuer's legal entity identifier is 213800DJRB539Q1EMW75.

Documents available

For as long as the Notes are listed on the official bond list (the Baltic Bond List) of Nasdaq Riga, the copies of the following documents will be available on the Issuer's website www.latvenergo.lv:

- (i) the Articles of Association of the Issuer;
- (ii) the Audited Financial Statements;
- (iii) the Green Bond Framework;

- (iv) each Final Terms; and
- (v) this Base Prospectus together with any supplement.

Arrangers and Dealers transacting with the Issuer

The Arrangers and Dealers have engaged in, and may in the future engage in, investment banking and/or commercial banking or other services provided to the Group in the ordinary course of business (see Section *Risk Factors – Risk related to the Notes - Certain material interests*).

Interests of natural and legal persons involved in the issue/offer of the Notes

Save for commissions to be paid to the Arrangers and the Dealers, so far as the Issuer is aware, no person involved in the issue/offer of the Notes has an interest material to the issue/offer.

Expenses Charged to the Investors

No expenses or taxes will be charged to the investors by the Issuer in respect to the issue of the Notes. However, the investors may be obliged to cover expenses which are related to the opening of securities accounts with the credit institutions or investment brokerage firms, as well as commissions which are charged by the credit institutions or investment brokerage firms in relation to the execution of the investor's purchase or selling orders of the Notes, the holding of the Notes or any other operations in relation to the Notes. Neither the Issuer, nor the Arrangers or the Dealers shall compensate the Noteholders for any such expenses.

Credit Ratings

As of the date of this Base Prospectus, the Issuer has a long-term credit rating Baa2 by Moody's. The outlook is stable.

Moody's Deutschland GmbH is established in the EEA and is registered under Regulation (EU) No 1060/2009, as amended (the "**CRA Regulation**"), and is, as of the date of this Base Prospectus, included in the list of credit rating agencies published by the European Securities and Markets Authority ("**ESMA**").

Notes to be issued under the Programme may be rated or unrated. Where an issue of Notes is rated, the applicable rating will be specified in the relevant Final Terms. Such rating will not necessarily be the same as the rating(s) assigned to the Issuer or to Notes already issued (if applicable). Whether or not a credit rating applied for in relation to a relevant Series of Notes will be issued by a credit rating agency established in the EEA and registered under the CRA Regulation will be disclosed in the Final Terms.

A rating is not a recommendation to buy or sell or hold Notes and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. Up-to-date information should always be sought by direct reference to the relevant rating agency.

INFORMATION INCORPORATED BY REFERENCE

The following documents have been incorporated by reference to this Base Prospectus and form a part of the Base Prospectus:

- the Issuer's Green Bond Framework, which is available for viewing on the following website: www.latvenergo.lv

ANNEX I – FINANCIAL STATEMENTS

The Latvenergo Group Consolidated and Latvenergo AS Annual Report 2019, prepared in accordance with IFRS, together with the audit report in connection therewith.

The Latvenergo Group Consolidated and Latvenergo AS Annual Report 2020, prepared in accordance with IFRS, together with the audit report in connection therewith.

Ērģijas cenas



Latvenergo

Galvenie fakti

- Elektroenerģijas cenu pieaugumu ietekmēja:
 - sausie laika apstākļi
 - zemāks ūdens rezervāru aizpildījums Skandināvijā
 - mazāka HES izstrāde
 - augstākas CO₂ emisijas kvotu cenas
- Dabāsgāzes vidējā cena par 19% samazinājās, sasniedzot 16,0 EUR/MWh (GASPOOL) un 15,7 EUR/MWh (TTF)
- CO₂ emisijas kvotu cena – 24,3 EUR/t, kas ir gandrīz 2x vairāk nekā pirms

Daugavas HES izstrāde



Latvenergo Group Consolidated and Latvenergo AS 2019 Annual Report



Latvenergo Group Consolidated and Latvenergo AS Annual Report

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

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Financial calendar

Interim Condensed Financial Statements:

For the 3 months of 2020 (unaudited) – 29.05.2020

For the 6 months of 2020 (unaudited) – 28.08.2020

For the 9 months of 2020 (unaudited) – 27.11.2020

Latvenergo Group Key Figures

Financial Figures

EUR'000

	2019	2018	2017	2016	2015
Revenue	841,636	838,805	881,212	885,740	884,977
EBITDA ¹⁾	243,526	281,947	497,731	347,312	263,293
Operating profit ²⁾	100,365	81,983	214,462	151,101	88,694
Profit before tax ³⁾	92,072	74,734	224,114	148,945	92,535
Profit	94,359	75,955	322,021	130,593	85,039
Dividends ⁴⁾	132,936	156,418	90,142	77,413	31,479
Total assets	3,864,941	3,798,819	4,415,725	3,901,231	3,517,372
Non-current assets	2,798,712	3,364,534	3,343,404	3,388,954	3,113,719
Total equity	2,265,487	2,320,065	2,846,891	2,418,713	2,096,702
Borrowings	882,671	814,343	826,757	791,566	797,483
Net debt (adjusted) ⁵⁾	563,959	505,419	496,730	528,980	605,112
Net cash flows from operating activities	315,433	302,869	338,209	341,186	246,278
Investments	229,427	220,607	243,811	200,677	190,461

Financial figures and ratios are presented by excluding discontinuing operations (unbundling transmission system asset ownership) – see Note 30 to the Financial Statements.

¹⁾ EBITDA – earnings before interest, income tax, share of result of associates and depreciation, amortisation and impairment of intangible assets, property, plant and equipment and right-of-use assets

²⁾ Operating profit – earnings before income tax, finance income and costs

³⁾ Profit before tax – earnings before income tax

⁴⁾ Dividends paid to the equity holder of the Parent Company. (see Note 21 b)

⁵⁾ Net debt = (borrowings at the end of the year minus Latvijas elektriskie tīkli AS borrowings) minus (cash and cash equivalents at the end of the year minus Latvijas elektriskie tīkli AS cash and cash equivalents at the end of the year)

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

Based on the most commonly used financial figures and ratios in the industry, the Latvenergo Group Strategy for 2017-2022 (see also the Management Report – section Further development, and Sustainability Report), as well as the binding financial covenants set in the Group's loan agreements, Latvenergo Group has set here and therefore uses the following financial figures and ratios:

- profitability measures – EBITDA¹⁾; EBITDA margin⁶⁾; operating profit margin⁷⁾; profit before tax margin⁸⁾; profit margin⁹⁾; return on assets (ROA)¹⁴⁾; return on equity (ROE)¹⁵⁾; return on capital employed (ROCE)¹⁶⁾;
- capital structure measures – net debt⁵⁾; equity-to-asset ratio¹⁰⁾; net debt / EBITDA¹¹⁾; net debt / equity¹²⁾; current ratio¹³⁾;
- a dividend policy measure – dividend pay-out ratio¹⁷⁾.

The definitions and components of the financial figures and ratios are described on the right side. Except excluding discontinued operations, the reported financial figures and ratios have not changed over previous period.

Financial ratios

	2019	2018	2017	2016	2015
EBITDA margin ⁶⁾	29%	34%	56%	39%	30%
Operating profit margin ⁷⁾	11.9%	9.8%	24.3%	17.1%	10.0%
Profit before tax margin ⁸⁾	10.9%	8.9%	25.4%	16.8%	10.5%
Profit margin ⁹⁾	11.2%	9.1%	36.5%	14.7%	9.6%
Equity-to-asset ratio ¹⁰⁾	59%	61%	64%	62%	60%
Net debt / EBITDA (adjusted) ¹¹⁾	2.2	1.8	1.0	1.6	2.3
Net debt / equity (adjusted) ¹²⁾	0.25	0.22	0.17	0.22	0.29
Current ratio ¹³⁾	1.2	1.5	3.2	1.7	1.9
Return on assets (ROA) ¹⁴⁾	2.5%	1.8%	7.7%	3.5%	2.4%
Return on equity (ROE) ¹⁵⁾	4.1%	2.9%	12.2%	5.8%	4.1%
Return on capital employed (ROCE) (adjusted) ¹⁶⁾	3.4%	2.5%	6.4%	5.1%	3.2%
Dividend pay-out ratio ¹⁷⁾	62%	104%	66%	82%	90%

Operational figures

		2019	2018	2017	2016	2015
Total electricity supply, incl.:	GWh	9,259	9,984	10,371	10,140	9,868
Retail*	GWh	6,505	6,954	6,923	7,665	7,961
Wholesale**	GWh	2,754	3,030	3,448	2,474	1,907
Retail natural gas	GWh	303	147	33	–	–
Electricity generated	GWh	4,880	5,076	5,734	4,707	3,882
Thermal energy generated	GWh	1,842	2,274	2,612	2,675	2,408
Number of employees		3,423	3,508	3,908	4,131	4,177
Moody's credit rating		Baa2 (stable)				

⁶⁾ EBITDA margin = EBITDA / revenue

⁷⁾ Operating profit margin = operating profit / revenue

⁸⁾ Profit before tax margin = profit before tax / revenue

⁹⁾ Profit margin = profit / revenue

¹⁰⁾ Equity-to-asset ratio = total equity at the end of the year / total assets at the end of the year

¹¹⁾ Net debt / EBITDA = (net debt at the beginning of the year + net debt at the end of the year) * 0.5 / EBITDA (12-months rolling)

¹²⁾ Net debt / equity = net debt at the end of the year / equity at the end of the year

¹³⁾ Current ratio = current assets at the end of the year / current liabilities at the end of the year

¹⁴⁾ Return on assets (ROA) = profit / average value of assets ((assets at the beginning of the year + assets at the end of the year) / 2)

¹⁵⁾ Return on equity (ROE) = profit / average value of equity ((equity at the beginning of the year + equity at the end of the year) / 2)

¹⁶⁾ Return on capital employed (ROCE) = operating profit / (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 without Latvijas elektriskie tīkli AS + borrowings at the end of the year without Latvijas elektriskie tīkli AS) / 2))

¹⁷⁾ Dividend pay-out ratio = dividends / profit of the Parent Company

* Including operating consumption

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



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Latvenergo AS Key Figures

Financial figures

	2019	2018	2017	2016	2015
Revenue	437,529	435,199	498,580	513,563	521,146
EBITDA ¹⁾	112,651	160,927	387,100	241,606	180,982
Operating profit ²⁾	45,108	33,803	177,416	141,071	90,475
Profit before tax ³⁾	101,227	212,760	185,906	156,290	103,212
Profit	101,227	212,733	150,891	137,441	94,750
Dividends ⁴⁾	132,936	156,418	90,142	77,413	31,479
Total assets	3,136,958	3,141,109	3,649,200	3,204,394	3,124,054
Non-current assets	2,615,113	2,661,307	2,546,014	2,626,560	2,638,048
Total equity	1,949,287	1,993,823	2,382,638	2,177,069	2,114,900
Borrowings	872,899	802,268	814,772	778,323	782,965
Net debt ⁵⁾	751,638	674,714	581,917	597,126	681,146
Net cash flows from operating activities	378,142	394,395	449,352	201,427	174,797
Investments	48,269	41,350	89,278	79,913	78,694

EUR'000

¹⁾ EBITDA – earnings before interest, income tax, share of result of associates and depreciation, amortisation and impairment of intangible assets, property, plant and equipment and right-of-use assets

²⁾ Operating profit – earnings before income tax, finance income and costs

³⁾ Profit before tax – earnings before income tax

⁴⁾ Dividends paid to the equity holder of the Parent Company. (see Note 21 b)

⁵⁾ Net debt = borrowings at the end of the year minus cash and cash equivalents at the end of the year

Financial ratios

	2019	2018	2017	2016	2015
EBITDA margin ⁶⁾	25.7%	37.0%	77.6%	47.0%	34.7%
Operating profit margin ⁷⁾	10.3%	7.8%	35.6%	27.5%	17.4%
Profit before tax margin ⁸⁾	23.1%	48.9%	37.3%	30.4%	19.8%
Profit margin ⁹⁾	23.1%	48.9%	30.3%	26.8%	18.2%
Equity-to-asset ratio ¹⁰⁾	62 %	63%	65%	68%	68%
Net debt / equity ¹¹⁾	0.39	0.34	0.24	0.27	0.32
Current ratio ¹²⁾	1.8	2.0	4.3	2.3	3.0
Return on assets (ROA) ¹³⁾	3.2%	6.3%	4.4%	4.3%	3.0%
Return on equity (ROE) ¹⁴⁾	5.1%	9.7%	6.6%	6.4%	4.6%
Return on capital employed (ROCE) ¹⁵⁾	1.6%	1.1%	5.8%	4.8%	3.1%
Dividend pay-out ratio ¹⁶⁾	62%	104%	66%	82%	90%

Operational figures

		2019	2018	2017	2016	2015
Total electricity supply, incl.:	GWh	5,502	5,826	6,265	6,039	5,693
Retail*	GWh	4,211	4,406	4,619	5,290	5,422
Wholesale**	GWh	1,290	1,419	1,645	749	272
Retail natural gas	GWh	294	145	33	–	–
Electricity generated	GWh	4,832	5,028	5,687	4,660	3,833
Thermal energy generated	GWh	1,603	2,007	2,354	2,422	2,179
Number of employees		1,328	1,355	1,431	1,472	1,464
Moody's credit rating		Baa2 (stable)				

⁶⁾ EBITDA margin = EBITDA / revenue

⁷⁾ Operating profit margin = operating profit / revenue

⁸⁾ Profit before tax margin = profit before tax / revenue

⁹⁾ Profit margin = profit / revenue

¹⁰⁾ Equity-to-asset ratio = total equity at the end of the year / total assets at the end of the year

¹¹⁾ Net debt / equity = net debt at the end of the year / equity at the end of the year

¹²⁾ Current ratio = current assets at the end of the year / current liabilities at the end of the year

¹³⁾ Return on assets (ROA) = profit / average value of assets ((assets at the beginning of the year + assets at the end of the year) / 2)

¹⁴⁾ Return on equity (ROE) = profit / average value of equity ((equity at the beginning of the year + equity at the end of the year) / 2)

¹⁵⁾ Return on capital employed (ROCE) = operating profit / (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))

¹⁶⁾ Dividend pay-out ratio = dividends / profit of the Parent Company

* Including operating consumption

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



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Management Report

Latvenergo Group (the Group) is one of the largest power supply providers in the Baltics operating in electricity and thermal energy generation and trade, natural gas trade, electricity distribution services and lease of transmission system assets.

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

The parent company of Latvenergo Group is Latvenergo AS which is a power supply utility operating in electricity and thermal energy generation and trade, as well as natural gas trade.

Operating environment

In 2019, electricity prices in the Nordics and the Baltics were lower compared to the previous year due to the improvement of the Nordic hydrobalance and lower prices of other energy resources. In addition to the factors mentioned above, the price of electricity in the Baltics was affected by lower electricity generation in the Baltics, especially in Estonia, which resulted in higher electricity imports compared to the year 2018. The electricity spot price in Latvia was 7% lower than in 2018.

Electricity prices declined

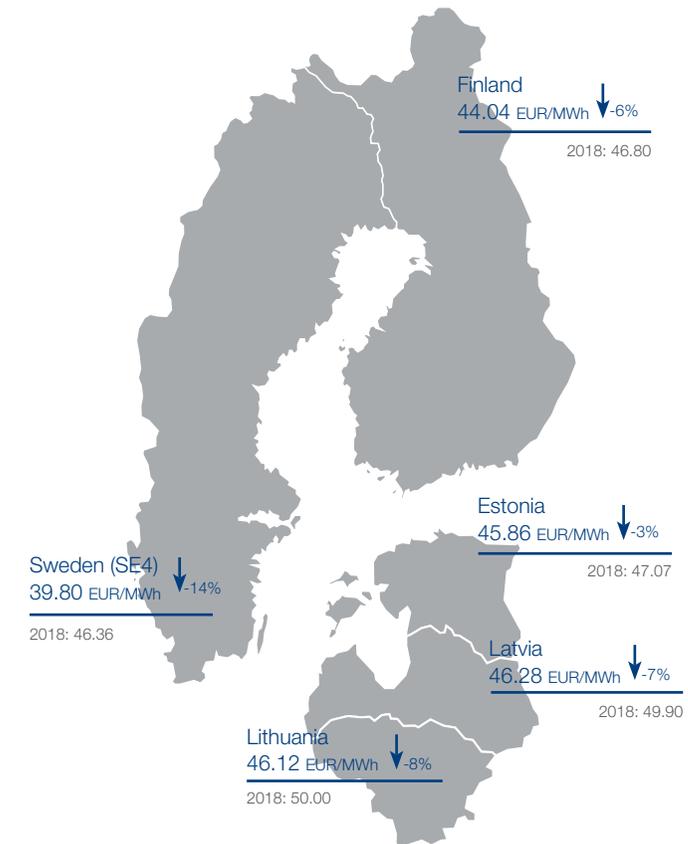
Due to the decrease in oil and coal prices, there was a decline in the price of natural gas. In 2019, the average price of natural gas at the GASPOOL and TTF trading platforms was 34% lower than a year earlier. The average price of CO₂ emission allowances in 2019 reached 25.2 EUR/t, which was almost twice as high as in 2018. CO₂ emission allowance prices increased due to the reform of the EU emissions trading system (ETS), reducing the permits available on the market.

Significant Events

Lower revenue from the installed electrical capacity at the Latvenergo AS CHPPs

In 2017, Latvenergo AS received a one-off compensation from the state in the amount of EUR 454.4 million, at the same time opting out of the receipt of 75% of the annual electrical capacity payments for Latvenergo AS cogeneration power plants CHPP-1 and CHPP-2. The compensation was financed by the capital release of Latvenergo AS. It was divided into two parts: EUR 140 million were to be recognized as other income in the profit and loss statement of Latvenergo AS in 2017, while EUR 314.4 million were to be recognized as income spread evenly over the following reporting periods until fulfilment of liabilities at the end of the support period in 2028. On 26 September 2018, the Cabinet of Ministers of Latvia decided to extend additional compensation in 2018 in the amount of EUR 51.7 million by reducing the remaining part of the compensation proportionally to this amount until the end of the support period. In 2019, EUR 24.0 million of the compensation were recognized as other income of Latvenergo AS (in 2018, the amount was EUR 81.0 million).

Electricity wholesale price on Nord Pool power exchange



As of 1 January 2020, the average distribution service tariff is reduced by 5.5%

Considering the changes in the methodology of calculation of distribution tariffs set by the Public Utilities Commission of Latvia (PUC), on 27 November 2019, the PUC approved a project on the electricity distribution service tariff for a period of 5 years until 2024 which was submitted by Sadales tīkls AS. The project provides for a reduction of the tariff of 5.5% on average.

Lower distribution tariffs are possible due to the ambitious operational efficiency improvement programme of Sadales tīkls AS, which includes process improvement and reduction of personnel and the number of vehicles and real estate bases.



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Unbundling transmission system asset ownership

An independent system operator model was introduced in Latvia and it was certified by the PUC. The transmission system assets were invested in Latvijas elektriskie tīkli AS (LET), while LET leases the assets to the transmission system operator (Augstsprieguma tīkls AS). The lease payment is calculated according to the methodology set by the PUC. LET is a subsidiary of Latvenergo AS, which provides management of Latvian power transmission network assets as well as fundraising for the maintenance of existing transmission networks and the construction of new ones. In 2019, the revenue of LET was EUR 41.1 million, and its profit was EUR 9.5 million. The asset value of the transmission system asset leasing segment at the end of 2019 was EUR 663 million.

Given that this model is one of the rarest in Europe, and based on an assessment by the Ministry of Economics of the Republic of Latvia, on 8 October 2019 the Cabinet of Ministers of the Republic of Latvia (CM) decided to support full unbundling of ownership of the electricity transmission system operator (TSO) until 1 July 2020, providing that transmission assets will be taken over from Latvenergo AS by Augstsprieguma tīkls AS. Since Latvenergo AS and Augstsprieguma tīkls AS are both state-owned companies, the change of ownership of assets will occur through the reduction of the share capital of Latvenergo AS by withdrawing the capital shares of LET from the base of assets of Latvenergo AS. After the capital shares of LET become property of the state, they will be invested in the share capital of Augstsprieguma tīkls AS. After the disposal of LET shares, the share capital of Latvenergo AS will be increased by investing retained earnings from previous years, but not in excess of the market value of LET shares determined by independent assessors. The market value of 100% LET shares is determined by KPMG Baltics AS.

In accordance with the CM informative report of 8 October 2019 "On the Directive 2009/72/EK requirements specified for the electricity transmission system operator in reevaluating implementation of unbundling", in December 2019 Latvenergo AS carried out a capital increase of LET by investing all real estate assets in amount of EUR 35 million and liabilities in amount of EUR 26 million belonging to the transmission system in LET. The value of LET equity as of December 31 is EUR 234 million.

On 15 October, 2019, the international credit rating agency *Moody's* affirmed the credit rating of Latvenergo AS at investment grade Baa2 with a stable outlook, also taking into account the planned unbundling of transmission system asset ownership.

Operating Results

Generation

In 2019, the total amount generated by Latvenergo Group's power plants comprised 4,880 GWh of electricity and 1,842 GWh of thermal energy (Latvenergo AS – 4,832 GWh and 1,603 GWh respectively).

The amount of power generated at the Daugava HPPs decreased by 14% compared to the previous year, reaching 2,047 GWh. The amount of power generated at the Daugava HPPs was impacted by lower water inflow in the Daugava river. The average water inflow in the Daugava River in 2019 was 401 m³/s, while a year earlier it was 485 m³/s. The share of electricity generated from renewable energy sources at Latvenergo Group was 42% (in 2018 it was 47%).

For the second year in a row, Latvenergo CHPPs had record-high electricity generation

In 2019, the amount generated at the CHPPs reached 2,780 GWh, which was 5% more than in the previous year and which is the most electricity produced historically. Such high generation was influenced by higher electricity demand in the region due to the fact that in 2019 electricity output at oil shale plants in Estonia fell significantly on account of high emission allowance prices. However, after reconstruction the Latvenergo AS CHPPs have minimized their CO₂ emissions and use energy resources to produce electricity in the most efficient way.

In 2019, the total amount of thermal energy generated by Latvenergo Group decreased by 19% compared to the previous year. The decrease was impacted by warmer weather conditions during the heating season and by competition. Data from the Central Statistical Bureau show that the average air temperature in Riga in the reporting year during the heating season was +4.1 C°, whereas in 2018 it was +2.1 C°.

Trade

In 2019, Latvenergo Group was one of the largest energy trading companies in the Baltics, while continuing to actively expand the range of products offered to customers.

Latvenergo – an energy company that operates in all segments of the market in Latvia, Lithuania and Estonia

In 2019, the Group supplied 6,505 GWh of electricity in the Baltics. The overall amount of retail electricity trade outside Latvia accounted for 1/3 of the total. The electricity trade volume in Latvia was 4.2 TWh, while in Lithuania it was 1.3 TWh and in Estonia it was 1.0 TWh. The total number of electricity customers comprised approximately 757 thousand, including more than 35 thousand foreign customers.

The natural gas retail sales volume doubled compared to the previous year and amounted to 303 GWh. In 2019, Latvenergo Group's natural gas consumption in the Baltics was 7.1 TWh, which was 3% more than in 2018. Currently, Latvenergo Group is the second largest natural gas consumer in the Baltics. At the end of 2019, the natural gas portfolio consisted of 770 business customers; meanwhile, the launch of gas trading to households in Latvia in February 2019 increased the natural gas portfolio by more than 5.4 thousand households.

In the reporting year, the retail activities of other services in the Baltic states continued. The number of solar panel contracts reached 320 with substantial growth in sales in Lithuania. In 2019, Latvenergo Group's market share in the Baltic solar panel market was approximately 9%. The number of Elektrum Insured customers continued to increase, reaching 65.9 thousand. Since launching in May 2019, the total turnover of the e-shop has continued to grow, providing more than 2,200 units sold. In August, the first Elektrum fast electric vehicle charging stations were launched and by the end of the reporting year approximately 1,450 charges had been made.



Financial Results

In 2019, Latvenergo Group's revenue reached EUR 841.6 million, which was EUR 2.8 million more than in the previous year. Meanwhile, the Group's profit increased by EUR 18.4 million or 24% compared to the previous year. Latvenergo Group's EBITDA decreased by 14% compared to the previous year, reaching EUR 243.5 million. EBITDA was impacted mainly by EUR 57.0 million lower compensation for the Latvenergo AS CHPPs' capacity payments recognised in the profit and loss statement of Latvenergo AS. In 2019, EUR 24.0 million of the compensation were recognized as other income of Latvenergo AS (in 2018, the amount was EUR 81.0 million).

Stable financial results

In 2019, the Latvenergo Group's results were negatively impacted by 14% or 333 GWh lower electricity output at the Daugava HPPs. Meanwhile, the higher sales price of electricity and the decrease in costs as a result of the approved efficiency programme, which was launched in 2017, had a positive impact on the results in 2019. The Group's ROE in 2019 reaches 4.1% which is 1.2 percentage points more than in 2018. The 2019 financial indicators of the capital structure ensured achievement of the goals set, exceeding the average industry indicators as well. For information on achievement of the financial goals, see the Sustainability Report section "Group Strategy".

Investments

In 2019, the total amount of investment comprised EUR 229.4 million, which was EUR 8.8 million more than in the previous year.

Latvenergo AS investment amounted EUR 48.3 million in 2019 (2018: EUR 41.4 million).

To ensure high-quality power network service, technical parameters and operational safety, a significant amount is invested in the modernization of the power network. In 2019, the amount invested in power network assets represented 79% of total investment.

Investments in distribution remained at the same level as in 2018 and comprised EUR 95.1 million. The purpose of investments in the distribution segment is to promote the quality and security of the energy supply, reduce the frequency and duration of power supply disruptions caused by planned and unplanned maintenance, and ensure the appropriate voltage quality. Investments in modernization of distribution assets have increased the quality of distribution services by lowering SAIFI and SAIDI indicators. Since 2016, both the SAIFI and SAIDI decreased by 14%.

Investment in power network assets – approximately 80% of the total

In 2019, investments in transmission system assets remained at the same level as a year earlier and comprised EUR 87.4 million. The largest investment project in the transmission system asset leasing

segment was *Kurzeme Ring*. In 2019, EUR 26.1 million was invested in this energy infrastructure project (in 2018: EUR 65.2 million). The *Kurzeme Ring* project will increase the safety level of power supply in the Kurzeme region and Latvia as a whole, providing an opportunity for more efficient use of the Lithuania-Sweden marine cable NordBalt and allowing further integration of the Baltics into the Nordic electricity market.

Contributing to environmentally friendly projects, in 2019, EUR 16.6 million was invested in the Daugava HPPs' hydropower unit reconstruction. Gradual overhaul of eleven Daugava HPPs hydropower units is planned for completion until 2023. It will provide for further 40-year operation of the units. As of 31 December 2019, five reconstructed hydropower units have been put into operation within the programme. The estimated total reconstruction costs will exceed EUR 200 million. At the end of the reporting year, work completed within the scope of the contract reached EUR 166.1 million.

Funding

Latvenergo Group finances its investments from its own resources and external long-term borrowings, which are regularly sourced in financial and capital markets in a timely manner.

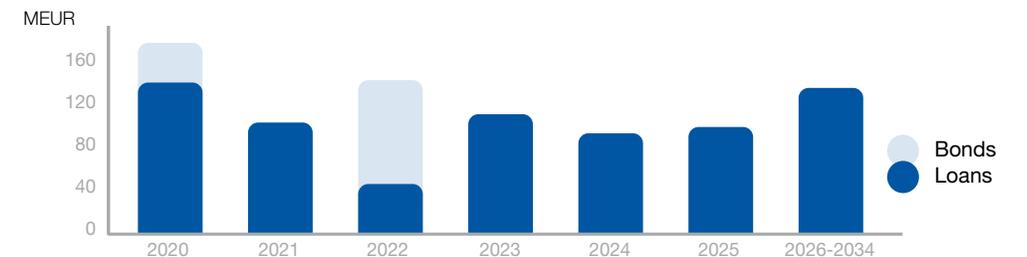
Diversified sources of funding

As of 31 December 2019, the Group's borrowings amounted to EUR 882.7 million (31 December 2018: EUR 814.3 million), comprising loans from commercial banks, international investment banks, and bonds amounting to EUR 135 million, of which EUR 100 million are green bonds.

At the end of 2019, Latvenergo AS attracted a loan of EUR 100 million from a foreign investment bank to finance investment projects.

Latvenergo Group's debt repayment schedule

Total borrowings as of 31 December 2019 – 882.7 MEUR



On 10 March 2020, the international credit rating agency *Moody's* repeatedly affirmed the credit rating of Latvenergo AS at investment grade Baa2 with a stable outlook. *Moody's* credit rating for Latvenergo AS has been stable for five years in a row, confirming the consistency of operations and financial soundness of Latvenergo Group.



Corporate Governance

Along with the financial results of Latvenergo Group, also the Corporate Governance Report of Latvenergo AS for 2019 is published. For detailed information see the Sustainability Report 2019.

Non-financial Report

Latvenergo Group has prepared a non-financial report in accordance with the Law on the Financial Instruments Market (Article 56⁴).

Non-financial report is in accordance with the GRI Standards

For detailed information on corporate social responsibility (CSR) activities, description of the policies and procedures in relation to those matters, the outcome of the policies, risks and risk management, and non-financial key performance indicators, please see the Sustainability Report 2019 which is available on the Latvenergo website: <http://www.latvenergo.lv>. The report is prepared in accordance with the GRI Standards – Core option requirements.

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

Further Development

Latvenergo Group’s strategy for 2017–2022 foresees:

- strengthening of a sustainable and economically sound market position in core markets (in the Baltics) while considering geographic and / or product / service expansion;
- development of a generation portfolio that fosters synergy with trade and that promotes an increase in value for the Group;
- development of a customer-driven, functional, safe and efficient power network.

Taking into consideration the defined development directions of the Group, Latvenergo AS approved the Strategic Development and Efficiency Programme in 2017. While the strategic development section includes major strategic projects, the efficiency section provides for the revision, centralization and digitalization of the Group’s processes in order to maintain the Group’s profitability in the long term considering the increase in costs due to inflation. The estimated efficiency potential for the Group’s EBITDA is up to EUR 30 million. This is the Group’s largest optimization plan in the last decade, and it will allow the Group to increase its value in the long run and to remain competitive in an open market and a changing energy industry.

The activities planned in the strategy have been successfully implemented in 2019. For more information please see the Sustainability Report section “Group Strategy”.

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

The financial targets are set to ensure:

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

Target group	Ratio	Year 2022
Profitability	Return on equity	> 6%
Capital structure	Net debt to equity	< 50%
	Net debt to EBITDA	< 3 times
Dividend policy	Dividend payout ratio	> 80%



Financial Risk Management

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

a) Market risks

I) Price risk

Price risk might negatively affect the financial results of Latvenergo Group and Latvenergo AS due to falling revenue from generation and a mismatch between electricity purchases at floating market prices and retail sales at fixed prices.

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

In order to hedge the price risk, the Latvenergo Group and Latvenergo AS enter into long-term fixed price customer contracts, uses electricity and natural gas financial derivatives and enter into fixed price contracts for natural gas supply. The impact of price risk on generation is hedged gradually – price has been fixed for 80%–90% of projected electricity output prior to the upcoming year. Further hedging of risk is limited by the seasonal generation pattern of the Daugava HPPs.

II) Interest rate risk

Latvenergo Group's and Latvenergo AS interest rate risk mainly arises from non-current borrowings at variable interest rates. They expose the Group and the Parent Company to the risk that finance costs might increase significantly when the reference rate surges. Most of the borrowings from financial institutions have a variable interest rate, comprising 3, 6 or 12-month EURIBOR and a margin. The Group's Financial Risk Management Policy stipulates maintaining at least 35% of its borrowings as fixed interest rate borrowings (taking into account the effect of interest rate swaps and issued bonds) with a duration of 2–4 years. Taking into account the effect of interest rate swaps and bonds with a fixed interest rate, 45% of

the Group's and of the Parent Company's borrowings had a fixed interest rate with an average period of 1.8 years both for the Group and the parent Company as of 31 December 2019. All necessary actions will be taken during the year 2020 to ensure the average fixed interest rate period within the limits stipulated by the Group's Financial Risk Management Policy.

III) Currency risk

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

As of 31 December 2019, all borrowings of Latvenergo Group and Latvenergo AS are denominated in euros, and during the reporting year, there was no substantial exposure to foreign currency risk as regards the Group's and the Parent Company's investments.

To manage the foreign currency exchange risk, the Financial Risk Management Policy envisages use of foreign exchange forward contracts.

b) Credit risk

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

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

c) Liquidity risk and cash flow risk

Latvenergo Group's liquidity and cash flow risk management policy is to maintain a sufficient amount of cash and cash equivalents and the availability of long and short-term funding through an adequate amount of committed credit facilities in order to meet existing and expected commitments and compensate for fluctuations in cash flows due to the occurrence of a variety of financial risks. On 31 December 2019, Latvenergo Group's liquid assets (cash and short-term deposits up to 3 months) reached EUR 122.7 million (31 December 2018: EUR 129.5 million), while the Latvenergo AS liquid assets reached EUR 121.3 million (31/12/2018: EUR 127.6 million).

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

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Events after the reporting period

At the beginning of 2020, the existence of the new coronavirus (Covid-19) was approved and it has currently spread all over the world, also in Latvia, disturbing business and affecting economic development. Latvenergo Group is constantly evaluating the impact of spreading of Covid-19 and implements measures for safety of customers and employees, as well ensures appropriate working regime in strategically important facilities – Daugava hydropower plants, combined heat and power plants in Riga and facilities of Sadales tīkls AS. Latvenergo Group continues to provide all services to its customers and any customer service issues are resolved using remote means of communication.

Spreading of the virus does not have a significant effect on the provision of services by Latvenergo Group. The Group continues to ensure continuity and availability to all customers of electricity generation, electricity and natural gas trading and distribution services. Management of Latvenergo Group considers that the spread of the virus is a non-adjusting event after the reporting period. Since the situation is unclear and is developing rapidly, it is currently not possible to provide a statistical estimate of the potential effect of spreading of the virus on Latvenergo Group, however COVID-19 influence could lead to economic downturn, with the most significant impact on electricity consumption and receivables.

All other significant events that would materially affect the financial position of the Latvenergo Group and Latvenergo AS after the reporting period are disclosed in Note 32 of the Group's and the Parent Company's Financial Statements.

Statement of management responsibility

Based on the information available to the Management Board of Latvenergo AS, the Latvenergo Group Consolidated and Latvenergo AS Annual Report 2019, including the Management Report, have been prepared in accordance with the International Financial Reporting Standards as adopted by the EU and in all material aspects present a true and fair view of the assets, liabilities, financial position, profit and loss and its cash flows of Latvenergo Group and Latvenergo AS. Information provided in the Management Report is accurate.

Profit distribution

According to the state regulations, the expected amount of dividends to be paid by Latvenergo AS for the use of state capital in 2020 (for the reporting year 2019) amounted to EUR 127.1 million (incl. income tax). The distribution of net profit and amount of dividends payable is subject to a resolution of the Latvenergo AS Shareholders Meeting.

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The Management Board of Latvenergo AS:

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Āris Žigurs

Chairman of the Management Board

7 April 2020

Guntars Baļčūns

Member of the Management Board

Uldis Bariss

Member of the Management Board

Kaspars Cīkmačs

Member of the Management Board

Financial Statements

Statement of Profit or Loss

EUR'000

	Notes	Group		Parent Company	
		2019	2018	2019	2018
Revenue	6	841,636	838,805	437,529	435,199
Other income	7	25,863	91,098	23,558	91,181
Raw materials and consumables used	8	(477,660)	(497,148)	(271,069)	(284,592)
Personnel expenses	9	(101,349)	(103,359)	(45,039)	(42,396)
Other operating expenses	10	(44,964)	(47,449)	(32,328)	(38,465)
EBITDA		243,526	281,947	112,651	160,927
Depreciation, amortisation and impairment of intangible assets, property, plant and equipment and right-of-use assets	13 a, 14 a,	(143,161)	(199,964)	(67,543)	(127,124)
Operating profit		100,365	81,983	45,108	33,803
Finance income	11	1,187	1,157	12,995	11,446
Finance costs	11	(9,480)	(8,406)	(11,734)	(10,135)
Dividends from subsidiaries	16	–	–	54,858	177,646
Profit before tax		92,072	74,734	101,227	212,760
Current income tax	12	(8,565)	(261)	–	(27)
Deferred income tax	12	620	(8,948)	–	–
Profit for the year from continuing operations		84,127	65,525	101,227	212,733
Profit for the year from discontinued operation	30	10,232	10,430	–	–
Profit for the year		94,359	75,955	101,227	212,733
Profit attributable to:					
– Equity holder of the Parent Company		92,660	73,423	101,227	212,733
– Non-controlling interests		1,699	2,532	–	–
Basic earnings per share (in euros)	21 c	0.111	0.080	0.121	0.234
Diluted earnings per share (in euros)	21 c	0.111	0.080	0.121	0.234

The notes on pages 15 to 62 are an integral part of these Financial Statements

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Āris Žīgurs
Chairman of the Management Board

Guntars Balčūns
Member of the Management Board

Statement of Comprehensive Income

EUR'000

	Notes	Group		Parent Company	
		2019	2018	2019	2018
Profit for the year		94,359	75,955	101,227	212,733
<i>Other comprehensive (loss) / income to be reclassified to profit or loss in subsequent periods:</i>					
– (losses) / gains from change in hedge reserve	21 a, 24	(11,771)	9,531	(11,771)	9,531
Net comprehensive (loss) / income to be reclassified to profit or loss in subsequent periods		(11,771)	9,531	(11,771)	9,531
<i>Other comprehensive (loss) / income not to be reclassified to profit or loss in subsequent periods:</i>					
– (losses) / gains as a result of re-measurement on defined post-employment benefit plan	21 a, 24	(2,043)	436	(1,148)	(108)
Net other comprehensive (loss) / income not to be reclassified to profit or loss in subsequent periods		(2,043)	436	(1,148)	(108)
Other comprehensive (loss) / income for the year		(13,814)	9,967	(12,919)	9,423
TOTAL comprehensive income for the year		80,545	85,922	88,308	222,156
Attributable to:					
– Equity holder of the Parent Company		78,846	83,390	88,308	222,156
– Non-controlling interests		1,699	2,532	–	–

The notes on pages 15 to 62 are an integral part of these Financial Statements

Uldis Bariss
Member of the Management Board

Kaspars Cikmačs
Member of the Management Board

Liāna Keldere
Accounting director of Latvenergo AS

7 April 2020



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	Notes	Group		Parent Company	
		31/12/2019	31/12/2018	31/12/2019	31/12/2018
ASSETS					
Non-current assets					
Intangible assets	13 a	22,587	19,079	26,111	22,813
Property, plant and equipment	14 a	2,752,945	3,297,093	1,109,001	1,133,886
Right-of-use assets	15	5,522	–	3,476	–
Investment property	14 b	301	467	39,435	61,796
Non-current financial investments	16	39	40	831,350	830,542
Non-current loans to related parties	29 e	–	–	588,434	595,004
Other non-current receivables	18 b	433	30,920	421	331
Other financial investments	22	16,885	16,935	16,885	16,935
Total non-current assets		2,798,712	3,364,534	2,615,113	2,661,307
Current assets					
Inventories	17	104,927	71,975	89,522	58,410
Receivables from contracts with customers	18 a	111,530	117,955	82,973	81,025
Other current receivables	18 b, c	77,085	84,830	13,328	14,445
Deferred expenses		3,015	2,598	2,082	1,552
Current loans to related parties	29 e	–	–	205,822	170,811
Prepayment for income tax		140	11,619	140	10,152
Derivative financial instruments	24	6,717	15,853	6,717	15,853
Cash and cash equivalents	19	122,422	129,455	121,261	127,554
Current assets excluding assets held for distribution		425,836	434,285	521,845	479,802
Assets held for distribution	30	640,393	–	–	–
Total current assets		1,066,229	434,285	521,845	479,802
TOTAL ASSETS		3,864,941	3,798,819	3,136,958	3,141,109

Statement of Financial Position (continued)

EUR'000

	Notes	Group		Parent Company	
		31/12/2019	31/12/2018	31/12/2019	31/12/2018
EQUITY AND LIABILITIES					
EQUITY					
Share capital	20	834,883	834,791	834,883	834,791
Reserves	21 a	1,075,235	1,125,466	778,162	794,555
Retained earnings		318,555	351,350	336,242	364,477
Reserves of disposal group classified as held for distribution	30	28,936	–	–	–
Equity attributable to equity holder of the Parent Company		2,257,609	2,311,607	1,949,287	1,993,823
Non-controlling interests		7,878	8,458	–	–
Total equity		2,265,487	2,320,065	1,949,287	1,993,823
LIABILITIES					
Non-current liabilities					
Borrowings	23	702,129	700,028	696,863	690,568
Lease liabilities	15	4,349	–	3,126	–
Deferred income tax liabilities	12	8,327	12,297	–	–
Provisions	27	18,491	20,178	8,489	8,625
Derivative financial instruments	24	6,149	3,923	6,149	3,923
Deferred income from contracts with customers	28 I a	143,330	143,494	877	–
Other deferred income	28 I b, c	194,033	303,519	186,297	210,105
Total non-current liabilities		1,076,808	1,183,439	901,801	913,221
Current liabilities					
Borrowings	23	180,542	114,315	176,036	111,700
Lease liabilities	15	1,216	–	376	–
Trade and other payables	26	115,708	135,010	78,381	92,062
Deferred income from contracts with customers	28 II a	13,764	13,271	63	–
Other deferred income	28 II b, c	24,857	26,438	24,031	24,022
Derivative financial instruments	24	6,983	6,281	6,983	6,281
Current liabilities excluding liabilities held for distribution		343,070	295,315	285,870	234,065
Liabilities directly associated with the assets held for distribution	30	179,576	–	–	–
Total current liabilities		522,646	295,315	285,870	234,065
Total liabilities		1,599,454	1,478,754	1,187,671	1,147,286
TOTAL EQUITY AND LIABILITIES		3,864,941	3,798,819	3,136,958	3,141,109

The notes on pages 15 to 62 are an integral part of these Financial Statements

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Āris Žigurs
Chairman of the Management Board

Guntars Balčūns
Member of the Management Board

Uldis Bariss
Member of the Management Board

Kaspars Cikmačs
Member of the Management Board

Liāna Keldere
Accounting director of Latvenergo AS

7 April 2020



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Statement of Changes in Equity

EUR'000

	Note	Group						Parent Company				
		Attributable to equity holder of the Parent Company						Share capital	Reserves	Retained earnings	TOTAL	
		Share capital	Reserves	Retained earnings	Reserves classified as held for distribution	TOTAL	Non-controlling interests					TOTAL
As of 1 January 2018		1,288,715	1,125,728	424,116	–	2,838,559	8,042	2,846,601	1,288,715	791,681	301,613	2,382,009
Decrease of share capital	20	(454,413)	–	–	–	(454,413)	–	(454,413)	(454,413)	–	–	(454,413)
Increase of share capital	14 a, 20	489	–	–	–	489	–	489	489	–	–	489
Dividends for 2017	21 b	–	–	(156,418)	–	(156,418)	(2,116)	(158,534)	–	–	(156,418)	(156,418)
Disposal of non-current assets revaluation reserve	21 a	–	(10,229)	10,229	–	–	–	–	–	(6,549)	6,549	–
Total transactions with owners and other changes in equity		(453,924)	(10,229)	(146,189)	–	(610,342)	(2,116)	(612,458)	(453,924)	(6,549)	(149,869)	(610,342)
Profit for the year		–	–	73,423	–	73,423	2,532	75,955	–	–	212,733	212,733
Other comprehensive income for the year	21 a	–	9,967	–	–	9,967	–	9,967	–	9,423	–	9,423
Total comprehensive income for the year		–	9,967	73,423	–	83,390	2,532	85,922	–	9,423	212,733	222,156
As of 31 December 2018		834,791	1,125,466	351,350	–	2,311,607	8,458	2,320,065	834,791	794,555	364,477	1,993,823
Increase of share capital	14 a, 20	92	–	–	–	92	–	92	92	–	–	92
Dividends for 2018	21 b	–	–	(132,936)	–	(132,936)	(2,279)	(135,215)	–	–	(132,936)	(132,936)
Disposal of non-current assets revaluation reserve	21 a	–	(7,481)	7,481	–	–	–	–	–	(3,474)	3,474	–
Discontinued operation	30	–	(28,936)	–	28,936	–	–	–	–	–	–	–
Total transactions with owners and other changes in equity		92	(36,417)	(125,455)	28,936	(132,844)	(2,279)	(135,123)	92	(3,474)	(129,462)	(132,844)
Profit for the year		–	–	92,660	–	92,660	1,699	94,359	–	–	101,227	101,227
Other comprehensive loss for the year	21 a	–	(13,814)	–	–	(13,814)	–	(13,814)	–	(12,919)	–	(12,919)
Total comprehensive (loss) / income for the year		–	(13,814)	92,660	–	28,936	1,699	80,545	–	(12,919)	101,227	88,308
As of 31 December 2019		834,883	1,075,235	318,555	28,936	2,257,609	7,878	2,265,487	834,883	778,162	336,242	1,949,287

The notes on pages 15 to 62 are an integral part of these Financial Statements

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Guntars Baļčūns
Member of the Management Board

Uldis Bariss
Member of the Management Board

Kaspars Cikmačs
Member of the Management Board

Liāna Ķeldere
Accounting director of Latvenergo AS

7 April 2020

Statement of Cash Flows

EUR'000

	Notes	Group		Parent Company	
		2019	2018	2019	2018
Cash flows from operating activities					
Profit before tax		92,072	74,734	101,227	212,760
Profit before tax from discontinued operation	30	12,667	13,779	–	–
Profit before tax, total		104,739	88,513	101,227	212,760
Adjustments:					
– Amortisation, depreciation and impairment of intangible assets, property, plant and equipment (PPE) and right-of-use assets	13 a, 14 a, 15	167,918	225,820	67,543	127,124
– Loss from disposal of non-current assets		26,980	17,638	21,965	12,320
– Interest costs	11	9,346	8,267	11,590	10,020
– Interest income	11	(1,034)	(1,114)	(12,842)	(11,403)
– Fair value loss on derivative financial instruments	8	293	417	293	417
– Dividends from subsidiaries	16	–	–	(54,858)	(177,646)
– Decrease in provisions	27	(3,691)	(1,295)	(1,283)	(318)
– Unrealised (income) / loss on currency translation differences	11	(54)	2	(54)	2
Operating profit before working capital adjustments		304,497	338,248	133,581	173,276
(Increase)/ decrease in inventories		(32,990)	4,353	(31,112)	3,414
Decrease in receivables from contracts with customers and other receivables		41,083	98,125	45,110	140,461
Increase / (decrease) in trade and other liabilities		11,757	(90,344)	(38,789)	(79,741)
Impact of non-cash offsetting of operating receivables and liabilities from subsidiaries, net		–	–	270,009	201,571
Cash generated from operating activities		324,347	350,382	378,799	438,981
Interest paid		(9,483)	(9,066)	(11,741)	(10,781)
Interest paid on leases	15	(54)	–	–	–
Interest received		1,084	1,113	1,084	1,113
Paid corporate income tax		(461)	(39,560)	10,000	(34,918)
Net cash flows from operating activities		315,433	302,869	378,142	394,395

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Āris Žigurs
Chairman of the Management Board

Guntars Balčūns
Member of the Management Board

Statement of Financial Position (continued)

EUR'000

	Notes	Group		Parent Company	
		2019	2018	2019	2018
Cash flows from investing activities					
Loans issued to subsidiaries, net	29 e	–	–	(272,401)	(323,539)
Purchase of intangible assets and PPE		(254,947)	(238,501)	(70,981)	(60,644)
Dividends received from subsidiaries	16	–	–	21,115	53,378
Proceeds from redemption of other financial investments		49	49	49	49
Net cash flows used in investing activities		(254,898)	(238,452)	(322,218)	(330,756)
Cash flows from financing activities					
Proceeds on borrowings from financial institutions	23	180,291	93,500	180,000	90,000
Repayment of borrowings	23	(112,102)	(105,931)	(109,513)	(102,522)
Received financing from European Union		579	–	250	–
Lease payments	15	(821)	–	(18)	–
Dividends paid to non-controlling interests	21 b	(2,279)	(2,116)	–	–
Dividends paid to equity holder of the Parent Company	21 b	(132,936)	(156,418)	(132,936)	(156,418)
Net cash flows used in financing activities		(67,268)	(170,965)	(62,217)	(168,940)
Net decrease in cash and cash equivalents		(6,733)	(106,548)	(6,293)	(105,301)
Cash and cash equivalents at the beginning of the year	19	129,455	236,003	127,554	232,855
Cash and cash equivalents at the end of the year	19	122,722	129,455	121,261	127,554

The notes on pages 15 to 62 are an integral part of these Financial Statements

Uldis Bariss
Member of the Management Board

Kaspars Cikmačs
Member of the Management Board

Liāna Ķeldere
Accounting director of Latvenergo AS

7 April 2020



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Notes to the Financial Statements

1. Corporate information

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

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

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

- Sadales tīkls AS (since 18 September 2006) with 100% interest held;
- *Elektrum Eesti* OÜ (since 27 June 2007) and its subsidiary *Elektrum Latvija* SIA (since 18 September 2012) with 100% interest held;
- *Elektrum Lietuva* UAB (since 7 January 2008) with 100% interest held;
- Latvijas elektriskie tīkli AS (since 10 February 2011) with 100% interest held;
- Liepājas enerģija SIA (since 6 July 2005) with 51% interest held;
- Enerģijas publiskais tirgotājs AS (since 25 February 2014) with 100% interest held.

Latvenergo AS and its subsidiaries Sadales tīkls AS, Latvijas elektriskie tīkli AS and Enerģijas publiskais tirgotājs AS are also shareholders with 48.15% interest held in company Pirmais Slēgtais Pensiju Fonds AS that manages a defined-contribution corporate pension plan in Latvia.

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

The Management Board of Latvenergo AS since 16 November 2015 until 1 March 2018 was comprised of the following members: Āris Žīgurs (Chairman of the Board), Uldis Bariss, Māris Kuņickis, Guntars Baļčūns and Guntis Stafeckis. From 1 March 2018 Guntis Stafeckis and from 5 October 2018 Māris Kuņickis does not continue work on the Management Board. Since 25 September 2018 Kaspars Cikmačs has been acting as a member of the Management Board of Latvenergo AS and until the end of the reporting year the Management Board of Latvenergo AS was comprised of the following members: Āris Žīgurs (Chairman of the Board), Uldis Bariss, Guntars Baļčūns and Kaspars Cikmačs.

The Supervisory Board of Latvenergo AS since 16 December 2016 until 19 June 2019 was comprised of the following members: Andris Ozoliņš (Chairman of the Board), Andris Liepiņš (Deputy Chairman), Baiba Anda Rubesa, Mārtiņš Bičevskis and Martin Sedlacky. Since 19 June 2019 until 1 July 2019 the Supervisory Board of Latvenergo AS was comprised of the following members: Pāvels Rebenoks (Chairman of the Board), Renārs Degro (Deputy Chairman), Inese Kubicka, Kristaps Stepanovs and Artūrs Šnoriņš. Since 8 October 2019 until the election of new members of the Supervisory Board of Latvenergo AS in accordance with the candidate selection procedure started in August 2019, the Supervisory Board of Latvenergo AS is comprised of the following members: Edmunds Valantis (Chairman), Edijs Šaicāns (Deputy Chairman) and Irēna Bērziņa.

The Supervisory body – Audit Committee since 3 March 2017 until 19 June 2019 was comprised of the following members: Torben Pedersen (Chairman of the Committee), Svens Dinsdorfs, Andris Ozoliņš, Andris Liepiņš and Marita Salgrāve. Since 19 June 2019 until 1 July 2019 Audit Committee was comprised of the following members: Torben Pedersen, Svens Dinsdorfs, Marita Salgrāve, Renārs Degro and Kristaps Stepanovs. Since 8 October 2019 Audit Committee was comprised of the following members: Torben Pedersen, Svens Dinsdorfs, Marita Salgrāve and Irēna Bērziņa.

The Management Board of Latvenergo AS has approved the Latvenergo Group and Latvenergo AS Financial statements 2019 on 7 April 2020. The Financial Statements are subject to Shareholder's approval on the Shareholder's Meeting.

2. Summary of significant accounting policies

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

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

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

The Financial Statements for year 2019 include the financial information in respect of the Latvenergo Group and Latvenergo AS for the year ended 31 December 2019 and comparative information for year 2018. Where it has been necessary, comparatives for year 2018 are reclassified using the same principles applied for preparation of the Financial Statements for 2019 for discontinued operation according to IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' (Note 30), except for the adoption of IFRS 16 'Leases' (see section 'Changes in accounting policies' of Note 2 and Note 15).

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

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

The preparation of the Financial Statements in conformity with IFRS requires the use of estimates and





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

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

a) Standards issued and which became effective, and are relevant for the Group's and the Parent Company's operations

• IFRS 16: Leases

From 1 January 2019 The Group and the Parent Company applies IFRS 16. In accordance with the transitional provisions of IFRS 16, the standard is applied retrospectively with evaluation of its cumulative effect as of 1 January 2019. The Group as the lessee recognised right-of-use assets and lease liabilities in amount of EUR 8,075 thousand (the Parent Company: EUR 3,870 thousand) in financial statements. The Parent Company applied simplified approach and did not restate comparative information. Right-of-use assets were measured equal to the lease liabilities at the date of initial application. At the date of initial application, no cumulative effect of initial application was recognised as an adjustment to the opening balance of retained earnings.

Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Upon adopting IFRS 16, the Group and the Parent Company used a single recognition and measurement approach for all leases, with certain exemptions and made an assessment on the identified right-of-use assets, non-cancellable lease terms (including the extension and termination options) and lease payments (including fixed and variable payments etc.). The Parent Company used practical expedient for short-term leases.

The Group's and the Parent Company's as lessor accounting is substantially unchanged and do not have significant impact on financial statements.

New standard accounting and measurement principles are disclosed in Note 15, but the initial adoption is disclosed in the section Change in accounting policy of this Annex.

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

• Amendments to the Conceptual Framework for Financial Reporting

Amendments are effective for the periods beginning on or after 1 January 2020, not yet adopted by the EU. The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance - in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Group and the Parent Company makes assessment on the impact of these amendments on its financial statements and disclosures, but does not consider them to have a significant impact on its financial results.

• Amendments to IFRS 3 - Definition of a business

Effective from 1 January 2020, not yet adopted by the EU. The amendments revise definition of a business. A business must have inputs and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present, including for early stage companies that have not generated outputs. An organised workforce should be present as a condition for classification as a business if are no outputs. The definition of the term 'outputs' is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. It is also no longer necessary to assess whether market participants are capable of replacing missing elements or integrating the acquired activities and assets. An entity can apply a 'concentration test'. The assets acquired would not represent a business if substantially all of the fair value of gross assets acquired were concentrated in a single asset (or a group of similar assets). The Group and the Parent Company makes further assessment on the impact of these amendments. The amendments may result in changes in accounting policies but will not have a material effect on the Group's and the Parent Company's financial statements.

• Amendments to IAS 1 and IAS 8 - Definition of materiality

Effective from 1 January 2020, not yet adopted by the EU. The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The Group and the Parent Company makes assessment on the impact of these amendments on its financial statements but does not expect them to have a material impact on the Group's and the Parent Company's financial position and estimates and judgements used in preparation of financial statements.

Consolidation

a) Subsidiaries

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

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

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

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

b) Transactions with non-controlling interests and owners

The Group treats transactions with non-controlling interests as transactions with equity owners of the economic entity. Changes in a Parent's ownership interest in a subsidiary that do not result in the Parent losing control over the subsidiary are equity transactions (i.e. transactions with owners in their capacity as owners). For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in the Group's equity.

Foreign currency translation

a) Functional and presentation currency

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

b) Transactions and balances

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

Financial assets and liabilities

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

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

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

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

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

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

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

Debt instruments

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

- at Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are 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 Group and the Parent Company subsequently measure all equity investments at fair value. Where the Group's or the Parent Company's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the de-recognition of the investment. Dividends from such investments continue to be recognised in profit or loss when the Group's and the Parent Company's right to receive payments is established.

Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI or FVPL are not reported separately from other changes in fair value.

Financial Liabilities

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

De-recognition

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

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

The Group and the Parent Company derecognise a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group and the Parent Company also derecognise a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value. On de-recognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.



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Impairment

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

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

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

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

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

Derivative financial instruments

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

Changes in accounting policies

Adoption of IFRS 16 in the reporting year

From 1 January 2019 the Group and the Parent Company applied IFRS 16 for the first time. In accordance with the transitional provisions of IFRS 16, the standard is applied retrospectively with evaluation of its cumulative effect as of 1 January 2019. The Group as the lessee recognised in financial statements right-of-use assets and lease liabilities in the amount of EUR 8,075 thousand (the Parent Company: EUR 3,870 thousand), which had been previously classified as 'operating leases' under the principles of IAS 17.

In accordance with IFRS 16, lease liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019 – 1.549 %.

The Group and the Parent Company applied simplified approach and did not restate comparative information. Right-of-use assets measured equal to the lease liability at the date of initial application. At the date of initial application, no cumulative effect of initial application recognised as an adjustment to the opening balance of retained earnings.

The Group and the Parent Company has concluded several agreements for lease of land and real estate, as well has concluded an agreement until 2028 on a lease of the fiber of the combined optical cable (OPGW - optical ground wire with dual function).

Accounting policy related to lease transactions disclosed in Note 15. The Group and the Parent Company did not have finance leases before adoption of the new standard as of 1 January 2019.

In applying IFRS 16 for the first time, the Group and the Parent Company has used the following permitted practical expedients:

- single discount rate to a portfolio of leases with reasonably similar characteristics;
- accounting for operating leases with a remaining lease term of less than 12 months as of 1 January 2019 as short-term leases;
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application;
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.



The following individual line items were affected in the Group's and the Parent Company's Statement of Financial Position as of 1 January 2019 upon adoption of IFRS 16 (line items that were not affected by the changes have not been included, as a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided):

EUR'000

	Group			Parent Company		
	Balance as of 31/12/2018 before adjustments	Effect of IFRS 16 adoption	Adjusted balance as of 01/01/2019	Balance as of 31/12/2018 before adjustments	Effect of IFRS 16 adoption	Adjusted balance as of 01/01/2019
ASSETS						
Non-current assets						
Right-of-use assets	–	8,075	8,075	–	3,870	3,870
Total non-current assets	3,364,534	8,075	3,372,609	2,661,307	3,870	2,665,177
TOTAL ASSETS	3,798,819	8,075	3,806,894	3,141,109	3,870	3,144,979
EQUITY AND LIABILITIES						
LIABILITIES						
Non-current liabilities						
Lease liabilities	–	6,839	6,839	–	3,500	3,500
Total non-current liabilities	1,183,439	6,839	1,190,278	913,221	3,500	916,721
Current liabilities						
Lease liabilities	–	1,236	1,236	–	370	370
Total current liabilities	295,315	1,236	296,551	234,065	370	234,435
TOTAL EQUITY AND LIABILITIES	3,798,819	8,075	3,806,894	3,141,109	3,870	3,144,979

The initial application of standard has the following impact: increase of total assets impacted by the capitalisation of the right-of-use assets and increase of total liabilities induced by recognition of relevant lease liabilities.

If the lease contract includes an extension options and if management has reasonable confidence to exercise this option, The Group's and the Parent Company's has used actual historical experience to determine lease terms. Lease contracts are usually concluded for a fixed period with different maturities, as agreed with counterparties, and may include options to extend lease terms. Management applies judgement to determine the lease term evaluating facts and circumstances that may affect the lease term. Management's estimates are reviewed for any material events or significant changes in circumstances, that are under the lessee's control.

Preliminary measurement of lease liabilities by the adoption of IFRS 16:

EUR'000

	Group	Parent Company
	01/01/2019	01/01/2019
Operating lease commitments disclosed as of 31 December 2018 as per IAS17	9,531	21,738
Adjustments for lease evaluation for compliance with IFRS 16 requirements	(1,388)	(17,413)
Adjustments as a result of the assessment of the possibility of renewal and termination of contracts	986	–
Adjustments for variable lease payments	(93)	–
Excluded short-term leases	(149)	(149)
Discounted value using the incremental borrowing rate of at the date of initial application	(812)	(306)
Lease liabilities recognised as of 1 January 2019	8,075	3,870
Of which are:		
– current	6,839	3,500
– non-current	1,236	370

The adoption of IFRS 16 did not require for the Group and the Parent Company, as lessor, to make adjustments to the accounting for assets held as for lessor.

3. Financial risk management

3.1. Financial risk factors

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

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

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

EUR'000

	Notes	Group			Parent Company		
		Financial assets at amortised cost	Derivatives used for hedging	Financial instruments at fair value through the profit or loss	Financial assets at amortised cost	Derivatives used for hedging	Financial instruments at fair value through the profit or loss
Financial assets as of 31 December 2019							
Receivables from contracts with customers	18 a	111,530	–	–	82,973	–	–
Other current financial receivables	18 b	76,891	–	–	13,221	–	–
Loans to related parties	29 e	–	–	–	794,256	–	–
Other non-current financial receivables	18 b	433	–	–	421	–	–
Derivative financial instruments	24 l	–	4,684	2,033	–	4,684	2,033
Other financial investments	22	16,885	–	–	16,885	–	–
Cash and cash equivalents	19	122,422	–	–	121,261	–	–
		328,161	4,684	2,033	1,029,017	4,684	2,033
Financial assets as of 31 December 2018							
Receivables from contracts with customers	18 a	117,955	–	–	81,025	–	–
Other current financial receivables	18 b	84,613	–	–	14,233	–	–
Loans to related parties	29 e	–	–	–	765,815	–	–
Other non-current financial receivables	18 b	30,920	–	–	331	–	–
Derivative financial instruments	24 l	–	15,748	105	–	15,748	105
Other financial investments	22	16,935	–	–	16,935	–	–
Cash and cash equivalents	19	129,455	–	–	127,554	–	–
		379,878	15,748	105	1,005,893	15,748	105
Financial liabilities as of 31 December 2019							
Borrowings	23	882,671	–	–	872,899	–	–
Derivative financial instruments	24 l	–	10,204	2,220	–	10,912	2,220
Lease liabilities	15	5,565	–	–	3,502	–	–
Trade and other financial current payables	26	91,410	–	–	68,249	–	–
		979,646	10,912	2,220	944,650	10,912	2,220
Financial liabilities as of 31 December 2018							
Borrowings	23	814,343	–	–	802,268	–	–
Derivative financial instruments	24 l	–	10,204	–	–	10,204	–
Trade and other financial current payables	26	103,707	–	–	78,726	–	–
		918,050	10,204	–	880,994	10,204	–





a) Market risk

I) Foreign currencies exchange risk

As of 31 December 2019, and 31 December 2018 the Group and the Parent Company had borrowings denominated only in euros (Note 23). Their revenues and most of the financial assets and liabilities were denominated in euros. Accordingly, neither the Group nor the Parent Company were subject to a significant foreign currencies exchange risk.

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

The Group Treasury's Financial Risk Management Policy is to hedge all anticipated cash flows (capital expenditure and purchase of inventory) in each major foreign currency that might create significant currency risk. During 2019 and 2018 the Group and the Parent Company had no capital expenditure project which expected transactions would create significant currency risk.

II) Interest rate risk

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

During 2019, if euro interest rates had been 50 basis points higher with all other variables held constant, the Group's income from the cash reserves held at bank for the year would have been EUR 633 thousand higher (2018: EUR 875 thousand) and the Parent Company's income from the cash reserves held at bank for the year would have been EUR 621 thousand higher (2018: EUR 860 thousand).

The Group's and the Parent Company's cash flow interest rate risk mainly arises from long-term borrowings at variable rates. They expose the Group and the Parent Company to a risk that finance costs might increase significantly when interest rates rise up. The Group's policy is to maintain at least 35% of its borrowings as fixed interest rates borrowings (taking into account the effect of interest rate swaps) with duration between 2–4 years.

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

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

To hedge cash flow interest rate risk, the Group and the Parent Company have entered into interest rate swap agreements with total notional amount of EUR 229.4 million (2018: EUR 225.1million) (Note 24 II). 45% of the total Group's and 45% the Parent Company's borrowings as of 31 December 2019 (31/12/2018: 53% and 54% respectively) had fixed interest rate (taking into account the effect of the

interest rate swaps) and average fixed rate duration was 1.8 years for the Group and the Parent Company (2018: 2.1 years for the Group and the Parent Company respectively). All necessary actions will be taken during the year 2020 to ensure the average fixed interest rate period within the limits stipulated by the Group's Financial Risk Management Policy.

If interest rates on euro denominated borrowings at floating base interest rate (after considering hedging effect) had been 50 basis points higher with all other variables held constant over the period until the next annual report, the Group's profit for the year would have been EUR 2,297 thousand lower (over the next 12 months period after 31/12/2018: EUR 1,999 thousand), the Parent Company's profit for the year would have been EUR 255 thousand lower (over the next 12 months period after 31/12/2018: EUR 1,946 thousand).

As of 31 December 2019, if short and long term euro interest rates had been 50 basis points higher with all other variables held constant fair value of interest rate swaps would have been EUR 4,634 thousand higher (31/12/2018: EUR 4,649 thousand higher), which would have been attributable to the Statement of Comprehensive Income as hedge accounting item. However, if short and long term euro interest rates had been 50 basis points lower with all other variables held constant fair value of interest rate swaps would have been EUR 4,815 thousand lower (31/12/2018: EUR 4,834 thousand lower), which would have been attributable to the Statement of Comprehensive Income as hedge accounting item.

III) Price risk

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

The most significant price risk is related to purchase of electricity and natural gas. To hedge the risk related to changes in the price of electricity and natural gas the Parent Company during 2019 and 2018 has purchased electricity forward and future contracts and natural gas forward contracts (Note 24 III, IV).

b) Credit risk

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

The maximum credit risk exposure related to financial assets (see table below) comprises of carrying amounts of cash and cash equivalents (Note 19), receivables from contracts with customers and other receivables (Note 18), derivative financial instruments (Note 24) and other financial investments (Note 22).

Assessment of maximum possible exposure to credit risk:

EUR'000

	Notes	Group		Parent Company	
		31/12/2019	31/12/2018	31/12/2019	31/12/2018
Receivables from contracts with customers	18 a	111,530	117,955	82,973	81,025
Other non-current financial receivables	18 b	433	30,920	421	331
Other current financial receivables	18 b	76,891	84,613	13,221	14,233
Loans to subsidiaries	29 e	–	–	794,256	765,815
Cash and cash equivalents	19	122,422	129,455	121,261	127,554
Derivative financial instruments	24	6,717	15,853	6,717	15,853
Other financial investments	22	16,885	16,935	16,885	16,935
		334,878	395,731	1,035,734	1,021,746

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

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

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

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

EUR'000

	Group		Parent Company	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Investment level credit rating*	117,347	126,483	116,186	124,582
No or non-investment level credit rating	5,075	2,972	5,075	2,972
	122,422	129,455	121,261	127,554

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

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

EUR'000

	Group		Parent Company	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Aa2	70,621	51,376	69,468	49,556
Aa3	1,926	22,248	1,926	22,247
Baa1	40,466	48,201	40,458	48,121
Baa2	4,334	4,658	4,334	4,658
Non-investment level credit rating	5,075	2,972	5,075	2,972
	122,422	129,455	121,261	127,554

Set limits of credit exposure to the financial counterparties were not exceeded during the reporting period, and the Group and the Parent Company management does not expect any losses arising from a potential default of financial counterparty, financial counterparties are in Level 1.

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

c) Liquidity risk

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

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



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Liquidity analysis (contractual undiscounted gross cash flows)

EUR'000

	Group					Parent Company				
	Less than 1 year	From 1 to 2 years	From 3 to 5 years	Over 5 years	TOTAL	Less than 1 year	From 1 to 2 years	From 3 to 5 years	Over 5 years	TOTAL
As of 31 December 2019										
Borrowings from banks	148,892	112,531	267,429	243,819	772,671	144,303	110,795	264,260	243,315	762,673
Issued debt securities (bonds)	37,849	1,900	102,203	–	141,952	37,849	1,900	102,203	–	141,952
Derivative financial instruments	8,740	3,959	3,003	1,154	16,856	8,740	3,959	3,003	1,154	16,856
Lease liabilities *	1,261	1,062	1,670	2,399	6,392	428	428	1,284	1,612	3,752
Trade and other current financial payables (Note 26) **	91,410	–	–	–	91,410	68,249	–	–	–	68,249
	288,152	119,452	374,305	247,372	1,029,281	259,569	117,082	370,750	246,081	993,482
As of 31 December 2018										
Borrowings from banks	116,989	159,053	250,342	214,090	740,474	114,241	154,751	246,134	212,846	727,972
Issued debt securities (bonds)	2,880	37,769	104,228	–	144,877	2,880	37,769	104,228	–	144,877
Derivative financial instruments	6,673	3,000	4,239	1,755	15,667	6,673	3,000	4,239	1,755	15,667
Trade and other current financial payables (Note 26) **	103,707	–	–	–	103,707	78,726	–	–	–	78,726
	230,249	199,822	358,809	215,845	1,004,725	202,520	195,520	354,601	214,601	967,242

* The carrying amount of the lease (discounted) the Group's is EUR 5,565 thousand (the Parent Company's: EUR 3,502 thousand)

** Excluding advances received, deferred income, tax related liabilities and other non-current or current non-financial payables

3.2. Capital management

The Group's and the Parent Company's objectives when managing capital are to safeguard the Group's and Parent Company's ability to continue as a going concern as well as to ensure necessary financing for investment program and to avoid breaches of covenants (no breaches in 2019 nor 2018), which are linked to capital structure and are stipulated in the majority of loan agreements.

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

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

The capital ratio figures were as follows:

EUR'000

	Group		Parent Company	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Total equity	2,265,487	2,320,065	1,949,287	1,993,823
Total assets	3,864,941	3,798,819	3,136,958	3,141,109
Capital Ratio	59 %	61 %	62 %	63 %



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4. Critical accounting estimates and judgements

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

a) Estimates concerning property, plant and equipment

I) Useful lives of property, plant and equipment

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

II) Recoverable amount of property, plant and equipment

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

III) Revaluation

Revaluation for part of the Group's and the Parent Company's property, plant and equipment are performed by independent, external and certified valuers by applying the depreciated replacement cost model or income method. Valuation has been performed according to international standards on property valuation, based on current use of property, plant and equipment that is estimated as the most effective and best use of these assets. As a result of valuation, depreciated replacement cost was determined for each asset. Depreciated replacement cost is the difference between the cost of replacement or renewal of similar asset at the time of revaluation and the accumulated loss of an asset's value that encompasses physical deterioration, functional (technological) obsolescence and economic (external) obsolescence. Physical depreciation was determined proportionally to the age of the property, plant and equipment item. In assessment for property, plant and equipment items for which a reconstruction is planned in the near future additional functional depreciation was assessed. Remaining useful lives of property, plant and equipment items after revaluation were estimated according to estimated total depreciation.

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

For detailed most recent revaluation results see Note 14 c.

b) Impairment of financial assets

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

- non-current and current loans to related parties (the Parent Company)
- other non-current receivables
- other financial investments
- receivables from contracts with customers
- other current receivables
- cash and cash equivalents.

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

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

Using the portfolio model the Group and the Parent Company apply the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for trade receivables of basic business activities (electricity, natural gas and heat and supporting services sales, IT and telecommunication services sales). To measure expected credit losses these receivables have been grouped based on shared credit risk characteristics and the days past due. The Group and the Parent Company therefore have concluded that the expected loss rates for these receivables are a reasonable approximation of the credit risk exposure. The expected loss rates are based on the payment profiles of sales over a period of 3 years and the corresponding historical credit losses experienced within this period. 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 Group and the Parent Company have assumed that macroeconomic factors, such as GDP or the unemployment rates in Latvia have insignificant impact on expected credit loss as macroeconomic projections foresee stable outlook of these indicators.

Counterparty model is used on individual contract basis for non-current and current loans to subsidiaries, other financial investments and cash and cash equivalents. If no significant increase in credit risk is identified, the expected credit losses according to this model are based on assessment of the individual counterparty's or counterparty's industry risk of default and recovery rate assigned by *Moody's* credit rating agency for 12 months expected losses rates. The circumstances indicating a significant increase in credit risk is significant increase in *Moody's* default and recovery rates (by 1 percentage point) and 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.

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

All of the Group's and the Parent Company's other financial investments measured at amortised cost (investments in State Treasury bonds) do not have significant increase in credit risk and are considered to have low credit risk (*Moody's* credit rating – A3) and are in Level 1, the loss allowance therefore was immaterial and wasn't recognised.

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial, considering also 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

I) Recognition of mandatory procurement PSO fees

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

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

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

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

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

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

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

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

Income from connection and other income for reconstruction of distribution system assets on demand of clients are deferred as an ongoing service is identified as part of agreement to provide distribution

system services with customers and accounted as deferred income (contract liabilities) from contracts with customers under IFRS 15 (see Note 6 and 28). Connection fees are recognised as income over the estimated customer relationship period. Based on Management estimate, 20 years is the estimated customer relationship period, which is estimated as period after which requested power output for connection object could significantly change due to technological reasons.

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

d) Recognition and reassessment of provisions

As of 31 December 2019, the Group had set up provisions for environmental protection, post-employment benefits and termination benefits totalling EUR 20.1 million (31/12/2018: EUR 21.0 million) and the Parent Company in amount of EUR 9.0 million (31/12/2019: EUR 9.0 million) (Note 27). The amount and timing of the settlement of these obligations is uncertain. A number of assumptions and estimates have been used to determine the present value of provisions, including the amount of future expenditure, inflation rates, and the timing of settlement of the expenditure. The actual expenditure may also differ from the provisions recognised as a result of possible changes in legislative norms, technology available in the future to restore environmental damages, and expenditure covered by third parties. For revaluation of provisions for post-employment obligations probabilities of retirement in different employees' aging groups as well as variable demographic factors and financial factors (including expected remuneration increase and determined changes in benefit amounts) have been estimated. The probabilities and other factors are determined on the basis of previous experience. According to defined development directions per Strategy of Latvenergo Group for the period 2017–2022, management of the Parent Company approved the Strategic Development and Efficiency Programme. Provisions for employees' termination benefits are recognised on a basis of Strategic Development and Efficiency Programme of Latvenergo Group for the period in which it is planned to implement the efficiency program (including Latvenergo AS and Sadales tīkls AS efficiency activities), by which it is intended to reduce gradually the number of employees by the year 2022. The key assumptions made to determine the amount of provisions are provided in Note 27.

e) Evaluation of effectiveness of hedging instruments

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

f) 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 lessee.

The Group has entered into the lease agreement as a lessor with licenced transmission system operator



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for the lease of transmission system network infrastructure and land, buildings and facilities related to this infrastructure till the end of 2019. At the end of lease agreement, the parties may review terms of the agreement. By the end of 2019 no amendments to the lease agreement had been received and under the terms of the contract - if the parties do not agree on a new lease agreement, the existing agreement is prolonged for further 5 years subject to transmission system operator having a valid licence for electricity transmission. Based on an evaluation of the terms of the agreement, such as rights of the ownership is not transferred as determined by Energy Law of the Republic of Latvia, the lessor retains all the significant risks and rewards of ownership of these assets, the Group accounts this agreement as operating lease till the adoption of IFRS 16. In making the judgement on lease classification management assessed the criteria included in IAS 17 'Leases' / IFRS 16 'Leases' and considered the following circumstances:

- The lease does not transfer ownership of the assets at the end of the lease term,
- The lessee has no option to purchase the assets at a price sufficiently lower than the fair value,
- The Group is entitled to lease payments ensuring the rate of return on assets approved by Public Utilities Commission (PUC) and bears risks and rewards related to ownership and the changes in the fair value of the leased assets,
- The lease agreement could be prolonged up to 2025, until when transmission system operator has valid licence for electricity transmission. The lease term does not cover the major part of the economic life of leased assets,
- The lease payments are determined by methodology for transmission system services approved by PUC, considering the rate of return on assets approved by PUC and the lease payments during the predictable lease term do not amount to substantially all of the estimated fair value of the leased assets,
- The assets can only be operated by a lessee holding the licence for electricity transmission. In accordance with the effective legislation, the Group cannot obtain the licence itself. Thus, periods after 2025 need not to be taken into account when assessing the substance of the current lease agreement. Carrying amount of leased assets (property, plant and equipment) as of 31 December 2019 is disclosed in Note 30.

g) Recognition of connection service fees to transmission system (IFRS 16 / IAS 17)

Connection fees to transmission system are recognised as income over the estimated lease period. The estimated lease period is based on the Management estimate.

Income from connection to transmission system and other service fees is deferred as an ongoing service is identified as part of the agreement with the lessee. Operating lease agreement term is 5 years, the period over which revenue from connection fees is recognised is longer, as it is reasonably certain that assets, whose costs are partly reimbursed by connection fees will be leased for a longer period than defined original lease term.

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

In October 2017, the Parent Company applied for a one-off compensation from the state, at the same time opting out of the receipt of 75% of the guaranteed annual payments for installed electrical capacity in combined heat and power plant CHPP-1 and CHPP-2. The one-off compensation was calculated as 75% of the discounted future guaranteed payments for installed electrical capacity. On 21 November 2017, the

Cabinet of Ministers of the Republic of Latvia accepted an order on one-off compensation to Latvenergo AS on guaranteed support for the installed capacity of cogeneration power plants, therefore the Parent Company obtained a government grant in the amount of EUR 454,413 thousand.

The grant was divided into two parts and recognised in accordance with accounting policy stated in Note 28:

- an unconditional grant in amount of EUR 140,000 thousand recognised as 'Other income' in the Group's and the Parent Company's statement of profit or loss in 2017
- a conditional grant in amount of EUR 314,413 thousand recognised as deferred income in the Group's and the Parent Company's statement of financial position and to be allocated to income on a straight-line basis until fulfilling obligation till the end of the support period – 23 September 2028.

The decision on settlement of one-off compensation was made separately. Following the order No. 685 of the Cabinet of Ministers of the Republic of Latvia on 28 November 2017 a trilateral agreement was concluded between Republic of Latvia (represented by Ministry of Economics), the Parent Company and its subsidiary Enerģijas publiskais tirgotājs AS (public trader) on settlement of the one-off compensation. Accordingly, public trader recognised receivable from state for one-off compensation in the amount of EUR 454,413 thousand. This balance was recognised as government grant receivable in Group financial statements. For Enerģijas publiskais tirgotājs AS to ensure financing of compensation, the Parent Company concluded agreement on loan issue in amount equal to the grant receivable.

On 20 March 2018 decreased share capital of the Parent Company in amount of EUR 454,413 thousand (Note 20).

On 26 March 2018, in accordance with the trilateral agreement, the Parent Company settled its liability towards Ministry of Economics for the capital release by netting off the balance with the respective grant receivable from the state and netted balances with public trader on the same date.

On 26 September 2018, the Cabinet of Ministers decided to change conditions for a part of the grant in the amount of EUR 51,700 thousand stipulating it as unconditional, by reducing the remaining part of the grant proportionally to this amount until the end of the support period. As a result, of this and the previous order, EUR 23,990 thousand were recognised as 'Other income' in the Group's and Parent Company's statement of profit or loss in 2019 (2018: EUR 81,004 thousand) (Note 7). Consequently, EUR 209,419 thousand remained recognised as deferred income as of 31 December 2019 (31 December 2018: EUR 233,409 thousand) and to be allocated to income on a straight-line basis until fulfilling obligation till the end of the support period – 23 September 2028.

i) Deferred tax recognition

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

5. Operating segment information

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

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

The Group divides its operations into three main operating segments – generation and trade, distribution and lease of transmission system assets. The Parent Company divides its operations into one main operating segment – generation and trade.

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

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

Generation and trade comprises the Group's electricity and thermal energy generation operations, which are organised into the legal entities: Latvenergo AS and Liepājas enerģija SIA; electricity and natural gas trade (including electricity and natural gas wholesale) in the Baltics carried out by Latvenergo AS, Elektrum Eesti OÜ and Elektrum Lietuva UAB, as well as administration of the mandatory procurement process provided by Enerģijas publiskais tirgotājs AS.

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

The operations of the lease of transmission system assets operating segment is managed by Latvijas elektriskie tīkli AS – the owner of transmission system assets (330 kV and 110 kV transmission lines, substations and distribution points), which provides financing of investments in these assets.

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

	Group							Parent Company				
	Generation and trade	Distribution	Lease of transmission system assets*	Corporate functions	TOTAL segments	Adjustments and eliminations	TOTAL Group	Generation and trade	Corporate functions	TOTAL segments	Adjustments and eliminations	TOTAL Parent Company
EUR'000												
2019												
Revenue												
External customers	516,626	318,105	36,643	6,905	878,279	–	878,279	395,727	41,802	437,529	–	437,529
Inter-segment	1,315	1,611	3,387	45,739	52,052	(52,052)	–	767	22,520	23,287	(23,287)	–
TOTAL revenue	517,941	319,716	40,030	52,644	930,331	(52,052)	878,279	396,494	64,322	460,816	(23,287)	437,529
Results												
EBITDA	103,347	125,093	39,798	12,729	280,967	–	280,967	92,550	20,101	112,651	–	112,651
Depreciation, amortisation and impairment of intangible assets, PPE and right-of-use assets	(56,485)	(75,276)	(24,756)	(11,400)	(167,917)	–	(167,917)	(53,196)	(14,347)	(67,543)	–	(67,543)
Segment profit before tax	46,862	49,817	15,042	1,329	113,050	(8,293)	104,757	39,354	5,754	45,108	56,119	101,227
Segment assets at the end of the year	1,346,937	1,681,422	642,151	87,966	3,758,476	106,465	3,864,941	1,197,434	168,915	1,366,349	1,770,609	3,136,958
Segment liabilities at the end of the year	275,638	189,399	179,576	12,018	656,631	942,824	1,599,455	273,037	12,936	285,973	901,698	1,187,671
Capital expenditure	32,823	95,139	87,406	14,763	230,131	(704)	229,427	31,484	16,785	48,269	–	48,269
2018												
Revenue												
External customers	510,434	321,232	39,203	7,139	878,008	–	878,008	386,510	48,689	435,199	–	435,199
Inter-segment	1,390	1,730	2,991	45,451	51,562	(51,562)	–	459	22,366	22,825	(22,825)	–
TOTAL revenue	511,824	322,962	42,194	52,590	929,570	(51,562)	878,008	386,969	71,055	458,024	(22,825)	435,199
Results												
EBITDA	146,552	119,791	41,456	13,783	321,582	–	321,582	134,040	26,887	160,927	–	160,927
Depreciation, amortisation and impairment of intangible assets, PPE and right-of-use assets	(110,490)	(77,432)	(25,856)	(12,042)	(225,820)	–	(225,820)	(107,397)	(19,727)	(127,124)	–	(127,124)
Segment profit before tax	36,062	42,359	15,600	1,741	95,762	(7,249)	88,513	26,643	7,160	33,803	178,957	212,760
Segment assets at the end of the year	1,329,274	1,669,710	579,327	86,350	3,664,661	134,158	3,798,819	1,212,681	161,577	1,374,258	1,766,851	3,141,109
Segment liabilities at the end of the year	295,168	192,016	95,123	6,535	588,842	889,912	1,478,754	298,328	7,882	306,210	841,076	1,147,286
Capital expenditure	28,909	95,117	87,136	12,411	223,573	(2,966)	220,607	26,921	14,429	41,350	–	41,350

* In the financial statements operating segment of lease of transmission system assets is classified as discontinued operation (Note 30)



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

EUR'000

	Group					Parent Company				
	Generation and trade*	Distribution	Lease of transmission system assets*	Corporate Functions	TOTAL segments	TOTAL Group	Generation and trade	Corporate Functions	TOTAL segments	TOTAL Parent Company
2019										
Revenue from contracts with customers recognised over time:										
Trade of energy and related supply services	440,435	3,063	–	–	443,498	443,498	332,486	–	332,486	332,486
Distribution system services	1	299,332	–	–	299,333	299,333	–	–	–	–
Heat sales	68,148	75	–	12	68,235	68,235	56,842	12	56,854	56,854
Other revenue	8,042	15,532	–	5,731	29,305	29,305	6,399	31,826	38,225	38,225
TOTAL revenue from contracts with customers	516,626	318,002	–	5,743	840,371	840,371	395,727	31,838	427,565	427,565
Other revenue:										
Lease of transmission system assets	–	–	36,116	–	36,116	36,116	–	–	–	–
Lease of other assets	–	103	–	1,162	1,265	1,265	–	9,964	9,964	9,964
Other revenue	–	–	527	–	527	527	–	–	–	–
TOTAL other revenue	–	103	36,643	1,162	37,908	37,908	–	9,964	9,964	9,964
TOTAL revenue, including	516,626	318,105	36,643	6,905	878,279	878,279	395,727	41,802	437,529	437,529
– Latvia	339,153	318,091	36,643	6,565	700,452	700,452	322,141	40,509	362,650	362,650
– Outside Latvia	177,473	14	–	340	177,827	177,827	73,586	1,293	74,879	74,879
2018										
Revenue from contracts with customers recognised over time:										
Trade of energy and related supply services	422 673	3 045	–	–	425 718	425 718	312 994	–	312 994	312 994
Distribution system services	1	303 438	–	–	303 439	303 439	–	–	–	–
Heat sales	78 489	86	–	5	78 580	78 580	66 258	5	66 263	66 263
Other revenue	9 271	14 548	–	5 681	29 500	29 500	7 258	32 697	39 955	39 955
TOTAL revenue from contracts with customers	510 434	321 117	–	5 686	837 237	837 237	386 510	32 702	419 212	419 212
Other revenue:										
Lease of transmission system assets	–	–	38 699	–	38 699	38 699	–	–	–	–
Lease of other assets	–	115	–	1 453	1 568	1 568	–	15 987	15 987	15 987
Other revenue	–	–	504	–	504	504	–	–	–	–
TOTAL other revenue	–	115	39 203	1 453	40,771	40,771	–	15 987	15 987	15 987
TOTAL revenue	510 434	321 232	39 203	7 139	878 008	878 008	386 510	48 689	435 199	435 199
– Latvia	331 617	321 232	39 203	6 790	698 842	698 842	311 921	47 395	359 316	359 316
– Outside Latvia	178 817	–	–	349	179 166	179 166	74 589	1 294	75 883	75 883

* In the financial statements operating segment of lease of transmission system assets is classified as discontinued operation (Note 30)



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Adjustments and eliminations

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

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

Reconciliation of profit before tax

EUR'000

	Notes	Group		Parent Company	
		2019	2018	2019	2018
EBITDA		280,967	321,582	112,651	160,927
Amortisation, depreciation and intangible assets and PPE impairment loss		(167,917)	(225,820)	(67,543)	(127,124)
Segment profit before tax		113,050	95,762	45,108	33,803
Finance income	11	1,187	1,157	12,995	11,446
Finance costs	11	(9,480)	(8,406)	(11,734)	(10,135)
Dividends received from subsidiaries	16	–	–	54,858	177,646
Profit before tax		104,757	88,513	101,227	212,760

Reconciliation of assets

EUR'000

	Notes	Group		Parent Company	
		31/12/2019	31/12/2018	31/12/2019	31/12/2018
Segment operating assets		3,758,476	3,664,661	1,366,349	1,374,258
Connection usage rights		(39,739)	(39,744)	–	–
Non-current financial investments	16	39	40	831,350	830,542
Loans to related parties	29 e	–	–	794,256	765,815
Other financial investments	22	16,885	16,935	16,885	16,935
Derivative financial instruments	24	6,717	15,853	6,717	15,853
Prepayment for income and other taxes		141	11,619	140	10,152
Cash and cash equivalents	19	122,422	129,455	121,261	127,554
TOTAL assets		3,864,941	3,798,819	3,136,958	3,141,109

Reconciliation of liabilities

EUR'000

	Notes	Group		Parent Company	
		31/12/2019	31/12/2018	31/12/2019	31/12/2018
Segment operating liabilities		656,631	588,842	285,973	306,210
Deferred income tax liabilities	12	8,327	12,297	–	–
Current corporate income tax liabilities		2	2	–	–
Borrowings	23	882,671	814,343	872,899	802,268
Derivative financial instruments	24	13,132	10,204	13,132	10,204
Provisions and other payables		38,692	53,066	15,667	28,604
TOTAL liabilities		1,599,455	1,478,754	1,187,671	1,147,286

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

Revenue from major customer in 2019 for the Group amounted to EUR 58,161 thousand and for the Parent Company EUR 58,161 thousand (2018: EUR 66,454 thousand and 66,454 thousand) arising from sales by the generation and trade segment.

6. Revenue

Accounting policy

Revenue from contracts with customers (IFRS 15)

Revenue from contracts with customers in scope for IFRS 15 encompasses sold goods or services provided as output of the entity's ordinary activities. The Group and Parent Company use the following criteria to identify contracts with customers:

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

In evaluating whether collectability of an amount of consideration is probable, the Group and the Parent Company use portfolio approach practical expedient for all energy and related supply services, distribution system services and heat sales customers. Group and the Parent Company reasonably 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. Collectability is assessed individually for other customers.

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

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

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

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

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

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



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

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

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

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

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

I) Revenue recognised over time

Trade of energy and related supply services

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

Sales of distribution system services (the Group)

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

Heat sales

Revenue from sales of thermal energy is recognised at the end of each month based on the meter readings and corresponds to the invoiced amount.

Sales of IT & telecommunication services

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

	IFRS or IAS applied	Group		Parent Company	
		2019	2018	2019	2018
Revenue from contracts with customers recognised over time:					
Trade of energy and related supply services	15. SFPS	443,498	425,718	332,486	312,994
Distribution system services	15. SFPS	299,333	303,439	–	–
Heat sales	15. SFPS	68,235	78,580	56,854	66,263
Other revenue	15. SFPS	29,305	29,500	38,225	39,955
TOTAL revenue from contracts with customers		840,371	837,237	427,565	419,212
Other revenue:					
Lease of other assets	16. SFPS / 17. SGS	1,265	1,568	9,964	15,987
TOTAL other revenue		1,265	1,568	9,964	15,987
TOTAL revenue		841,636	838,805	437,529	435,199

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

	Group		Parent Company	
	2019	2018	2019	2018
Latvia	662,544	658,071	352,686	343,329
Outside Latvia	177,827	179,166	74,879	75,883
TOTAL revenue from contracts with customers	840,371	837,237	427,565	419,212



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Accounting policy

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

Mandatory procurement PSO fees

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

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

Distribution system and transmission system services (Parent Company)

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

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

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

	Group		Parent Company	
	2019	2018	2019	2018
Mandatory procurement PSO fees	88,082	98,459	90,605	101,852
Distribution system services	11,181	10,576	198,092	208,304
Transmission system services	1,557	1,562	1,596	1,613
TOTAL revenue recognised applying agent accounting principle	100,820	110,597	290,293	311,769

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

Accounting policy

Revenue from contracts with customers

Connection fees to distribution system (the Group)

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

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

Revenue from other sources

Lease of transmission system assets (IFRS 16) (Group, discontinued operation (Note 30)). Revenues from lease of transmission system assets are recognised on the basis of lease payment amount which are calculated for transmission system operator accordingly to determined fee per lease agreement and recognised on a straight-line basis over term of the lease. Concluded agreements on the lease of transmission system assets meet IFRS 16 'Leases' criteria that is used for revenue recognition from lease.

Connection fees to transmission system (IFRS 16) (Group, discontinued operation (Note 30)).

Revenue from connection fees to transmission system are received as upfront payments from lessee under lease agreement and are carried in the Statement of Financial Position as deferred income and amortised to Statement of Profit or Loss on a straight-line over basis estimated lease period (Note 4 g).

Electricity connection fees to transmission system are recognised by the Group based on the necessity for a connection to the transmission network based on the request of lessee, which acts on behalf of users. For each connection fee a separate arrangement within the base lease agreement is concluded. Connection fee to transmission system partly reimburses the cost of infrastructure to be built and is needed for connection of transmission system user to the network. Connection service fee to transmission system is calculated in accordance with Latvian regulatory authority (Public Utilities Commission) stated methodology.

Until 31 December 2018, the Group applied IAS 17 'Leases' for the recognition of abovementioned revenues. Revenue recognition principles have not changed upon implementation of IFRS 16.

The Group has recognised the following deferred income from contracts with customers:

	Koncerns	
	31/12/2019	31/12/2018
Non-current deferred income from connection fees (Note 28 I, a)	142,453	143,494
Current deferred income from connection fees (Note 28 II, a)	13,629	12,984
Non-current other deferred income (Note 28 I, a)	877	–
Current other deferred income (Note 28 II, a)	135	287
TOTAL liabilities	157,094	156,765

Movement in deferred connection fees from contracts with customers for the Group (non-current and current part):

	Koncerns	
	2019	2018
At the beginning of the year	156,765	154,632
Received connection fees for connection to distribution system (Note 28)	12,902	14,725
Received advance payments for contracts with customers (Note 28)	940	–
Credited to the Statement of Profit or Loss	(13,513)	(12,592)
At the end of the year	157,094	156,765



7. Other income

EUR'000

	Group		Parent Company	
	2019	2018	2019	2018
Compensation from the state on state support for the installed capacity of CHPPs (Note 4 h)	23,990	81,004	23,990	81,004
Fines and penalties	(175)	7,357	(1,135)	5,812
Net gain on disposal of assets held for sale and property, plant and equipment	398	–	378	–
Net gain from sale of assets held for sale and PPE	(20)	1,051	–	3,763
Net gain from sale of current assets	–	12	–	2
Compensations and insurance claims	745	551	232	279
Other operating income	925	1,123	93	321
TOTAL other income	25,863	91,098	23,558	91,181

8. Raw materials and consumables used

EUR'000

	Group		Parent Company	
	2019	2018	2019	2018
Electricity				
Purchased electricity	168,699	196,660	56,701	78,747
Loss on fair value changes on electricity forwards and futures (Note 24 l)	2,326	417	2,326	417
Electricity transmission services costs (Note 29 a)	71,552	71,368	1,015	1,015
	242,577	268,445	60,042	80,179
Natural gas and other energy resources costs	205,905	197,485	199,027	190,139
Gains on fair value changes on natural gas forwards (Note 24 l)	(2,033)	–	(2,033)	–
Raw materials, spare parts and maintenance costs	31,211	31,218	14,033	14,274
TOTAL raw materials and consumables used	477,660	497,148	271,069	284,592

9. Personnel expenses

EUR'000

	Group		Parent Company	
	2019	2018	2019	2018
Wages and salaries	77,075	73,220	34,081	31,164
State social insurance contributions	18,370	17,613	8,152	7,448
Expenditure of employment termination	(265)	6,070	162	1,199
Pension costs – defined contribution plan	2,066	2,249	919	893
Other benefits defined in the Collective Agreement	1,108	1,191	420	426
Life insurance costs	3,161	3,180	1,326	1,289
Capitalised personnel expenses	(166)	(164)	(21)	(23)
TOTAL personnel expenses, including remuneration to the management	101,349	103,359	45,039	42,396
Including remuneration to the management:				
Wages and salaries	2,183	1,992	763	769
State social insurance contributions	513	499	183	186
Expenditure of employment termination	–	75	–	75
Pension costs – defined contribution plan	11	24	6	4
Life insurance costs	21	31	4	7
TOTAL remuneration to the management*	2,728	2,621	956	1,041

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

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

Number of employees

	Group		Parent Company	
	2019	2018	2019	2018
Number of employees at the end of the year	3,423	3,508	1,328	1,355
Average number of employees during the year	3,476	3,617	1,342	1,387

10. Other operating expenses

EUR'000

	Group		Parent Company	
	2019	2018	2019	2018
Selling expenses and customer services	5,360	6,154	3,937	4,788
Information technology maintenance	5,336	5,115	4,963	4,771
Transportation expenses	5,592	6,411	1,833	2,164
Environment protection and work safety	7,658	7,836	6,799	8,125
Real estate maintenance and utilities expenses	5,129	5,582	5,401	6,372
Lease of real estate and fixed assets	165	1,618	450	1,149
Telecommunications services	1,964	2,047	2,150	2,275
Real estate tax	961	1,095	1,061	1,083
Public utilities regulation fee	1,860	1,906	893	932
Audit fee*	93	93	45	45
Changes in impairment losses on financial assets, net	(1,495)	(503)	(1,245)	(236)
Net losses from sale of assets held for sale and PPE	4,515	–	319	–
Other expenses	7,826	10,105	5,722	6,997
TOTAL other operating expenses	44,964	47,449	32,328	38,465

* audit fee consists from audit of the Group's entities financial statements in the amount of EUR 93 thousand; Parent Company - EUR 41 thousand (2018: EUR 93 thousand; Parent Company - EUR 41 thousand), audit of The Group's Sustainability report and financial covenants - EUR 4 thousand (2018: EUR 4 thousand), while Latvijas elektriskie tīkli AS audit fee in the amount of EUR 7 thousand (2018: EUR 7 thousand) included per expenses of discontinued operation (Note 30). In addition to audit services, in 2019 auditors also provided other services, the costs of which are included in the position 'Other expenses'; for the Group in the amount of EUR 8 thousand, Parent Company – EUR 7 thousand.

11. Finance income and costs

EUR'000

	Group		Parent Company	
	2019	2018	2019	2018
Finance income:				
Interest income	1,088	1,113	1,086	1,113
Interest income on loans to subsidiaries	–	–	11,811	10,289
Net gain on issued debt securities (bonds)	44	44	44	44
Net gain on currency exchange rate fluctuations	55	–	54	–
TOTAL finance income	1,187	1,157	12,995	11,446
Finance costs:				
Interest expense on borrowings	6,776	6,276	9,077	8,029
Interest expense on issued debt securities (bonds)	2,880	2,880	2,880	2,880
Interest expense on assets lease	96	–	57	–
Capitalised borrowing costs	(423)	(889)	(423)	(889)
Net losses on redemption of other financial investments	49	49	49	49
Net losses on currency exchange rate fluctuations	–	2	–	2
Other finance costs	102	88	94	64
TOTAL finance costs	9,480	8,406	11,734	10,135

12. Income tax

Accounting policy

Corporate income tax

Latvia

Corporate income tax is paid on distributed profits which has been generated as of 1 January 2018 and not previously taxed (less dividends received from subsidiaries), and deemed profit distributions. Corporate income tax is paid on distributed profits and deemed profit distributions. Consequently, current and deferred tax assets and liabilities are measured at the tax rate applicable to undistributed profits. Both distributed profits and deemed profit distributions are subject to the tax rate of 20% of their gross amount, or 20/80 of net expense. Corporate income tax on dividends is recognised in the statement of profit or loss as expense in the reporting period when respective dividends are declared, while, as regards other deemed profit distribution items, at the time when expense is incurred in the reporting year.

Lithuania

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

Estonia

Under the Income Tax Act, the annual profit earned by entities is not taxed in Estonia. Corporate income tax is paid on dividends, fringe benefits, gifts, donations, representation costs, non-business related disbursements and transfer

pricing adjustments. The tax rate on the net dividends paid out of retained earnings is 20/80. Since 2019, it is possible to apply a tax rate of 14/86 to dividend payments. This more favorable tax rate can be used for dividend payments up to the average dividend payout of the previous three financial years, taxed 20/80 rate. In calculating the average dividend payment for the three preceding financial years, 2018 was the first year to be considered. The corporate income tax arising from the payment of dividends is accounted for as a liability and expense in the period in which dividends are declared, regardless of the actual payment date or the period for which the dividends are paid.

Deferred income tax

Latvia and Estonia

Deferred tax liabilities are recognised in the consolidated financial statements on undistributed profits of the subsidiaries (in Latvia for the profits which has been generated as of 1 January 2018) and which will be subject to taxation upon distribution in foreseeable future. No other deferred tax assets and liabilities are recognised.

Lithuania

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

EUR'000

	Group		Parent Company	
	2019	2018	2019	2018
Current income tax for the year	8,565	261	–	27
Deferred income tax changes	(620)	8,948	–	–
TOTAL income tax	7,945	9,209	–	27

13. Intangible assets

a) Intangible assets

Accounting policy

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

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

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

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



	Group					Parent Company				
	Usage rights and licences	Greenhouse gas emission allowances	Software	Assets under development	TOTAL	Usage rights and licences	Greenhouse gas emission allowances	Software	Assets under development	TOTAL
As of 31 December 2017										
Cost	225	–	49,635	96	49,956	6,305	–	46,969	41	53,315
Accumulated amortisation	–	–	(36,543)	–	(36,543)	–	–	(35,854)	–	(35,854)
Net book amount	225	–	13,092	96	13,413	6,305	–	11,115	41	17,461
2018										
Additions	–	17,789	2,641	88	20,518	–	17,789	2,439	124	20,352
Transfers	(80)	–	–	–	(80)	(525)	–	(26)	–	(551)
Disposals	–	(11,066)	–	–	(11,066)	–	(11,066)	–	–	(11,066)
Amortisation charge	–	–	(3,706)	–	(3,706)	–	–	(3,383)	–	(3,383)
Closing net book amount	145	6,723	12,027	184	19,079	5,780	6,723	10,145	165	22,813
As of 31 December 2018										
Cost	145	6,723	48,135	184	55,187	5,780	6,723	45,242	165	57,910
Accumulated amortisation	–	–	(36,108)	–	(36,108)	–	–	(35,097)	–	(35,097)
Net book amount	145	6,723	12,027	184	19,079	5,780	6,723	10,145	165	22,813
2019										
Additions	–	25,607	–	2,348	27,955	–	25,607	–	2,233	27,840
Transfers	–	–	2,384	(2,384)	–	1	–	2,249	(2,250)	–
Disposals	(13)	(21,306)	–	–	(21,316)	(458)	(21,306)	–	–	(21,764)
Amortisation charge	–	–	(3,128)	–	(3,128)	–	–	(2,778)	–	(2,778)
Closing net book amount	132	11,024	11,283	148	22,587	5,323	11,024	9,616	148	26,111
As of 31 December 2019										
Cost	132	11,024	50,494	148	61,798	5,323	11,024	47,467	148	63,962
Accumulated amortisation	–	–	(39,211)	–	(39,211)	–	–	(37,851)	–	(37,851)
Net book amount	132	11,024	11,283	148	22,587	5,323	11,024	9,616	148	26,111

b) Greenhouse gas emission allowances:

Accounting policy

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

	Group		Parent Company	
	2019	2018	2019	2018
	Number of allowances	Number of allowances	Number of allowances	Number of allowances
At the beginning of the year	1,805,556	1,062,060	1,661,313	841,651
Allowances allocated free of charge*	218,345	265,465	205,721	250,091
Purchased allowances	1,040,552	1,425,000	1,035,000	1,425,000
Written off verified allowances	(1,229,089)	(874,969)	(1,213,122)	(855,429)
Sold allowances	(51,000)	(72,000)	–	–
At the end of the year	1,784,364	1,805,556	1,688,912	1,661,313
including estimated allowances used during the reporting year (unverified)	(1,219,149)	(1,213,122)	(1,219,149)	(1,213,122)
Allowances available at the end of the year	565,215	592,434	469,763	448,191

* The number of allowances received by the Group and the Parent Company from the Government free of charge, in accordance with the law "On Pollution" and Directives of the Ministry of Environmental Protection and Regional Development of the Republic of Latvia. Therefore, their carrying amount as of 31 December 2019 was nil (31/12/2018: nil). Received European Union Allowances (EUA) must be used until the end of 2020.



14. Property, plant and equipment

a) Property, plant and equipment

Accounting policy

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

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

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

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

Type of property, plant and equipment (PPE)	Estimated useful life, years
Buildings and facilities	15 – 100
Assets of Hydropower plants:	
• hydropower plants' buildings and facilities,	25 – 100
• hydropower plants' technology equipment and machinery	10 – 40
Transmission system electrical lines and electrical equipment:	
• electricity transmission lines	20 – 50
• electrical equipment of transformer substations	12 – 40
Distribution system electrical lines and electrical equipment:	
• electricity distribution lines	30 – 50
• electrical equipment of transformer substations	30 – 35
Technology equipment and machinery	3 – 40
Other property, plant and equipment	2 – 25

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

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

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

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



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

EUR'000

	Group								Parent Company					
	Land, buildings and facilities	Assets of Hydro Power Plant	Distribution system electrical lines and electrical equipment	Transmission system electrical lines and electrical equipment	Technology equipment and machinery	Other PPE	Assets under construction	Property, plant and equipment TOTAL	Land, buildings and facilities	Assets of Hydro Power Plant	Technology equipment and machinery	Other PPE	Assets under construction	Property, plant and equipment TOTAL
As of 31 December 2017														
Cost or valuation	479,605	2,014,626	2,857,242	926,403	640,568	161,992	228,748	7,309,184	345,246	2,014,626	615,648	135,708	138,718	3,249,946
Accumulated depreciation and impairment	(149,415)	(1,292,017)	(1,378,732)	(540,464)	(521,801)	(112,593)	(5,177)	(4,000,199)	(105,407)	(1,292,017)	(512,259)	(103,754)	(5,055)	(2,018,492)
Net book amount	330,190	722,609	1,478,510	385,939	118,767	49,399	223,571	3,308,985	239,839	722,609	103,389	31,954	133,663	1,231,454
Year ended 31 December 2018														
Additions	–	–	–	–	–	–	217,389	217,389	–	–	–	–	38,300	38,300
Invested in share capital (Note 20)	469	–	20	–	–	–	–	489	469	–	20	–	–	489
Transfers	8,615	90,796	89,681	33,687	1,143	14,368	(238,290)	–	8,075	90,796	1,133	6,570	(106,574)	–
Reclassified to investment property	(44)	–	–	–	–	–	–	(44)	(2,374)	–	–	–	–	(2,374)
Disposals	(931)	(36)	(4,904)	(841)	(709)	(90)	(101)	(7,612)	(2,158)	(36)	(1,279)	(10,442)	(95)	(14,010)
Impairment charge	146	–	–	–	(33,400)	–	(187)	(33,441)	146	–	(33,400)	–	–	(33,254)
Depreciation	(15,959)	(24,859)	(65,638)	(24,615)	(42,807)	(14,795)	–	(188,673)	(10,231)	(24,859)	(41,336)	(10,293)	–	(86,719)
Closing net book amount as of 31 December 2018	322,486	788,510	1,497,669	394,170	42,994	48,882	202,382	3,297,093	233,766	788,510	28,527	17,789	65,294	1,133,886
As of 31 December 2018														
Cost or valuation	485,098	2,055,572	2,889,265	933,079	637,706	147,744	207,746	7,356,210	349,581	2,055,572	612,253	103,877	70,349	3,191,632
Accumulated depreciation and impairment	(162,612)	(1,267,062)	(1,391,596)	(538,909)	(594,712)	(98,862)	(5,364)	(4,059,117)	(115,815)	(1,267,062)	(583,726)	(86,088)	(5,055)	(2,057,746)
Net book amount	322,486	788,510	1,497,669	394,170	42,994	48,882	202,382	3,297,093	233,766	788,510	28,527	17,789	65,294	1,133,886
2019														
Additions	–	–	–	–	–	–	226,986	226,986	–	–	–	–	45,941	45,941
Invested in share capital (Note 20)	87	–	–	–	5	–	–	92	87	–	–	–	–	92
Transfers	10,111	20,332	84,723	141,808	5,465	17,315	(279,754)	–	3,048	20,332	5,373	8,638	(37,391)	–
Reclassified to investment property	(135)	–	–	–	–	–	–	(135)	304	–	–	–	(2,243)	(1,939)
Reclassified to non-current assets for sale	–	–	–	–	–	(146)	–	(146)	–	–	–	–	–	–
Disposals	(441)	(1)	(5,154)	(224)	(323)	(42)	(56)	(6,241)	(6,057)	(1)	(307)	(154)	(457)	(6,976)
Reversed impairment charge	288	–	–	–	19,475	–	7	19,770	288	–	19,475	–	–	19,763
Depreciation	(15,154)	(25,864)	(65,465)	(23,439)	(40,630)	(12,747)	–	(183,299)	(10,118)	(25,864)	(39,067)	(6,717)	–	(81,766)
Assets attributable to the discontinuing operation (Note 30)	(33,538)	–	–	(512,315)	–	(202)	(55,120)	(601,175)	–	–	–	–	–	–
Closing net book amount as of 31 December 2019	283,704	782,977	1,511,773	–	26,986	53,060	94,445	2,752,945	221,318	782,977	14,006	19,556	71,144	1,109,001
As of 31 December 2019														
Cost or valuation	456,257	2,050,409	2,921,846	–	637,869	157,052	99,802	6,323,235	341,761	2,050,409	612,341	105,335	76,199	3,186,045
Accumulated depreciation and impairment	(172,553)	(1,267,432)	(1,410,073)	–	(610,883)	(103,992)	(5,357)	(3,570,290)	(120,443)	(1,267,432)	(598,335)	(85,779)	(5,055)	(2,077,044)
Net book amount	283,704	782,977	1,511,773	–	26,986	53,060	94,445	2,752,945	221,318	782,977	14,006	19,556	71,144	1,109,001

Impairment charge or reversed charge is included in the Statement of Profit or Loss under 'Depreciation, amortisation and impairment of intangible assets and property, plant and equipment'.

As of 31 December 2019, cost of fully depreciated PPE which are still in use for the Group amounted to EUR 545,956 thousand (31/12/2018: EUR 312,028 thousand) and for the Parent Company amounted to EUR 313,243 thousand (31/12/2018: EUR 241,396 thousand).

In 2019 the Group and the Parent Company have capitalised borrowing costs in the amount of EUR 423 thousand (2018: EUR 889 thousand) (see Note 11). Rate of capitalised borrowing costs was of 1.03% (2018: 0.93%).

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



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b) Investment property

Accounting policy

Investment properties are land or a building or part of a building held by the Group or the Parent Company as the owner to earn rentals or for capital appreciation, rather than for use in the production of goods or supply of services or for administrative purposes, or sale in the ordinary course of business. Investment property generates cash flows

independently of the other assets held. The investment properties are initially recognised at cost and subsequently measured at acquisition cost net of accumulated depreciation and impairment losses. The applied depreciation rates are based on estimated useful life set for respective fixed asset categories – from 15 to 80 years.

EUR'000

	Group		Parent Company					
	Investment property held for capital appreciation		Investment properties for lease*		Investment property held for capital appreciation		TOTAL Investment property	
	2019	2018	2019	2018	2019	2018	2019	2018
Cost at the beginning of the year	1,638	2,297	94,626	96,174	1,604	2,244	96,230	98,418
Accumulated depreciation and impairment at the beginning of the year	(1,171)	(1,544)	(33,263)	(32,067)	(1,171)	(1,544)	(34,434)	(33,611)
Net book amount at the beginning of the year	467	753	61,363	64,107	433	700	61,796	64,807
Reclassified to investment property held for capital appreciation	135	44	–	(13)	135	44	135	31
Reclassified from property, plant and equipment to investment property	–	–	1,804	3,734	–	–	1,804	3,734
Reclassified to property, plant and equipment	–	–	–	(1,360)	–	–	–	(1,360)
Disposal	–	–	(21,412)	(1,259)	–	–	(21,412)	(1,259)
Sold	(929)	(341)	(223)	(78)	(929)	(322)	(1,152)	(400)
Impairment charge	636	17	–	–	636	17	636	17
Depreciation	(8)	(6)	(2,364)	(3,768)	(8)	(6)	(2,372)	(3,774)
Cost at the end of the year	910	1,638	64,377	94,626	876	1,604	65,253	96,230
Accumulated depreciation and impairment at the end of the year	(609)	(1,171)	(25,209)	(33,263)	(609)	(1,171)	(25,818)	(34,434)
Net book amount at the end of the year	301	467	39,168	61,363	267	433	39,435	61,796

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

The Group and the Parent Company apply the cost model in valuation of investment properties. Land or a building or part of a building held by the Group or the Parent Company as the owner to earn rentals or for capital appreciation, rather than for use in the production of goods or supply of services or for administrative purposes, or sale in

the ordinary course of business, after decision of the Group's or the Parent Company's management are initially recognised as investment properties at cost and subsequently measured at acquisition cost net of accumulated depreciation and impairment losses.

c) Property, plant and equipment revaluation

Accounting policy

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

The following hydropower plants, transmission system and distribution system assets (property, plant and equipment) are revalued regularly but not less frequently than every five years:

- Assets of Hydropower plants:
 - hydropower plants' buildings and facilities,
 - hydropower plants' technology equipment and machinery;
- Transmission system electrical lines and electrical equipment:
 - electricity transmission lines,
 - electrical equipment of transformer substations;
- Distribution system electrical lines and electrical equipment:
 - electricity distribution lines,
 - electrical equipment of transformer substations.

Increase in the carrying amount arising on revaluation is recognised to 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.

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

EUR'000

	Group			
	Revalued property, plant and equipment groups			
	Assets of Hydropower plants (the Parent Company)	Distribution system electrical lines and electrical equipment	Transmission system electrical lines and electrical equipment	TOTAL revalued PPE
At revalued amounts				
As of 31 December 2019				
Revalued	2,050,409	2,921,846	1,059,864	6,032,119
Accumulated depreciation	(1,267,432)	(1,410,073)	(547,549)	(3,225,054)
Revalued net book amount	782,977	1,511,773	512,315	2,807,065
As of 31 December 2018				
Revalued	2,055,572	2,889,265	933,079	5,877,916
Accumulated depreciation	(1,267,062)	(1,391,596)	(538,909)	(3,197,567)
Revalued net book amount	788,510	1,497,669	394,170	2,680,349
At amounts stated on historical cost basis				
As of 31 December 2019				
Cost	413,734	1,377,374	586,842	2,377,950
Accumulated depreciation	(176,619)	(458,211)	(180,153)	(814,983)
Net book amount	237,115	919,163	406,689	1,562,967
As of 31 December 2018				
Cost	396,519	1,377,374	446,760	2,220,653
Accumulated depreciation	(171,043)	(458,211)	(168,374)	(797,628)
Net book amount	225,476	919,163	278,386	1,423,025

Assets of Hydropower plants were revalued in 2017. The revaluation was performed by an independent, external and certified valuer by applying the income method or the replacement cost model. Income method is based on average perennial water inflow in each HPP, power exchange (Nordpool Spot) forecasts of electricity prices, analysis of historical generation and operating expenses, forecast of expenses based on public available state statistics, forecast of capital expenditure, forecast of net cash flows, as well as discount and capitalisation rate calculation using the weighted average cost of capital (WACC) formula based on market data.

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

The nominal pre-tax discount rate used in valuation is 7.5%. If the pre-tax rate would be increased by 0.1% then the value of the revalued assets of hydropower plants would decrease by EUR 50,270 thousand. If the pre-tax rate would be decreased by 0.1%, the value of the revalued assets of hydropower plants would increase by EUR 53,241 thousand. If electricity price would increase by 1%, the value of assets would increase by EUR 26,840, if the prices would be by 1% less, the value of assets would decrease by EUR 26,840.

Distribution system electrical lines and electrical equipment was revalued in 2016. The revaluation was performed by an external valuer valuating the replacement or renewing costs for each item of property, plant and equipment. External valuer at the moment of the revaluation of electrical lines evaluated the replacement or renewing costs by considering actual costs of construction or purchase of analogue or similar property, plant and equipment shortly before the revaluation as based on the Sadales tīkli AS accounting. At the moment of the revaluation of electrical equipment, external valuer evaluated how have changed the components of the replacement or renewal costs of the same property, plant and equipment items since the previous revaluation, adjusting the values of individual sub-categories of property, plant and equipment with changes of material costs and indexing the wage component on the basis of publicly available national statistics on wage increases over the relevant period. Estimated replacement or renewal value for each item of property, plant and equipment was reduced by its functional and physical depreciation as assessed by external valuer.

Transmission system electrical lines and electrical equipment was revalued in 2016. The revaluation was performed by an external valuer valuating the replacement or renewing costs for each item of property, plant and equipment considering actual costs of construction or purchase of analogue or similar property, plant and equipment shortly before the revaluation as based on Latvijas elektriskie tīkli AS accounting. External valuer at the moment of the revaluation evaluated how have changed the components of the replacement or renewal costs of the same property, plant and equipment items since the previous revaluation, adjusting the values of individual sub-categories of property, plant and equipment with changes of material costs and indexing the wage component on the basis of publicly available national statistics on wage increases over the relevant period. Estimated replacement or renewal value for each item of property, plant and equipment was reduced by its functional and physical depreciation as assessed by external valuer.

Management has evaluated changes in the input data used in valuation since revaluation and has estimated that their changes do not have a significant impact on the value of revalued property, plant and equipment groups.

d) Impairment

Accounting policy

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

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





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

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

In October 2017, Latvenergo AS applied for a one-off compensation from the state, at the same time opting out of the receipt of 75% of the annual electrical capacity payments for cogeneration power plants CHPP-1 and CHPP-2 (Note 4 h). On 21 November 2017, the Cabinet of Ministers of the Republic of Latvia accepted an order which supports the reduction of the guaranteed support payments during the remaining support period for the installed capacity of Latvenergo CHPPs. Latvenergo AS obtained a government grant in the amount of EUR 454,413 thousand that was divided into two parts - an unconditional grant in amount of EUR 140,000 thousand was recognised in the Group's and Parent Company's statement of profit or loss in 2017, while a conditional grant in amount of EUR 314,413 thousand was recognised as deferred income in even distribution over the coming reporting periods and fulfilling obligations until the end of the support period.

On 26 September 2018, the Cabinet of Ministers decided to change conditions for a part of the grant in the amount of EUR 51,700 thousand stipulating it as unconditional, by reducing the remaining part of the grant proportionally to this amount until the end of the support period. In 2019, EUR 23,990 thousand were recognised as 'Other income' in the Group's and Parent Company's statement of profit or loss. Consequently, EUR 209,419 thousand remained recognised as deferred income as of 31 December 2019.

As of 31 December 2019, the future discounted cash flows generated by the operation of Latvenergo AS CHPPs are evaluated in the amount of EUR 6,208 thousand (see below). Consequently, the value of Latvenergo CHPPs assets is estimated as the sum of the deferred income and the future cash flows as of 31 December 2019 – EUR 215,628 thousand.

As a result of the above transactions, reversal of an impairment in the amount of EUR 19,475 thousand was recognised for Latvenergo AS CHPPs in 2019 (2018: additional impairment EUR 33,400 thousand). The recognised reversal of an impairment is included in the Statement of Profit or Loss position 'Depreciation, amortisation and impairment of intangible assets and property, plant and equipment'.

To ensure the carrying value is in line with recognised impairment, the future cash flows expected to be derived from the operation of Latvenergo AS CHPPs were evaluated. Forecasted period is 2020 – 2028 and the terminal value appraisal, evaluated as a fraction of the balance sheet's assets value, is included. Revenue stream forecast mainly corresponds to the remaining intensity of electrical capacity payments and the support period till September 23, 2028, as it is set out in regulations by Cabinet of Ministers of the Republic of Latvia No. 221, dated 10 March 2009. The forecast of expenses is based on historical data, the budget approved by the management for 2020, the service maintenance agreements and assumed inflation. Nominal pre-tax discount rate used to determine value in use of cash-generating

unit by discounting cash flows is 7.5% (2018: 7.5%). As a result of calculation, the future discounted cash flows generated by Latvenergo AS CHPPs are evaluated in the amount of EUR 6,208 thousand. A 1% rise in the discount rate would have an impact of EUR 1.4 million (2018: nil) on the recoverable amount of the assets. If the annual electrical capacity payments for cogeneration power plants CHPP-1 and CHPP-2 would be discontinued, then impairment of approximately EUR 80 million would be recognised. Impairment is estimated by assuming that capacity payment revenue decrease would be partly offset by a higher revenue from electricity production.

The accumulated impairment as of 31 December 2019 amounted to EUR 234,634 thousand (31/12/2018: EUR 254,109 thousand).

15. Leases

a) Right-of-use assets and lease liabilities

Accounting policy applied from 1 January 2019

From 1 January 2019, the Group and the Parent Company applies IFRS 16 'Leases'. Comparative figures have not been changed. All related information disclosed in Note 2 (see 'Changes in accounting policies').

Accounting policy

At the time of conclusion of the contract, the Group and the Parent 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.

Lessee

To assess whether the contract is a lease or contains a lease, the Group and the Parent Company assesses whether:

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

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



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

Low value leases are fully accounted without additional exemption.

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

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

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

The Group and the Parent Company 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 interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the lessee shall use the incremental interest rate.

Lease liabilities include the present value of the following lease payments:

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

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

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

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

Accounting policy applied until 31 December 2018

The Group and the Parent Company has applied IFRS 16 retrospectively but has chosen not to restate comparative positions. As a result, comparative positions are accounted in accordance with the Group's and the Parent Company's previous accounting policy. All related information disclosed in Note 2.

Accounting policy

Operating lease

The Group and the Parent Company is the lessee

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Operating lease agreement can't be classified as finance lease as it does not provide that lessee overtakes all risks and benefits associated with the overtaking of lease object in its possession. Payments made under operating leases (net of any incentives received from the lessor) are charged to the Statement of Profit or Loss on a straight-line basis over the period of the lease.

The Group and the Parent Company is the lessor

Assets leased out under operating leases are recorded within property, plant and equipment at historic cost or revaluated amounts less depreciation and accumulated impairment loss, if any. Rental income from operating lease less any incentives given to lessee are recognised in the Statement of Profit or Loss on a straight-line basis over the period of the lease.

The Group and the Parent Company has concluded several agreements for lease of land and real estate, as well has concluded an agreement until 2028 on a lease of the fiber of the combined optical cable (OPGW - optical ground wire with dual function) (Note 2).

The Group and the Parent Company has recognised right-of-use assets for land, buildings and facilities.

Right-of-use assets

	EUR'000	
	Group	Parent Company
Net book amount		
As of 31 December 2018	–	–
Initial recognition value	8,075	3,870
As of 1 January, 2019	8,075	3,870
Recognised changes in lease agreements	(230)	3
Excluded right-of-use assets of discontinued operation (Note 30)	(1,099)	–
Amortisation	(1,224)	(397)
As of 31 December 2019	5,522	3,476

Lease liabilities

	EUR'000	
	Group	Parent Company
As of 31 December 2018	–	–
Initial recognition value	8,075	3,870
As of 1 January 2019	8,075	3,870
Of which are:		
Non-current	6,839	3,500
Current	1,236	370
Recognised changes in lease agreements	(222)	3
Excluded lease liabilities of discontinued operation (Note 30)	(1,107)	–
Decrease of lease liabilities	(1,277)	(428)
Recognised interest liabilities	96	57
As of 31 December 2019	5,565	3,502
Of which are:		
Non-current	4,349	3,126
Current	1,216	376



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

The following amounts are recognised in profit or loss:

	EUR'000			
	Group		Parent Company	
	2019 (IFRS 16)	2018 (IAS 17)	2019 (IFRS 16)	2018 (IAS 17)
Depreciation for the right-of-use assets (land buildings and facilities)	1,224	–	397	–
Interest expense on lease liabilities (included in financial costs)	96	–	57	–
Short-term lease expenses	165	–	450	–
Operating lease expense (IAS 17)	–	1,618	–	1,149
TOTAL expenses from leases	1,485	1,618	904	1,149

In the Statement of Cash Flows of the Group and the Parent Company for the year 2019, lease payments in amount of EUR 400 thousand have been made by non-cash offsetting and included in cash flows from operating activities in working capital adjustments. Other lease payments of the Group in amount of EUR 875 thousand (the Parent Company: EUR 18 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			
	Group		Parent Company	
	2019	2018	2019	2018
Income from leases (the Group and the Parent Company is the lessor) (Note 6)	1,265	1,568	9,964	15,987

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

	EUR'000			
	Group		Parent Company	
	2019	2018	2019	2018
– < 1 year	1,251	997	9,964	7,673
– 1–5 years	3,693	3,718	15,110	48,424
– > 5 years	2,002	2,691	2,002	2,793
TOTAL rental income	6,946	7,406	27,076	58,890

16. Non-current financial investments

The Parent Company's participating interest in subsidiaries and other non-current financial investments:

Name of the company	Country of incorporation	Business activity held	31/12/2019		31/12/2018	
			Interest held, %	EUR'000	Interest held, %	EUR'000
Investments in subsidiaries:						
Latvijas elektriskie tīkli AS	Latvia	Lease of transmission system assets	100 %	186,432	100 %	185,624
Sadales tīkls AS	Latvia	Electricity distribution	100 %	641,150	100 %	641,150
Enerģijas publiskais tirgotājs AS	Latvia	Administration of mandatory electricity procurement process	100 %	40	100 %	40
Elektrum Eesti OÜ	Estonia	Electricity and natural gas trade	100 %	35	100 %	35
Elektrum Lietuva, UAB	Lithuania	Electricity and natural gas trade	100 %	98	100 %	98
Liepājas enerģija SIA	Latvia	Thermal energy generation and trade, electricity generation	51 %	3,556	51 %	3,556
TOTAL				831,311		830,542
Other non-current financial investments:						
Pirmais Slēgtais Pensiju Fonds AS	Latvia	Management of pension plans	46.30 %	36	46.30 %	36
Rīgas siltums AS	Latvia	Thermal energy generation and trade, electricity generation	0.0051 %	3	0.0051 %	3
TOTAL				39		39

The Group's non-current financial investments:

Name of the company	Country of incorporation	Business activity held	31/12/2019		31/12/2018	
			Interest held, %	EUR'000	Interest held, %	EUR'000
Other non-current financial investments (Group):						
Pirmais Slēgtais Pensiju Fonds AS	Latvia	Management of pension plans	48.15 %	36	48.15 %	37
Rīgas siltums AS	Latvia	Thermal energy generation and trade, electricity generation	0.0051 %	3	0.0051 %	3
TOTAL				39		40



The Group owns 48.15% of the shares of the closed pension fund Pirmais Slēgtais Pensiju Fonds AS (Latvenergo AS – 46.30%). However, the Group and the Parent Company are only a nominal shareholder as all risks and benefits arising from associate's activities will accrue to the employees who are members of the pension fund.

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

Movement in non-current investments:

	Group		Parent Company	
	2019	2018	2019	2018
At the beginning of the year	40	40	830,542	817,048
Invested in share capital	–	–	808	13,494
Discontinued operation	(1)	–	–	–
At the end of the year	39	40	831,350	83,542

EUR'000

In 2019, the Parent Company invested in the share capital of Latvijas elektriskie tīkli AS, by investing the Parent Company's real estate related to transmission system, its lease, supervisory and governance activities and its related liabilities (borrowings):

	Parent Company	Latvijas elektriskie tīkli AS
Invested assets at cost	26,846	–
Invested assets at valuated (fair) value	–	35,493
Related liabilities (borrowings)	(26,038)	(26,038)
Investment in subsidiary	808	–
Invested in share capital	–	9,455

EUR'000

In 2018, the Parent Company invested property, plant and equipment in the share capital of Sadales tīkls AS. In the Statement of Financial Position of the Parent Company investment is recognised at cost of disposed PPE in the amount of EUR 13,494 thousand, while share capital of Sadales tīkls AS increased by fair value of invested property, plant and equipment in the amount of EUR 19,143 thousand.

Summarised financial information for subsidiaries:

Subsidiaries	Equity		Net profit for the year		Dividends from subsidiaries*		Carrying amount of interest from investment	
	31/12/2019	31/12/2018	2019	2018	2019	2018	31/12/2019	31/12/2018
Latvijas elektriskie tīkli AS	233,757	232,759	9,486	13,394	17,945	50,463	186,432	185,624
Sadales tīkls AS	917,097	922,421	29,317	33,743	33,743	124,268	641,150	641,150
Enerģijas publiskais tirgotājs AS	40	40	–	–	–	–	40	40
Elektrum Eesti OÜ	960	922	288	250	250	232	35	35
Elektrum Lietuva, UAB	881	925	504	548	548	481	98	98
Liepājas enerģija SIA	17,075	17,262	4,464	5,167	2,372	2,202	3,556	3,556
	1,169,810	1,174,329	44,059	53,102	54,858	177,646	831,311	830,503

EUR'000

* in 2019 dividends from subsidiaries received in cash in the amount of EUR 21,115 thousand and with non-cash offset in the amount of EUR 33,743 thousand (2018: EUR 53,378 thousand received in cash and with non-cash offset in the amount of EUR 124,268 thousand)

Summarised financial information for non-controlling interests:

EUR'000

Non-controlling interest of subsidiaries	Non-current assets		Current assets		Non-current liabilities		Current liabilities	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Liepājas enerģija SIA (49 %)	16,706	17,645	1,302	2,027	6,320	8,602	3,320	2,611

17. Inventories

Accounting policy

Accounting policy

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

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

Existence of inventories as of the end of reporting period is verified during stock-taking.

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

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

- Maintenance inventories for machinery and equipment of hydropower plants and thermal power plants that haven't turned over during last 12 months are impaired in amount of 90%, while inventories haven't turned over during last 6 months are impaired in amount of 45%
- All other inventories that haven't turned over during last 12 months are fully impaired, while inventories that haven't turned over during last 6 months are impaired in amount of 50%,
- Allowances are not calculated for the fuel necessary to ensure uninterrupted operations of hydropower and combined heat and power plants, for natural gas and scraps.

EUR'000

	Group		Parent Company	
	31/12/2019	31/12/2018	31/12/2019	31/12/2019
Raw materials and materials	15,114	13,257	762	873
Natural gas	80,907	49,757	80,907	49,757
Goods for sale	1,874	1,608	421	413
Other inventories	8,156	8,292	8,065	8,070
Prepayments for inventories	163	198	41	33
Allowance for raw materials and other inventories	(1,287)	(1,137)	(674)	(736)
TOTAL inventories	104,927	71,975	89,522	58,410

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

Movement on the allowance for inventories:

EUR'000

	Group		Parent Company	
	2019	2018	2019	2018
At the beginning of the year	1,137	1,494	736	992
Inventories written off	–	(287)	–	(260)
Charged to the Statement of Profit or Loss	150	(70)	(62)	4
At the end of the year	1,287	1,137	674	736

18. Receivables from contracts with customers and other receivables

Accounting policy

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

- Energy and related services sales, including distribution system services,
- Heating sales,
- Other sales (IT & telecommunication services, connection service fees and other services),
- Receivables from subsidiaries,
- Other financial receivables.

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

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

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

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

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

EUR'000

	Group		Parent Company	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Individually assessed receivables with lifetime ECL assessment (counterparty model)	5,105	7,051	9,068	7,915
Receivables with lifetime ECL assessment by simplified approach (portfolio model)	106,425	110,904	73,905	73,110
TOTAL receivables from contracts with customers	111,530	117,955	82,973	81,025

a) Receivables from contracts with customers, net

EUR'000

	Group		Parent Company	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Receivables from contracts with customers:				
– Electricity, natural gas trade and related services customers (portfolio model)	138,926	138,308	107,721	102,154
– Heating customers (portfolio model)	9,210	14,715	7,127	11,955
– Other receivables from contracts with customers (portfolio model)	5,019	5,675	2,571	3,331
– Other receivables from contracts with customers (counterparty model)	5,112	7,060	2,452	3,203
– Subsidiaries (counterparty model)	–	–	6,623	4,719
	158,267	165,758	126,494	125,362
Provisions for impaired receivables from contracts with customers:				
– Electricity, natural gas trade and related services customers (portfolio model)	(44,108)	(44,953)	(43,187)	(43,968)
– Heating customers (portfolio model)	(325)	(342)	(315)	(334)
– Other receivables from contracts with customers (portfolio model)	(2,297)	(2,499)	(12)	(28)
– Other receivables from contracts with customers (counterparty model)	(7)	(9)	(3)	(4)
– Subsidiaries (counterparty model)	–	–	(4)	(3)
	(46,737)	(47,803)	(43,521)	(44,337)
Receivables from contracts with customers, net:				
– Electricity, natural gas trade and related services customers (portfolio model)	94,818	93,355	64,534	58,186
– Heating customers (portfolio model)	8,885	14,373	6,812	11,621
– Other receivables from contracts with customers (portfolio model)	2,722	3,176	2,559	3,303
– Other receivables from contracts with customers (counterparty model)	5,105	7,051	2,449	3,199
– Subsidiaries (counterparty model)	–	–	6,619	4,716
	111,530	117,955	82,973	81,025



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

EUR'000

Late payment delay in days by IFRS 9	ECL rate	Group						Parent Company					
		31/12/2019			31/12/2018			31/12/2019			31/12/2018		
		Receivables	Impairment loss	Net	Receivables	Impairment loss	TOTAL	Receivables	Impairment loss	Net	Receivables	Impairment loss	TOTAL
On time	0.20 %	100,773	(221)	100,552	106,194	(230)	105,964	69,391	(154)	69,237	69,557	(160)	69,397
Less 30 days	3 %	4,139	(124)	4,015	2,953	(88)	2,865	3,193	(96)	3,097	1,947	(59)	1,888
Past due 30 - 59 days	20 %	1,194	(239)	955	1,334	(265)	1,069	1,083	(217)	866	1,213	(241)	972
Past due 60 - 89 days	50 %	470	(235)	235	535	(267)	268	432	(216)	216	503	(251)	252
Past due 90 - 179 days	60 %	785	(471)	314	812	(486)	326	562	(337)	225	697	(417)	280
Past due 180 - 359 days	75 %	1,414	(1,060)	354	1,638	(1,226)	412	1,055	(791)	264	1,283	(962)	321
Past due more than 360 days	100 %	17,971	(17,971)	-	17,890	(17,890)	-	15,405	(15,405)	-	15,123	(15,123)	-
Insolvent debtors*	100 %	26,409	(26,409)	-	27,342	(27,342)	-	26,298	(26,298)	-	27,117	(27,117)	-
TOTAL		153,155	(46,730)	106,425	158,698	(47,794)	110,904	117,419	(43,514)	73,905	117,440	(44,330)	73,110

* receivables under insolvency process and with an established payment schedule

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

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

EUR'000

	Group		Parent Company	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Other receivables from contracts with customers	5,112	7,060	2,452	3,203
Impairment loss on other receivables from contracts with customers	(7)	(9)	(3)	(4)
Receivables from subsidiaries (Note 29 b)	-	-	5,022	4,398
Accrued income from subsidiaries (Note 29 c)	-	-	1,601	321
Impairment loss on subsidiaries receivables (Note 29 b)	-	-	(4)	(3)
TOTAL	5,105	7,051	9,068	7,915

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

There is no significant concentration of credit risk with respect to receivables from contracts with customers as the Group and the Parent Company have a large number of customers except major heating customer the net debt of which as of 31 December 2019 amounted to EUR 6,818 thousand (31/12/2018: EUR 11,626 thousand).

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

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

EUR'000

	Group		Parent Company	
	2019	2018	2019	2018
At the beginning of the year	47,803	48,862	44,337	44,868
Effect of IFRS 9 'Financial instruments' adoption	-	122	-	115
Receivables written off during the year as uncollectible	(1,935)	(2,549)	(1,422)	(2,074)
Allowance for impaired receivables	869	1,368	606	1,428
At the end of the year	46,737	47,803	43,521	44,337



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

EUR'000

	Level of SICR	Group		Parent Company	
		31/12/2019	31/12/2018	31/12/2019	31/12/2018
Non-current financial receivables	Stage 1	–	30,617	–	–
Loss allowances for expected credit loss	Stage 1	–	(40)	–	–
TOTAL non-current financial receivables		–	30,577	–	–
Current financial receivables:					
Unsettled revenue on mandatory procurement PSO fee recognised as assets*	Stage 1	74,938	74,497	–	–
Receivables for lease	Stage 1	76	7,646	71	49
Receivables for lease from subsidiaries (Note 29 b)	Stage 1	–	–	615	1,061
Other financial receivables from subsidiaries (Note 29 b)	Stage 1	–	–	9,640	6,745
Other accrued income from subsidiaries (Note 29 c)	Stage 1	–	–	1,864	4 358
Other accrued income	Stage 1	872	872	872	883
Other current financial receivables	Stage 1	1,236	1,782	300	1,279
	Stage 3	1,877	2,364	1,234	1,651
Loss allowances for expected credit loss on subsidiaries receivables (Note 29 b)	Stage 1	–	–	(7)	(6)
	Stage 1	(231)	(184)	(134)	(136)
Loss allowances for expected credit loss	Stage 3	(1,877)	(2,364)	(1,234)	(1,651)
TOTAL current financial receivables		76,891	84,613	13,221	14,233
TOTAL other financial receivables		76,891	115,190	13,221	14,233

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

The Group and the Parent Company have no significant concentration of credit risk with respect to other financial receivables except the transmission system operator – Augstsprieguma tīkls AS the net debt of which to the Group as of 31 December 2019 including receivables from contracts with customer amounted to 39,870 thousand EUR (31/12/2018: 42,218 thousand EUR) (see Note 29 b) and receivable from State of guaranteed fee for the installed electrical capacity of cogeneration power plants and unsettled revenue on mandatory procurement PSO fee recognised as assets. Loss allowance for other financial receivables assessed individually and based on counterparty's model (Note 4).

c) Other non-financial receivables

EUR'000

	Group		Parent Company	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Non-current non-financial receivables	433	343	421	331
Total non-current non-financial receivables	433	343	421	331
Current non-financial receivables:				
Pre-tax and overpaid taxes	69	108	58	105
Other current receivables	125	109	49	107
Total current non-financial receivables	194	217	107	212
TOTAL non-financial receivables	627	560	528	543

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

19. Cash and cash equivalents**Accounting policy**

Cash and cash equivalents include cash balances on bank accounts, demand deposits at bank and other short-term deposits with original maturities of three months or less. Cash and cash equivalents also are consisting of restricted cash, if it is readily convertible to cash.

EUR'000

	Group		Parent Company	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Cash at bank	85,664	95,094	84,504	93,193
Short-term bank deposits	30,000	30,000	30,000	30,000
Restricted cash and cash equivalents*	6,758	4,361	6,757	4,361
Cash and cash equivalents	122,422	129,455	121,261	127,554
Cash attributable to discontinued operation (Note 30)	300	–	–	–
TOTAL cash and cash equivalents with discontinued operation	122,722	129,455	121,261	127,554

* Restricted cash and cash equivalents as of 31 December 2019 consist of the financial security for participating in NASDAQ OMX Commodities Exchange. Financial security is fully recoverable after termination of participation without any penalties, therefore restricted cash is considered as cash equivalent.

In existing rate environment, cash at bank balances practically don't earn any interests. Short-term deposits are placed for different periods between several days and three months depending on the immediate cash needs of the Group and the Parent Company and cash flow forecasts. During 2019 the average annual effective interest rate earned on short-term cash deposits was 0.15% (2018: 0.102%).

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

20. Share capital

As of 31 December 2019, the registered share capital of the Latvenergo AS is EUR 834,883 thousand (31/12/2018: EUR 834,791 thousand) and consists of 834,883 thousand ordinary shares (31/12/2018: 834,791 thousand) with the nominal value of EUR 1 per share (31/12/2018: EUR 1 per share). All shares have been fully paid. In June 2019, in accordance with the Directive No. 177 of the Cabinet of Ministers of the Republic of Latvia, dated 16 April 2019 – “On the Investment of the State's property units in the Share Capital of Latvenergo AS”, real estate in the amount of EUR 92 thousand was invested in the share capital of Latvenergo AS (Note 14 a).

In March 2018 a decrease of share capital in the amount of EUR 454,413 thousand was registered, related to the trilateral agreement between Republic of Latvia, Latvenergo AS and Enerģijas publiskais tirgotājs AS (EPT) on mutual settlement of the receivable of the grant from the Republic of Latvia by EPT as disclosed in Note 4 h. In June 2018, in accordance with the Directive No. 765 of the Cabinet of Ministers of the Republic of Latvia, dated 19 December 2017 – “On the Investment of the State's property units in the Share Capital of Latvenergo AS”, real estate in the amount of EUR 489 thousand was invested in the share capital of Latvenergo AS (Note 14 a).

21. Reserves, dividends and earnings per share

a) Reserves

EUR'000

	Notes	Group						Parent Company				
		Non-current assets revaluation reserve	Hedge reserve	Post-employment benefit plan revaluation reserve	Other reserves	Reserves classified as held for distribution	Reserves of discontinued operation	TOTAL	Non-current assets revaluation reserve	Hedge reserve	Post-employment benefit plan revaluation reserve	TOTAL
As of 31 December 2017		1,130,398	(3,987)	(793)	110	1,125,728	-	1,125,728	795,893	(3,987)	(225)	791,681
Disposal of non-current assets revaluation reserve	14 a	(10,229)	-	-	-	(10,229)	-	(10,229)	(6,549)	-	-	(6,549)
Gains / (losses) on re-measurement of defined post-employment benefit plan	27 a	-	-	436	-	436	-	436	-	-	(108)	(108)
Gains from fair value changes of derivative financial instruments	24	-	9,531	-	-	9,531	-	9,531	-	9,531	-	9,531
As of 31 December 2018		1,120,169	5,544	(357)	110	1,125,466	-	1,125,466	789,344	5,544	(333)	794,555
Non-current assets revaluation reserve related to discontinued operation	30	(29,171)	-	-	-	(29,171)	29,171	-	-	-	-	-
Post-employment benefit plan revaluation reserve related to discontinued operation	30	-	-	(18)	-	(18)	18	-	-	-	-	-
Disposal of non-current assets revaluation reserve	30	(7,226)	-	-	-	(7,226)	(255)	(7,481)	(3,474)	-	-	(3,474)
(Losses) / gains on re-measurement of defined post-employment benefit plan	27 a, 30	-	-	(2,045)	-	(2,045)	2	(2,043)	-	-	(1,148)	(1,148)
Losses from fair value changes of derivative financial instruments	24	-	(11,771)	-	-	(11,771)	-	(11,771)	-	(11,771)	-	(11,771)
As of 31 December 2019		1,083,772	(6,227)	(2,420)	110	1,075,235	28,936	1,104,171	785,870	(6,227)	(1,481)	778,162

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

b) Dividends

Accounting policy

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

The dividends declared to equity holders of the Parent Company for 2018 were EUR 132,936 thousand or EUR 0.15923 per share (2017: EUR 156,418 thousand or EUR 0.17183 per share).

According to the state regulations, the expected amount of dividends to be paid by Latvenergo AS for the use of state capital in 2020 (for the reporting year 2019) amounted to EUR 127,1 million (incl. income tax). The distribution of net profit and amount of dividends payable is subject to a resolution of the Latvenergo AS Shareholders Meeting.

c) Earnings per share

Accounting policy

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

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

EUR'000

	Group		Parent Company	
	2019	2018	2019	2018
Profit attributable to the equity holder of the Parent Company (in thousand EUR)	92,660	73,423	101,227	212,733
Weighted average number of shares (thousand)	834,845	910,323	834,845	910,323
Basic earnings per share (in euros)	0.111	0.081	0.121	0.234
Diluted earnings per share (in euros)	0.111	0.081	0.121	0.234



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22. Other financial investments

Carrying (amortised cost) amount of other financial investments:

EUR'000

	Group		Parent Company	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Financial investments in Latvian State Treasury bonds: – non-current	16,885	16,935	16,885	16,935
TOTAL other financial investments	16,885	16,935	16,885	16,935

As of 31 December 2019 the entire Group's and the Parent Company's other financial investments were Latvian State Treasury bonds with 5-year and 10-year maturity, which were purchased with the purpose to invest liquidity reserve in the low risk financial instruments with higher yield. In 2019 in connection with the amortisation of other financial investments net losses in the amount of EUR 49 thousand (2018: EUR 49 thousand) (Note 11) are recognised from changes in the value of the purchased bonds. All financial investments are denominated in euros. The maximum exposure to credit risk at the reporting date is the carrying amount of other financial investments.

In 2019 the fair value of other financial investments is higher than the carrying amount by EUR 2,031 thousand (2018: EUR 3,132 thousand). Other financial investments in Latvian State Treasury bonds are listed. The fair value of other financial investments is calculated by discounting their future cash flows and using as discount factor the market quoted yield to maturity rates of the respective bonds as of the end of the reporting period (Level 2).

23. Borrowings

EUR'000

	Group		Parent Company	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Non-current borrowings from financial institutions	601,826	564,711	596,560	555,251
Issued debt securities (bonds)	100,303	135,317	100,303	135,317
TOTAL non-current borrowings	702,129	700,028	696,863	690,568
Current portion of non-current borrowings from financial institutions	142,885	112,102	138,691	109,512
Issued debt securities (bonds)	34,969	–	34,969	–
Current borrowings	291	–	–	–
Accrued interest on non-current borrowings	713	529	692	504
Accrued coupon interest on issued debt securities (bonds)	1,684	1,684	1,684	1,684
TOTAL current borrowings	180,542	114,315	176,036	111,700
TOTAL borrowings	882,671	814,343	872,899	802,268

Movement in borrowings:

EUR'000

	Group		Parent Company	
	2019	2018	2019	2018
At the beginning of the year	814,343	826,757	802,268	814,772
Borrowings received	180,291	93,500	180,000	90,000
Borrowing repaid	(112,102)	(105,931)	(109,513)	(102,522)
Change in accrued interest on borrowings	183	61	188	62
Changes in outstanding value of issued debt securities (bonds)	(44)	(44)	(44)	(44)
At the end of the year	882,671	814,343	872,899	802,268

Borrowings by categories of lenders:

EUR'000

	Group		Parent Company	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Foreign investment banks	351,458	374,864	351,458	374,864
Commercial banks	394,257	302,478	384,485	290,403
Issued debt securities (bonds)	136,956	137,001	136,956	137,001
TOTAL borrowings	882,671	814,343	872,899	802,268

Borrowings by contractual maturity, excluding the impact of derivative instruments to the interest rate:

EUR'000

	Group		Parent Company	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Fixed rate non-current and current borrowings:				
– < 1 year (current portion of non-current borrowings)	86,700	19,910	86,700	19,910
– 1–5 years	100,303	185,317	100,303	185,317
TOTAL fixed rate borrowings	187,003	205,227	187,003	205,227
Floating rate non-current and current borrowings:				
– < 1 year (current borrowings)	292	–	1	–
– < 1 year (current portion of non-current borrowings)	93,675	94,405	89,459	91,790
– 1–5 years	363,360	313,404	358,595	305,158
– > 5 years	238,341	201,307	237,841	200,093
TOTAL floating rate borrowings	695,668	609,116	685,896	597,041
TOTAL borrowings	882,671	814,343	872,899	802,268

Borrowings by repricing of interest, including the impact of derivative instruments:

EUR'000

	Group		Parent Company	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
– < 1 year	522,950	385,765	513,178	373,690
– 1–5 years	259,721	353,578	259,721	353,578
– > 5 years	100,000	75,000	100,000	75,000
TOTAL borrowings	882,671	814,343	872,899	802,268

As of 31 December 2019 and as of 31 December 2018 all of the Group's and the Parent Company's borrowings were denominated in euros.

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

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





I) Pledges

As of 31 December 2019 the Group's and the Parent Company's assets are not pledged to secure the borrowings, except the pledge on assets of Liepājas Enerģija SIA of maximum secured claims in the amount of EUR 25 million (31/12/2018: EUR 28 million) to secure its current and non-current borrowings. As of the end of the reporting year there has been pledged the property, plant and equipment in the net book amount of EUR 23 million and the claims on the receivables accounts in the amount of EUR 2 million (31/12/2018: EUR 25 million and EUR 3 million, respectively).

II) Un-drawn borrowing facilities

As of 31 December 2019, the un-drawn committed non-current credit facilities amount to EUR 85 million (31/12/2018: EUR 130 million). After the end of the reporting period, in January 2020, another contract with a maturity of up to two years was signed for EUR 60 million.

As of 31 December 2019, the Group had entered into two overdraft agreements with total notional amount of EUR 19 million (31/12/2018: four overdraft agreements of EUR 38.2 million) of which one overdraft agreements were entered by the Parent Company with total notional amount of EUR 15 million (31/12/2018: three overdraft agreements of EUR 34 million). In respect of all the overdraft agreements all conditions precedent have been met. At the end of the reporting year, EUR 291 thousand of credit lines were used.

III) Weighted average effective interest rate

During the reporting year the weighted average effective interest rate (including interest rate swaps) on non-current borrowings was 1.48% (2018: 1.37%), weighted average effective interest rate for current borrowings was 0.87% (2018: 0.87%). At 31 December 2019 interest rates for non-current borrowings in euros were 6 and 12 month EURIBOR+ 0.99% (31/12/2018: +0.99%) for the Group and 6 and 12 month EURIBOR+ 0.98% (31/12/2018: +0.98%) for Latvenergo AS. As of 31 December 2019, the total notional amount of interest rate swap agreements concluded by the Group amounts to EUR 229.4 million (31/12/2018: EUR 225.1 million) and the interest rate was fixed for the initial periods from 7 to 10 years.

IV) Issued and outstanding debt securities (bonds)

In 2013 the Parent Company (Latvenergo AS) issued bonds in the amount of EUR 35 million with maturity date – 22 May 2020 (ISIN code – LV0000801165) with the annual coupon rate of 2.8%. In 2015 and in 2016, Latvenergo AS issued green bonds in the total amount of EUR 100 million with the maturity date 10 June 2022 (ISIN code – LV0000801777) with the annual coupon rate of 1.9%. The total nominal amount of outstanding bonds as of 31 December 2019 and 31 December 2018 were EUR 135 million. All issued bonds are quoted in NASDAQ Baltic Stock Exchange. The issued debt securities (bonds) are measured at amortised cost at the end of reporting year.

As of 31 December 2019, the fair value of issued debt securities (bonds) exceeds their carrying amount by EUR 3,515 thousand (31/12/2018: EUR 4,532 thousand). The fair value of debt securities (bonds) issued is calculated by discounting their future cash flows and using the market quoted yield to maturity rates of the respective bonds as of the end of the reporting year as discount factor (Level 2).

24. Derivative financial instruments

Accounting policy

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

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

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

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

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

Cash flow hedge

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

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

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

I) Outstanding fair values of derivatives and their classification

In the table below outstanding fair values of derivatives are disclosed as follows:

	Notes	Group				Parent Company			
		31/12/2019		31/12/2018		31/12/2019		31/12/2018	
		Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Interest rate swaps	24 II	-	(9,216)	-	(7,375)	-	(9,216)	-	(7,375)
Electricity forwards and futures	24 III	-	(3,916)	15,853	-	-	(3,916)	15,853	-
Natural gas forwards	24 IV	6,717	-	-	(2,829)	6,717	-	-	(2,829)
TOTAL outstanding fair values of derivatives		6,717	(13,132)	15,853	(10,204)	6,717	(13,132)	15,853	(10,204)

EUR'000

	Group				Parent Company			
	31/12/2019		31/12/2018		31/12/2019		31/12/2018	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Non-current	-	(6,149)	-	(3,923)	-	(6,149)	-	(3,923)
Current	6,717	(6,983)	15,853	(6,281)	6,717	(6,983)	15,853	(6,281)
TOTAL fair values of derivative financial instruments	6,717	(13,132)	15,853	(10,204)	6,717	(13,132)	15,853	(10,204)

EUR'000

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

EUR'000

	Notes	Group		Parent Company	
		2019	2018	2019	2018
Included in the Statement of Profit or Loss					
Electricity forwards and futures	8	(2,326)	(417)	(2,326)	(417)
Natural gas forwards		2,033	-	2,033	-
		(293)	(417)	(293)	(417)
Included in the Statement of Comprehensive Income (Note 21 a)					
Interest rate swaps	24 II	(1,841)	655	(1,841)	655
Electricity forwards and futures	24 III	(17,443)	11,705	(17,443)	11,705
Natural gas forwards	24 IV	7,513	(2,829)	7,513	(2,829)
TOTAL (loss) / gains on fair value changes		(11,771)	9,531	(11,771)	9,531

II) Interest rate swaps

As of 31 December 2019, the Group and the Parent Company had interest rate swap agreements with total notional amount of EUR 229.4 million (31/12/2018: EUR 225.1 million). Interest rate swaps are concluded with 7 to 10 year initial maturities and hedged floating rates are 6 month EURIBOR. As of 31 December 2019, fixed interest rates vary from 0.087% to 2.5775% (31/12/2018: from 0.315% to 2.5775%).

As at the end of the year all the outstanding interest rate swap agreements with total notional amount of EUR 229.4 million were eligible for hedge accounting and were assessed prospectively and retrospectively to test whether they are effective within the hedging period (31/12/2018: 100% with notional amount of EUR 225.1 million). All contracts are designed as cash flow hedges. It was established that they are fully effective and therefore there is no ineffective portion to be recognised within profit or loss in the Statement of Profit or Loss.

Fair value changes of interest rate swaps:

EUR'000

	Group				Parent Company			
	2019		2018		2019		2018	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Outstanding fair value at the beginning of the year	-	(7,375)	31	(8,061)	-	(7,375)	31	(8,061)
Included in Statement of Comprehensive Income (Note 21 a)	-	(1,841)	(31)	686	-	(1,841)	(31)	686
Outstanding fair value at the end of the year	-	(9,216)	-	(7,375)	-	(9,216)	-	(7,375)

The main interest rate hedging criteria stated in the Financial Risk Management policy is to ensure average fixed rate duration from 2 to 4 years and fixed rate portion at more than 35% of borrowings. As of 31 December 2019 45% (31/12/2018: 53%) of the Group's and 45% (2018: 54%) of the Parent Company's borrowings had fixed interest rates (taking into account the effect from the interest rate swaps), and average remaining time to interest re-pricing was 1.8 years (2018: 2.1 years) for the Group and 1.8 years (2018: 2.1 years) for the Parent Company. All necessary actions will be taken during the year 2020 to ensure the average fixed interest rate period within the limits stipulated by the Group's Financial Risk Management Policy.

III) Electricity forwards and futures

As of 31 December 2019, the Group and the Parent Company have entered into electricity forward and future contracts with total outstanding electricity purchase volume of 1,676,105 MWh (31/12/2018: 1,689,784 MWh) and notional value of EUR 41 million (31/12/2018: EUR 40 million). Electricity forward and future contracts are concluded for the maturities from one quarter to one year during the period from 1 January 2020 to 31 December 2022.

The Group and the Parent Company enters into electricity future contracts in the Nasdaq Commodities power exchange, as well as concludes electricity forward contracts with other counterparties. Electricity forward and future contracts are intended for hedging of the electricity price risk and are used for fixing the price of electricity purchased in the *Nord Pool* AS power exchange.



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Electricity forward and future contracts with total outstanding volume of 1,247,040 MWh as of 31 December 2019 are designated to comply with hedge accounting treatment (31/12/2018: 1,689,784) and were reassessed prospectively and retrospectively to test whether they are effective within the hedging period. All contracts are designed as cash flow hedges. For the contracts which are fully effective contracts fair value gains are included in other comprehensive income (Note 21 a).

Fair value changes of electricity forward and future contracts

EUR'000

	Group				Parent Company			
	2019		2018		2019		2018	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Outstanding fair value at the beginning of the year	15,853	–	4,588	(23)	15,853	–	4,588	(23)
Included in the Statement of Profit or Loss (Note 8)	(105)	(2,221)	(440)	23	(105)	(2,221)	(440)	23
Included in Statement of Comprehensive Income (Note 21 a)	(15,748)	(1,695)	11,705	–	(15,748)	(1,695)	11,705	–
Outstanding fair value at the end of the year	–	(3,916)	15,853	–	–	(3,916)	15,853	–

IV) Natural gas forwards

The Group and the Parent Company have entered into natural gas price swap contracts with total outstanding natural gas purchase volume of 3,690,000 MWh (31/12/2018: 990,000 MWh) and notional value of EUR 71 million (31/12/2018: EUR 23 million). Natural gas swap contracts are concluded for the maturities from one month to one quarter during the period of July 1, 2020 to March 31, 2021. The Group and the Parent Company have concluded natural gas swap contracts with other counterparties. Natural gas swap contracts are intended for hedging of the natural gas price risk and are used for fixing the price of natural gas purchased in wholesale gas market. Natural gas swap contracts with total outstanding volume of 1,650,000 MWh as of 31 December 2019 are designated to comply with hedge accounting treatment (31/12/2018: of 990,000 MWh) and were reassessed prospectively and retrospectively to test whether they are effective within the hedging period.

Fair value changes of natural gas forward contracts:

EUR'000

	Group				Parent Company			
	2019		2018		2019		2018	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Outstanding fair value at the beginning of the year	–	(2,829)	–	–	–	(2,829)	–	–
Included in the Statement of Profit or Loss (Note 8)	2,033	–	–	–	2,033	–	–	–
Included in Statement of Comprehensive Income (Note 21 a)	4,684	2,829	–	(2,829)	4,684	2,829	–	(2,829)
Outstanding fair value at the end of the year	6,717	–	–	(2,829)	6,717	–	–	(2,829)

25. Fair values and fair value measurement

Accounting policy

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

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

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

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

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

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

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

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

d) The fair value of the bonds issued and financial investments in government bonds are calculated by discounting their future cash flows using the market quoted yield to maturity rates of the respective bonds as of the end of the reporting year as discount factor;

e) The fair value of investment properties is determined using the income method, by discounting expected future cash flows. In 2019, the nominal pre-tax discount rate used to determine the fair value of investments is 4.61% (2018: 4.2%) as included in the electricity distribution and transmission system service tariff calculation methodology.

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

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

EUR'000

Type of assets	Group				Parent Company			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	TOTAL	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	TOTAL
As of 31 December 2019								
Assets measured at fair value								
Revalued property, plant and equipment (Note 14 c)	–	–	2,807,065	2,807,065	–	–	782,977	782,977
Non-current financial investments (Note 16)	–	–	39	39	–	–	39	39
<i>Derivative financial instruments, including:</i>								
– Natural gas forwards and futures (Note 24)	–	6,717	–	6,717	–	6,717	–	6,717
Assets for which fair values are disclosed								
Investment properties (Note 14 b)	–	–	301	301	–	–	39,435	39,435
Other financial investments (Note 22)	–	16,885	–	16,885	–	16,885	–	16,885
Floating rate loans to subsidiaries (Note 29 e)	–	–	–	–	–	151,289	–	151,289
Fixed rate loans to subsidiaries (Note 29 e)	–	–	–	–	–	642,967	–	642,967
Non-current financial receivables (Note 18 b)	–	–	433	433	–	–	421	421
Current financial receivables (Note 18 a, b)	–	–	188,421	188,421	–	–	96,194	96,194
Cash and cash equivalents (Note 19)	–	122,422	–	122,422	–	121,261	–	121,261
As of 31 December 2018								
Assets measured at fair value								
Revalued property, plant and equipment (Note 14 c)	–	–	2,680,349	2,680,349	–	–	788,510	788,510
Non-current financial investments (Note 16)	–	–	40	40	–	–	39	39
<i>Derivative financial instruments, including:</i>								
– Electricity forwards and futures (Note 24)	–	15,853	–	15,853	–	15,853	–	15,853
Assets for which fair values are disclosed								
Investment properties (Note 14 b)	–	–	467	467	–	–	61,796	61,796
Other financial investments (Note 22)	–	16,935	–	16,935	–	16,935	–	16,935
Floating rate loans to subsidiaries (Note 29 e)	–	–	–	–	–	171,858	–	171,858
Fixed rate loans to subsidiaries (Note 29 e)	–	–	–	–	–	592,647	–	592,647
Non-current financial receivables (Note 18 b)	–	–	30,920	30,920	–	–	331	331
Current financial receivables (Note 18 a, b)	–	–	202,568	202,568	–	–	95,258	95,258
Cash and cash equivalents (Note 19)	–	129,455	–	129,455	–	127,554	–	127,554

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



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

EUR'000

Type of liability	Group				Parent Company			
	Fair value measurement using			TOTAL	Fair value measurement using			TOTAL
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)		Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
As of 31 December 2019								
Liabilities measured at fair value								
<i>Derivative financial instruments, including:</i>								
- Interest rate swaps (Note 24)	-	9,216	-	9,216	-	9,216	-	9,216
- Electricity and natural gas forwards and futures (Note 24)	-	3,916	-	3,916	-	3,916	-	3,916
Liabilities for which fair values are disclosed								
Issued debt securities (bonds) (Note 23)	-	136,956	-	136,956	-	136,956	-	136,956
Borrowings (Note 23)	-	745,668	-	745,668	-	745,668	-	745,668
Trade and other financial current payables (Note 26)	-	-	91,410	91,410	-	-	68,249	68,249
As of 31 December 2018								
Liabilities measured at fair value								
<i>Derivative financial instruments, including:</i>								
- Interest rate swaps (Note 24)	-	7,375	-	7,375	-	7,375	-	7,375
- Natural gas forwards and futures (Note 24)	-	2,829	-	2,829	-	2,829	-	2,829
Liabilities for which fair values are disclosed								
Issued debt securities (bonds) (Note 23)	-	137,000	-	137,000	-	137,000	-	137,000
Borrowings (Note 23)	-	677,342	-	677,342	-	665,267	-	665,267
Trade and other financial current payables (Note 26)	-	-	103,707	103,707	-	-	78,726	78,726

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

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



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

EUR'000

	Group				Parent Company			
	Carrying amount		Fair value		Carrying amount		Fair value	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Financial assets								
Fixed rate loans to subsidiaries	–	–	–	–	642,967	592,647	673,987	616,332
Other financial investments	16,885	16,935	19,016	20,067	16,885	16,935	18,916	20,067
Financial liabilities								
<i>Interest-bearing liabilities, including:</i>								
– issued debt securities (bonds)	136,956	137,000	140,471	141,532	136,956	137,000	140,471	141,532

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

26. Trade and other payables

EUR'000

	Group		Parent Company	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Financial liabilities:				
Payables for materials and services	55,900	63,198	55,971	63,009
Payables for electricity and natural gas	24,803	30,627	6,193	9,954
Accrued expenses	9,106	7,817	4,702	4,142
Other financial current payables	1,601	2,065	1,383	1,621
TOTAL financial liabilities	91,410	103,707	68,249	78,726
Non-financial liabilities:				
State social security contributions and other taxes	12,031	15,624	4,776	7,353
Advances received	8,403	12,024	3,641	4,399
Other current payables	3,864	3,655	1,715	1,584
TOTAL non-financial liabilities	24,298	31,303	10,132	13,336
TOTAL trade and other current payables	115,708	135,010	78,381	92,062

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

27. Provisions

Accounting policy

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

Provisions are presented in the Statement of Financial Position at the best estimate of the expenditure required to settle the present obligation at the end of reporting period. Provisions are used only for expenditures for which the provisions were originally recognised and are reversed if an outflow of resources is no longer probable.

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



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EUR'000

	Group		Parent Company	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Non-current:				
– post-employment benefits (recognised in profit or loss)	12,666	12,411	5,608	5,536
– post-employment benefits (recognised in equity)	2,420	356	1,480	332
– termination benefits	2,744	6,191	740	1,537
– environmental provisions	661	1,220	661	1,220
	18,491	20,178	8,489	8,625
Current:				
– termination benefits	1,631	779	517	342

a) Provisions for post-employment benefits

Accounting policy

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

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

EUR'000

	Group		Parent Company	
	2019	2018	2019	2018
At the beginning of the year	12,767	13,721	5,868	5,911
Current service cost	1,170	1,238	522	523
Interest cost	134	261	62	112
Post-employment benefits paid	(989)	(2,017)	(512)	(786)
Losses / (gains) as a result of changes in actuarial assumptions (Note 21 a)	2,043	(436)	1,148	108
Discontinued operation (Note 30)	(39)	–	–	–
At the end of the year	15,086	12,767	7,088	5,868

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

EUR'000

	Group		Parent Company	
	2019	2018	2019	2018
At the beginning of the year	12,767	13,721	5,868	5,911
Credited/ (charged) to the Statement of Comprehensive Income (Note 21 a)	2,043	(436)	1,148	108
Credited/ (charged) to the Statement of Profit or Loss	315	(518)	72	(151)
Discontinued operation (Note 30)	(39)	–	–	–
At the end of the year	15,086	12,767	7,088	5,868

Weighted average discount rate used for discounting benefit obligations was 1.05% (2018: 1.90%), considering EIOPA risk-free interest rate, interest rates of Latvian government bonds and EURBMK BBB electricity industry rate at the end of the reporting year. The Group's Collective Agreement provides indexation of employees' wages at least at the level of inflation. Long-term inflation determined at the level of 3.0% (2018: 3.0%) when calculating long-term post-employment benefits. In calculation of these liabilities also the probability, determined on the basis of previous experience, of retirement in different employees' aging groups was also considered.

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

EUR'000

Assumptions	Date of valuation	Group						Parent Company					
		Discount rate		Future salary changes		Retirement probability changes		Discount rate		Future salary changes		Retirement probability changes	
		1% increase	1% decrease	1% increase	1% decrease	1% increase	1% decrease	1% increase	1% decrease	1% increase	1% decrease	1% increase	1% decrease
Impact on provisions for post-employment benefits	31/12/2019	1,948	(1,596)	1,880	(1,577)	2,084	(1,722)	827	(675)	798	(667)	885	(728)
	31/12/2018	1,519	(1,252)	1,479	(1,247)	1,646	(1,366)	610	(501)	593	(499)	661	(547)

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

Contributions are monitored on an annual basis and the current agreed contribution rate is 5%. The next valuation is due to be completed as at 31 December 2020.

Expected contributions to post-employment benefit plan for the year ending 31 December 2020 are EUR 1,942 thousand.

The weighted average duration of the defined benefit obligation is 19.51 years (2018 – 20.47 years).

EUR'000

	Date of valuation	Group				Parent Company			
		Less than 1 year	From 1 to 5 years	Over 5 years	TOTAL	Less than 1 year	From 1 to 5 years	Over 5 years	TOTAL
Defined benefit obligation	31/12/2019	2,397	2,143	10,546	15,086	1,734	1,082	4,272	7,088
	31/12/2018	2,481	1,745	8,541	12,767	1,676	955	3,237	5,868

b) Termination benefits

Accounting policy

Termination benefits are measured in accordance with IAS 19 and are payable when employment is terminated by the Group Companies before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group and the Parent Company recognise termination benefits at the earlier of the following dates: (a) when the Group entity can no longer withdraw the offer of those benefits; and (b) when the Group entity recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of terminations benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value. Management judgements related to the measurement of provisions for termination benefits is disclosed in Note 4 d.

Termination benefits paid out are included in the Statement of Profit or Loss position 'Personnel expenses' within expenditure of employment termination (Note 9), while termination benefits and projected future liability values for years 2019 to 2022 is recognised as a liability in the Statement of Financial Position and as accrued costs within expenditure of employment termination (Note 9):

EUR'000

	Group		Parent Company	
	2019	2018	2019	2018
At the beginning of the year	6,970	9,315	1,878	2,607
Termination benefits paid	(939)	(8,136)	(158)	(1,478)
Changes in provisions	(1,656)	5,795	(463)	749
At the end of the year	4,375	6,974	1,257	1,878

According to defined development directions per Strategy of Latvenergo Group for the period 2017–2022, management of the Parent Company approved the Strategic Development and Efficiency Programme. Provisions for employees' termination benefits are recognised on a basis of Strategic Development and Efficiency Programme of Latvenergo Group for the period in which it is planned to implement the efficiency program (including Latvenergo AS and Sadales tīkls AS efficiency activities), by which it is intended to reduce gradually the number of employees by the year 2022.

Assumptions used in calculation of termination benefits are as follows – average employee earnings at the time of termination - average earnings per year, with projected increase (salary indexation) in the in the year 2020 by 3.5% (2018: 9.6%) and in the following years by 3.0% for Latvenergo AS and in the year 2020 by 2.3% (2019: 2.6%) and in the following years by 2.5% for Sadales tīkls AS, average employee length of service at the time of termination, the State Social Insurance Contributions rate is 24.09% in 2020 and in subsequent years.

The amount of provisions at the end of reporting year is estimated in accordance with the estimated future liability value as of 31 December 2019, using the fixed discount rate of 0.651% as adopted by the Latvenergo Group (31/12/2018: 0.855%). The discount rate is comprised of a 3-year EUROSAP rate of -0.243% and a corporate risk premium of 0.894% (determined on the basis of interest rate on Latvenergo AS issued bonds yield spreads above the market rate) (31/12/2018: 4-year EUROSAP rate – 0.040%, corporate risk premium – 0.815%).



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

EUR'000

Assumptions	Date of valuation	Group						Parent Company					
		Discount rate		Future salary changes		Average employee length of service		Discount rate		Future salary changes		Average employee length of service	
		1% increase	1% decrease	1% increase	1% decrease	1% increase	1% decrease	1% increase	1% decrease	1% increase	1% decrease	1% increase	1% decrease
Impact on provisions for termination benefits	31/12/2019	(89)	92	68	(67)	7	(102)	(24)	25	37	(36)	7	(7)
	31/12/2018	(192)	201	147	(145)	39	39	(47)	49	47	(46)	11	(11)

c) Environmental provisions

Accounting policy

Environmental protection provisions are recognised to cover environmental damages that have occurred before the end of the reporting period when this is required by law or when the Group's or the Parent Company's past environmental policies have demonstrated that the Group or the Parent Company has a constructive present obligation to liquidate this environmental damage. Experts' opinions and prior experience in performing environmental work are used to set up the provisions.

EUR'000

	Group		Parent Company	
	2019	2018	2019	2018
At the beginning of the year	1,220	2,264	1,220	1,220
Charged to the Statement of Profit or Loss	(559)	(1,044)	(559)	–
At the end of the year	661	1,220	661	1,220

The environmental provision for the Group represents the estimated cost for Latvenergo AS of cleaning up CHPP–1 combined heat and power plant ash–fields in accordance with the requests made by the regional Environmental Authority of Riga and feasibility study on this project.

28. Deferred income

Accounting policy

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

For grants received as part of a package of financial or fiscal aid to which a number of conditions are attached, those elements which have different costs and conditions are identified. Treatment of the different elements determine the periods over which the grant will be earned.

Grants related to expense items

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

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

Grants related to assets

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

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

EUR'000

	Group		Parent Company	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
I) Non-current deferred income				
a) contracts with customers				
From connection fees	142,453	143,494	–	–
Other deferred income	877	–	877	–
	143,330	143,494	877	–
b) operating lease				
From connection fees	–	3,852	–	–
On transmission system assets reconstruction	–	984	–	–
Other deferred income	383	403	383	403
	383	5,239	383	403
c) other				
On grant for the installed electrical capacity of CHPPs	185,429	209,419	185,429	209,419
On financing from European Union funds	7,889	57,851	256	18
On financing receivable from European Union funds	–	30,617	–	–
Other deferred income	332	393	229	265
	193,650	298,280	185,914	209,702
TOTAL non-current deferred income	337,363	447,013	187,174	210,105





EUR'000

	Group		Parent Company	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
II) Current deferred income				
a) contracts with customers				
From connection fees	13,629	12,984	–	–
Other deferred income	135	287	63	–
	13,764	13,271	63	–
b) operating lease				
From connection fees	–	449	–	–
Other deferred income	20	20	20	20
	20	469	20	20
c) other				
On grant for the installed electrical capacity of CHPPs*	23,990	23,990	23,990	23,990
On financing from European Union funds	787	1,941	12	12
Other deferred income	60	38	9	–
	24,837	25,969	24,011	24,002
TOTAL current deferred income	38,621	39,709	24,094	24,022
TOTAL deferred income	375,984	486,722	211,268	234,127

* see Note 4 h

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

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

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

EUR'000

	Group		Parent Company	
	2019	2018	2019	2018
At the beginning of the year	486,722	537,286	234,127	315,443
Received deferred non-current income (financing)	46,337	31,537	259	–
Received advance payments for contracts with customers (Note 6)	940	–	940	–
Received connection fees for connection to distribution system (Note 6)	12,902	14,725	–	–
Received connection fees for connection to transmission system	1,795	–	–	–
Compensation for the installed electrical capacity of CHPPs credited to the Statement of Profit or Loss	(23,990)	(81,004)	(23,990)	(81,004)
Transferred to deferred income of discontinued operation (Note 30)	(132,507)	–	–	–
Credited to the Statement of Profit or Loss	(16,215)	(15,822)	(68)	(312)
At the end of the year	375,984	486,722	211,268	234,127

29. Related party transactions

Accounting policy

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

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



a) Income and expenses from transactions with related parties:

EUR'000

	Group		Parent Company			
	2019	2018	2019		2018	
	Government related entities*		Subsidiaries	Government related entities*	Subsidiaries	Government related entities*
Income:						
– Trade of energy and related services	7,540	10,724	24,754	7,483	25,370	10,656
– Lease of transmission system assets	36,116	38,699	–	–	–	–
– Other revenue from corporate services	–	–	27,475	–	28,505	–
– Other revenue	3,197	3,175	–	3,077	–	3,024
– Lease of assets	223	372	8,802	223	14,534	372
– Interest income	–	–	11,810	–	10,289	–
– Other income	735	1,036	7	–	–	196
TOTAL income from transactions with related parties	47,811	54,006	72,848	10,783	78,698	14,248
Expenses:						
– Distributions system services	–	–	195,652	–	207,096	–
– Public service obligation fees	–	–	87,379	–	98,623	–
– Purchased electricity and heat	5,175	4,131	19,856	4,959	37,461	4,131
– Electricity transmission services costs (Note 8)	71,552	71,368	–	1,015	–	1,015
– Construction services for leased assets	–	–	2,272	–	1,867	–
– Other expenses	739	864	1,494	267	1,594	276
TOTAL expenses from transactions with related parties	77,466	76,363	306,653	6,241	346,641	5,422
<i>including gross expenses from transactions with subsidiaries recognised in net amount through profit or loss:</i>						
– Sadales tīkls AS	–	–	283,032	–	305,719	–
– Enerģijas publiskais tirgotājs AS	–	–	–	–	–	–
	–	–	283,032	–	305,719	–

* Transmission system operator – Augstsprieguma tīkls AS

b) Balances at the end of the year arising from sales / purchases of goods and services:

EUR'000

	Group		Parent Company	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Receivables from related parties:				
– subsidiaries (Note 18 a, b)	–	–	15,277	12,204
– government related and other related parties*	39,924	42,273	1,213	3,365
– loss allowances for expected credit loss from receivables of subsidiaries (Note 18 a, b)	–	–	(11)	(9)
– loss allowances for expected credit loss from receivables of government related and other related parties*	(54)	(55)	(2)	(4)
	39,870	42,218	16,477	15,556
Payables to related parties:				
– subsidiaries	–	–	26,182	30,865
– government related and other related parties*	10,753	12,262	722	1,044
	10,753	12,262	26,904	31,909

c) Accrued income raised from transactions with related parties:

EUR'000

	Group		Parent Company	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
– for goods sold/services provided for subsidiaries (Note 18 a, b)	–	–	1,842	2,859
– for interest received from subsidiaries (Note 18 a, b)	–	–	1,622	1,820
– for goods sold/services provided for government related entities*	–	474	–	–
	–	474	3,464	4,679

d) Accrued expenses raised from transactions with related parties:

EUR'000

	Group		Parent Company	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
– for purchased goods/received services from subsidiaries	–	–	1,335	5,657
– or purchased goods/received services from government related entities*	1,460	–	–	–
	1,460	–	1,335	5,657

*Related parties included transmission system operator – Augstsprieguma tīkls AS and Pirmais Slēgtais Pensiju Fonds AS

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

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

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

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

Dividends received from subsidiaries are disclosed in Note 16.

**e) Loans to related parties (Parent Company)****Non-current and current loans to related parties:**

	EUR'000	
	Parent Company	
	31/12/2019	31/12/2018
Non-current loans to subsidiaries		
Sadales tīkls AS	427,351	442,728
Latvijas elektriskie tīkli AS	161,460	152,681
Impairment for expected credit loss	(377)	(405)
TOTAL non-current loans	588,434	595,004
Current portion of non-current loans		
Sadales tīkls AS	75,377	49,854
Latvijas elektriskie tīkli AS	27,259	8,175
Impairment for expected credit loss	(66)	(39)
Current loans to subsidiaries		
Latvijas elektriskie tīkli AS	7,228	18,541
Sadales tīkls AS	15,182	6,502
Elektrum Eesti OÜ	7,052	7,882
Elektrum Lietuva, UAB	3,967	11,740
Enerģijas publiskais tirgotājs AS	69,889	68,233
Impairment for expected credit loss	(66)	(77)
TOTAL current loans	205,822	170,811
TOTAL loans to subsidiaries	794,256	765,815

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

All current loans to related parties as of 31 December 2019 will be settled in 2020.

Movement in loans

	EUR'000	
	Parent Company	
	2019	2018
At the beginning of the year	765,815	1,098,781
Change in current loans in cash (net)	272,103	323,539
Change in current loans by non-cash offsetting of operating receivables and payables (net)	(219,388)	(720,848)
Issued non-current loans by non-cash offset for dividends	33,743	124,268
Reduction of non-current loans by non-cash offsetting of operating receivables and payables	(58,029)	(59,404)
Effect of IFRS 9 'Financial instruments' adoption	–	(515)
Impairment for expected credit loss	12	(6)
At the end of the year	794,256	765,815

Interest received from related parties:

	EUR'000	
	Parent Company	
	2019	2018
Interest received	948	2,103
	948	2,103

I) Non-current loans, including current portion

Concluded non-current loan agreements with Latvijas elektriskie tīkli AS:

Agreement conclusion date	Principal amount of the loan	Outstanding loan amount		Interest rate	Maturity date
		31/12/2019	31/12/2018		
				6 months EURIBOR	
1 April 2011	97,467	97,467	12,826	+ fixed rate	1 April 2025
3 September 2013	44,109	44,109	27,568	fixed rate	10 September 2023
10 June 2016	156,500	156,500	120,462	fixed rate	10 June 2028
TOTAL	298,076	298,076	160,856		

As of 31 December 2019, total outstanding amount of non-current loans to Latvijas elektriskie tīkli AS amounted to EUR 188,718 thousand (31/12/2018: EUR 160,856 thousand), including current portion of the loan repayable in 2019 – EUR 27,259 thousand (31/12/2018: EUR 8,176 thousand). As of 31 December 2019, for 5% (31/12/2018: 8%) of the loans issued to Latvijas elektriskie tīkli AS was set floating interest rate, which was influenced by 6 months EURIBOR interbank rate fluctuations. During 2019 the effective average interest rate of non-current loans was 1.72% (2018: 1.81%). As of 31 December 2019, is recognised impairment for expected credit loss of non-current loans to Latvijas elektriskie tīkli AS in the amount of 121 thousand EUR (31/12/2018: EUR 109 thousand). Non-current loans are not secured with a pledge or otherwise.

Non-current loans to Latvijas elektriskie tīkli AS by maturity:

	EUR'000	
	Parent Company	
	31/12/2019	31/12/2018
Non-current loan:		
– < 1 year (current portion)	27,259	8,176
– 1 – 5 years	101,039	109,724
– > 5 years	60,420	42,957
	188,718	160,856

Concluded non-current loan agreements with Sadales tīkls AS:

EUR'000

Agreement conclusion date	Principal amount of the loan	Outstanding loan amount		Interest rate	Maturity date
		31/12/2019	31/12/2018		
29 September 2011	316,271	38,316	47,966	6 months EURIBOR + fixed rate	1 September 2025
6 February 2013	42,686	10,672	14,940	fixed rate	10 September 2022
18 September 2013	42,686	17,074	21,343	fixed rate	10 August 2023
29 October 2014	90,000	50,000	60,000	fixed rate	10 September 2024
20 October 2015	90,000	60,000	70,000	fixed rate	21 October 2025
22 August 2016	60,000	46,667	53,333	fixed rate	22 August 2026
22 August 2016	50,000	40,000	45,000	fixed rate	14 June 2027
14 December 2018	260,000	240,000	180,000	fixed rate	14 December 2028
TOTAL	951,643	502,729	492,582		

As of 31 December 2019, total outstanding amount of non-current loans with Sadales tīkls AS amounted to EUR 502,729 thousand (31/12/2018: EUR 492,582 thousand), including current portion of the loan repayable in 2019 – EUR 75,377 thousand (31/12/2018: EUR 49,853 thousand). As of 31 December 2019, for 8% of the loans issued to Sadales tīkls AS (31/12/2018: 10%) was set floating interest rate, which was influenced by 6 months EURIBOR interbank rate fluctuations. During 2019 the effective average interest rate of non-current loans was 1.65% (2018: 1.65%). As of 31 December 2019, is recognised impairment for expected credit loss of non-current loans to Sadales tīkls AS in the amount of EUR 322 thousand EUR (31/12/2018: EUR 335 thousand). Non-current loans are not secured with a pledge or otherwise.

Non-current loans to Sadales tīkls AS by maturity:

EUR'000

Non-current loan:	Parent Company	
	31/12/2019	31/12/2018
– < 1 year (current portion)	75,377	49,853
– 1 – 5 years	278,198	322,786
– > 5 years	149,154	119,943
	502,729	492,582

II) Current loans

To ensure efficiency and centralised management of Latvenergo Group companies' financial resources and using the functionality of Group accounts and possibility for non-cash offsetting of mutual invoices between the parties, current loans are provided. In the reporting period Latvenergo AS issued loans to subsidiaries in accordance with mutually concluded agreement 'On provision of mutual financial resources', allowing the subsidiaries to borrow and to repay the loan accordingly to daily operating needs and including non-cash offsetting of operating receivables and payables. In 2019 the effective average interest rate was 0.48% (2018: 0.51%).

On 31 March 2019 an agreement was concluded between Latvenergo AS and Enerģijas publiskais tirgotājs AS for issue of the current loan in amount of EUR 110,000 thousand to ensure Enerģijas publiskais tirgotājs AS financial resources for the fulfilment of public supplier duties and mandatory procurement process administration. Maturity date of the loan is 31 March 2020 or 31 March 2020 upon a condition neither of parties propose a termination of the agreement one month before the expiry of the agreement. An agreement concluded on 29 March 2018 with amount of EUR 150,000 thousand and maturity date - 31 March 2019 is repaid. Loan annual interest rate is fixed at 1.115% (2018: 0.730%). As of 31 December 2019, net outstanding amount of current loan is EUR 67,971 thousand (31/12/2018: EUR 68,233 thousand).

As of 31 December 2019 impairment for expected credit loss of current loans to related parties is recognised in the amount of 66 thousand EUR (31/12/2018: 77 thousand EUR).

f) Interest paid to related parties (Parent Company)

Financial transactions between related parties have been carried out by using current loans with a target to effectively and centrally manage Latvenergo Group companies' financial resources, using Group accounts. In the reporting period Latvenergo AS has received borrowings from subsidiaries in accordance with mutually concluded agreement 'On provision of mutual financial resources'. In 2019 the effective average interest rate was 0.48% (2018: 0.51%). At the end of the reporting year Latvenergo AS has no borrowings from related parties (31/12/2018: nil).

EUR'000

	Parent Company	
	2019	2018
Interest paid	38	37
	38	37

30. Discontinued operations

Accounting policy

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale or distribution and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale.

The Group classify assets and liabilities held for distribution if the discontinued operation is available for immediate distribution in its present condition and distribution is highly probable, as well is measured at the lower of their carrying amount and fair value less costs to distribute.

Assets and liabilities classified as held for distribution are presented separately from the other assets and other liabilities in the Statement of Financial Position.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit for the year from discontinued operation in the Statement of Profit or Loss. as profit for the year from discontinued operation in the Statement of Profit or Loss.



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On 8 October 2019, the Cabinet of Ministers of the Republic of Latvia supported the implementation of the “full ownership unbundling” model for the electricity transmission system operator by its Protocol Decision No. 46 §38. It is expected that the ownership of Latvijas elektriskie tīkli AS by Latvenergo AS to be terminated and the ownership of Latvijas elektriskie tīkli AS by Augstsprieguma tīkls AS to be commenced by 1 July 2020. Since Latvenergo AS and Augstsprieguma tīkls AS are both state-owned companies, the change of ownership of assets will occur through the reduction of the share capital of Latvenergo AS by withdrawing the capital shares of Latvijas elektriskie tīkli AS from the base of assets of Latvenergo AS. After the capital shares of Latvijas elektriskie tīkli AS become property of the state, they will be invested in the share capital of Augstsprieguma tīkls AS.

In Latvenergo Group's financial statements as of 31 December 2019 subsidiary Latvijas elektriskie tīkli AS was classified as a discontinued operation in accordance with IFRS 5, “Non-current Assets Held for Sale and Discontinued Operations”. In the Statement of Financial Position are disclosed assets, reserves and liabilities held for distribution and in the Statement of Profit or Loss – profit for the year 2019 and comparatives for discontinued operations. In the Group's operating segments results financial results of Latvijas elektriskie tīkli AS are disclosed in transmission system assets lease segment because the Management Board of the Parent Company will continue review financial results of this operating segment until the termination of its ownership.

Financial information of discontinued operation disclosed in tables below includes financial results of transmission system assets lease business, amounts of net assets, reserves in equity, liabilities and cash flows results.

Statement of Profit or Loss

	Group	
	2019	2018
Revenue	36,643	39,203
Other income	1,664	2,162
Raw materials and consumables used	(21)	(144)
Personnel expenses	(450)	(403)
Other operating expenses	(395)	(1,184)
EBITDA	37,441	39,634
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	(24,756)	(25,856)
Operating profit	12,685	13,778
Finance costs	(17)	–
Profit before tax	12,668	13,778
Income tax	(2,436)	(3,348)
Profit for the year from discontinued operation	10,232	10,430

The major classes of assets, reserves and liabilities classified as held for distribution:

	Group	
	31/12/2019	31/12/2018
Assets		
Property, plant and equipment (Note 14 a)	601,175	–
Right-of-use assets (Note 15)	1,099	–
Inventories	184	–
Receivables	37,635	–
Cash and cash equivalents (Note 19)	300	–
Assets held for distribution	640,393	–
Liabilities		
Provisions (Note 27)	(39)	–
Lease liabilities (Note 15)	(1,107)	–
Deferred tax liability	(2,435)	–
Deferred income (Note 28)	(132,507)	–
Trade and other payables	(43,488)	–
Liabilities directly associated with assets held for distribution	(179,576)	–
Net assets directly associated with disposal group	460,817	–
Amounts included in accumulated other comprehensive income:		
Non-current assets revaluation reserve (Note 21)	28,916	–
Post-employment benefit plan revaluation reserve (Note 21)	20	–
Reserves of disposal group classified as held for distribution	28,936	–

Net cash flows from discontinued operations

	Group	
	2019	2018
Net cash flows from operating activities	85,853	85,583
Net cash flows used in investing activities	(85,825)	(86,783)
Net cash flows used in financing activities	(28)	–
Net changes in cash and cash equivalents	–	(1,200)



31. Commitments and contingent liabilities

As of 31 December 2019, the Group had commitments amounting to EUR 156.3 million (31/12/2018: EUR 189.8 million) and the Parent Company had commitments amounting to EUR 52.3 million (31/12/2018: EUR 58.5 million) for capital expenditure contracted but not delivered at the end of the reporting period.

Latvenergo AS has issued support letters to its subsidiaries – on 19 February 2020 to Latvijas elektriskie tīkli AS, on 20 February 2020 to Enerģijas publiskais tirgotājs AS and on 3 March 2020 to Sadales tīkls AS, acknowledging that its position as the shareholder is to ensure that subsidiaries are managed so that they have sufficient financial resources and are able to carry their operations and settle their obligations.

32. Events after the reporting year

Accounting policy

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

On 14 January 2020, Latvenergo AS signed a loan agreement with SEB banka AS for EUR 60 million and with a repayment term up to 2 years.

On 27 February 2020, the Saeima included in the agenda the draft law "On Amendments to the Electricity Market Law", but on 5 March 2020 it was submitted for review to Economic, Agricultural, Environmental and Regional Policy Committee. The draft law provides for the deletion of some rules of the Electricity

Market Law, which defines payments of guaranteed fee for electrical capacity installed at cogeneration power plants. Also, it provides for terminating the order that states that the electricity costs incurred by the public trader in carrying out the statutory functions are borne by the final consumers. The draft law may cause impacts on the Latvenergo Group's profits and asset value.

At the beginning of 2020, the existence of the new coronavirus (Covid-19) was approved and it has currently spread all over the world, also in Latvia, disturbing business and affecting economic development. Latvenergo Group is constantly evaluating the impact of spreading of Covid-19 and implements measures for safety of customers and employees, as well ensures appropriate working regime in strategically important facilities – Daugava hydropower plants, combined heat and power plants in Riga and facilities of Sadales tīkls AS. Latvenergo Group continues to provide all services to its customers and any customer service issues are resolved using remote means of communication.

Spreading of the virus does not have a significant effect on the provision of services by Latvenergo Group. The Group continues to ensure continuity and availability to all customers of electricity generation, electricity and natural gas trading and distribution services. Management of Latvenergo Group considers that the spread of the virus is a non-adjusting event after the reporting period. Since the situation is unclear and is developing rapidly, it is currently not possible to provide a statistical estimate of the potential effect of spreading of the virus on Latvenergo Group, however Covid-19 influence could lead to economic downturn, with the most significant impact on electricity consumption and receivables.

There have been no other significant events subsequent to the end of the reporting year that might have a material effect on the Latvenergo Consolidated and Latvenergo AS Financial Statements for the year ending 31 December 2019.

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

Āris Žīgurs
Chairman of the Management Board

Guntars Baļčūns
Member of the Management Board

Uldis Bariss
Member of the Management Board

Kaspars Cikmačs
Member of the Management Board

Liāna Keldere
Accounting director of Latvenergo AS

7 April 2020

Independent Auditor's Report

To the shareholder of Latvenergo AS

Report on the audit of the separate and consolidated financial statements

Our opinion

In our opinion, the separate and consolidated financial statements give a true and fair view of the separate and consolidated financial position of Latvenergo AS (the Company) and its subsidiaries (together the Group) as at 31 December 2019, and of their separate and consolidated financial performance and their separate and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Our opinion is consistent with our additional report to the Audit Committee dated 27 March 2020.

What we have audited

The financial statements presented on pages 11 to 62 which consist of the separate financial statements of the Company and the consolidated financial statements of the Group (together "the financial statements") comprise:

- the separate and consolidated statement of profit or loss for the year ended 31 December 2019;
- the separate and consolidated statement of comprehensive income for the year ended 31 December 2019;
- the separate and consolidated statement of financial position as at 31 December 2019;
- the separate and consolidated statement of changes in equity for the year then ended;
- the separate and consolidated statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing adopted in the Republic of Latvia (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

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



Independence

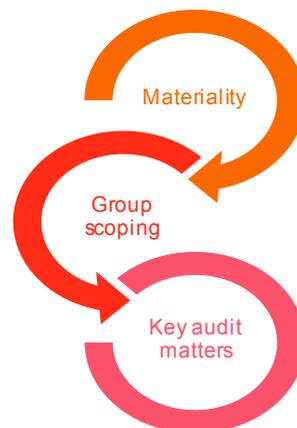
We are independent of the Company and the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements of the Law on Audit Services that are relevant to our audit of the financial statements in the Republic of Latvia. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code and the ethical requirements of the Law on Audit Services.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Company and the Group are in accordance with the applicable law and regulations in Latvia and that we have not provided non-audit services that are prohibited under Article 37.6 of Law on Audit Services of the Republic of Latvia.

The non-audit services that we have provided to the Company and the Group, in the period from 1 January 2019 to 31 December 2019, are disclosed in Note 10 to the financial statements.

Our audit approach

Overview



Materiality

- Overall Company and Group materiality: EUR 6,800 thousand.

Audit scope

- Full scope audit was conducted for all seven Group entities, five of them are in Latvia (including the Company), one in Estonia and one in Lithuania.
- The Group audit team performed the work on all five Latvian entities.
- Estonian and Lithuanian subsidiaries were audited by component audit teams located in the respective countries.

Key audit matters

- Discontinued operations

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.



Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Company and Group materiality separately for the separate and consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall Company and Group materiality	Overall materiality applied to the Company and the Group was EUR 6,800 thousand.
How we determined it	5% of average profit before tax from continuing and discontinued operations for the recent three years.
Rationale for the materiality benchmark applied	We chose profit before tax as the base benchmark because, in our view, it is the benchmark against which the performance of the Company and the Group is most commonly measured by users of the financial statements, and it is a generally accepted benchmark. We decided to use average profit for the recent three years (2017-2019) due to significant volatility in profit before tax during these years due to fluctuations in the market price of electricity, arising mainly from unstable weather conditions in Latvia and Nordic countries. We chose 5%, which is within the range of acceptable quantitative materiality thresholds.

We agreed with the Audit Committee that we would report to them the misstatements identified during our audit above EUR 680 thousand, both with respect to the Company and the Group, as well as the misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters are addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters

How our audit addressed the key audit matter

Discontinued operations

Refer to Note 30 to the financial statements on pages from 60 to 61.

In 2019 the Cabinet of Ministers of the Republic of Latvia decided to support the scenario presented by the Ministry of Economics and the Ministry of Finance on the implementation of electricity transmission system operator ownership model “Complete separation of ownership”, which foresees transfer of “Latvijas elektriskie tīkli” (LET) shares from Latvenergo group to “Augstsprieguma tīkli” (AST) by 1 July 2020.

Management had to apply judgement in evaluating if the planned transfer of LET shares meets the criteria of a disposal group under IFRS 5 “Non-current assets held for distribution and discontinued operations” as at 31 December 2019. According to IFRS 5 classification of a disposal group as assets held for distribution is only achieved if the asset is available for immediate distribution in its present condition and the distribution is highly probable (including management’s commitment to the plan, unlikely significant changes to the plan, the probability of shareholder’s approval). Management also had to make judgement on classification of transactions between continuing and discontinued operations.

We focused on this area because classification, measurement and presentation of discontinued operations and assets held for distribution and the related liabilities have material impact on the Group’s financial statements as at 31 December 2019 and for the year then ended.

We examined the Cabinet of Ministers decision on “Complete separation of ownership” in relation to electricity transmission system operator ownership model and evaluated the Group’s management assessment of the probability of the transaction, the Group’s management commitment to the plan to distribute the assets, actions taken to initiate the distribution, timing of the planned distribution, likelihood of the significant changes to the plan and the probability of the shareholder’s approval.

We evaluated the Group’s management judgement on classification of transactions between continuing and discontinued operations.

We performed detailed audit procedures on the classification of the discontinued operations revenue and expenses and the assets held for distribution and the related liabilities in the Group’s financial statements as at 31 December 2019 and for the year then ended and in the comparative statement of profit or loss for the year ended 31 December 2018.

We assessed whether the information disclosed in the financial statements in relation to discontinued operations meets the requirements of IFRS 5.

How we tailored our Group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Full scope statutory audit was performed for the Company and all its subsidiaries by us or by other PwC network firms. Where work was performed by component auditors, we determined the level of involvement we needed to have to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the consolidated financial statements as a whole. We also audited the consolidation process.



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Reporting on other information including the Management Report

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

- Latvenergo Group Key Figures, Latvenergo AS Key Figures and Management Report as set out on pages 3 to 10 of the accompanying Annual Report,
- Non-financial Report included in the Management Report as set out on page 8 of the accompanying Annual Report, and
- the Corporate Governance Report, set out in separate statement prepared by the Company's management and available on the Company's website <http://www.latvenergo.lv> section Investors as at the date of this audit report,

but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information identified above.

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

With respect to the Management Report, we also performed the procedures required by Law on Audit Services. Those procedures include considering whether the Management Report is prepared in accordance with the requirements of the applicable legislation.

In accordance with the Law on Audit Services of the Republic of Latvia with respect to the Corporate Governance Report, our responsibility is to consider whether the Corporate Governance Report includes the information required by section (3) of Article 56.² of the Financial Instruments Market Law.

Based on the work undertaken in the course of our audit, in our opinion, in all material respects:

- the information given in the other information identified above for the financial year for which the financial statements are prepared is consistent with the financial statements;
- the Management Report has been prepared in accordance with the requirements of the Law on Annual Reports and Consolidated Annual Reports; and
- the Statement of Corporate Governance, available on the Company's website <http://www.latvenergo.lv> as at the date of this audit report, includes the information required by section (3) of Article 56.2 of the Financial Instruments Market Law.

In addition, in light of the knowledge and understanding of the Company and the Group and their environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the Management Report and the other information listed above that we obtained prior to the date of this auditor's report. We have nothing to report in this respect.

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

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional 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 and the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company or the Group to cease to continue as a going concern.



- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on other legal and regulatory requirements

Appointment

We were appointed as auditors of the Company and the Group for the year ended 31 December 2019 by resolution of general meeting of shareholders dated 8 May 2019. This is our second year of the appointment.

PricewaterhouseCoopers SIA
Certified audit company
License No. 5

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

Riga, Latvia
7 April 2020

Independent Auditor's Report is signed electronically with a secure electronic signature and contains a time stamp.





2020
Latvenergo Group Consolidated
and Latvenergo AS Annual Report



Latvenergo Group Consolidated and Latvenergo AS Annual Report

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

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FINANCIAL CALENDAR

Interim Condensed Financial Statements:

For the 3 months of 2021 (unaudited) – 31.05.2021

For the 6 months of 2021 (unaudited) – 31.08.2021

For the 9 months of 2021 (unaudited) – 30.11.2021

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Financial figures	EUR'000				
	2020	2019	2018	2017	2016
Revenue	773,391	841,636	838,805	881,212	885,740
EBITDA ¹⁾	277,894	243,526	281,947	497,731	347,312
Operating profit ²⁾	121,350	100,365	81,983	214,462	151,101
Profit before tax ³⁾	112,699	92,072	74,734	224,114	148,945
Profit	116,309	94,359	75,955	322,021	130,593
Dividends ⁴⁾	127,071	132,936	156,418	90,142	77,413
Total assets	3,358,835	3,864,941	3,798,819	4,415,725	3,901,231
Non-current assets	2,976,192	2,798,712	3,364,534	3,343,404	3,388,954
Total equity	2,118,242	2,265,487	2,320,065	2,846,891	2,418,713
Borrowings	743,199	882,671	814,343	826,757	791,566
Net debt (adjusted) ⁵⁾	555,876	563,959	505,419	496,730	528,980
Net cash flows from operating activities	291,194	315,433	302,869	338,209	341,186
Investments	168,855	229,427	220,607	243,811	200,677

Financial figures and ratios are presented by excluding discontinued operation (unbundling transmission system asset ownership)– see Note 30 to the Financial Statements.

¹⁾ EBITDA– earnings before interest, income tax, share of result of associates, depreciation and amortisation, and impairment of intangible assets and property, plant and equipment

²⁾ Operating profit– earnings before income tax, finance income and costs

³⁾ Profit before tax– earnings before income tax

⁴⁾ Dividends paid to the equity holder of the Parent Company. (see Note 21 b)

⁵⁾ Net debt (adjusted):

Net debt (until 2019) = (borrowings at the end of the year minus Latvijas elektriskie tīkli AS borrowings at the end of the year) minus (cash and cash equivalents at the end of the year minus Latvijas elektriskie tīkli AS cash and cash equivalents at the end of the year)

Net debt (as from 2020) = (borrowings at the end of the year minus loans to Augstsprieguma tīkls AS at the end of the year) minus cash and cash equivalents at the end of the year

In order to ensure an objective and comparable presentation of the financial results, Latvenergo Group and Latvenergo AS uses various financial figures and ratios that are derived from the financial statements. Based on the most commonly used financial figures and ratios in the industry, the Latvenergo Group Strategy for 2017-2022 (see also the Management Report– section Further development, and Sustainability Report), as well as the binding financial covenants set in the Group's loan agreements, Latvenergo Group has set here and therefore uses the following financial figures and ratios:

- profitability measures– EBITDA¹⁾; EBITDA margin⁶⁾; operating profit margin⁷⁾; profit before tax margin⁸⁾; profit margin⁹⁾; return on assets (ROA)¹⁴⁾; return on equity (ROE)¹⁵⁾; return on capital employed (ROCE)¹⁶⁾;
- capital structure measures– net debt⁵⁾; equity–to–asset ratio¹⁰⁾; net debt / EBITDA¹¹⁾; net debt / equity¹²⁾; current ratio¹³⁾;
- a dividend policy measure– dividend pay–out ratio¹⁷⁾.

These financial figures and ratios have not changed since the previous period, excluding the Net debt calculation. With the separation of the transmission assets, starting from 2020, loans of Latvijas elektriskie tīkli AS included in the calculation are replaced by loans to Augstsprieguma tīkls AS.

Financial ratios	2020	2019	2018	2017	2016
EBITDA margin ⁶⁾	36%	29%	34%	56%	39%
Operating profit margin ⁷⁾	15.7%	11.9%	9.8%	24.3%	17.1%
Profit before tax margin ⁸⁾	14.6%	10.9%	8.9%	25.4%	16.8%
Profit margin ⁹⁾	15.0%	11.2%	9.1%	36.5%	14.7%
Equity–to–asset ratio ¹⁰⁾	63%	59%	61%	64%	62%
Net debt / EBITDA (adjusted) ¹¹⁾	2.0	2.2	1.8	1.0	1.6
Net debt / equity (adjusted) ¹²⁾	0.26	0.25	0.22	0.17	0.22
Current ratio ¹³⁾	1.5	1.2	1.5	3.2	1.7
Return on assets (ROA) ¹⁴⁾	3.2%	2.5%	1.8%	7.7%	3.5%
Return on equity (ROE) ¹⁵⁾	5.3%	4.1%	2.9%	12.2%	5.8%
Return on capital employed (ROCE) (adjusted) ¹⁶⁾	4.2%	3.4%	2.5%	6.4%	5.1%
Dividend pay–out ratio ¹⁷⁾	126%	62%	104%	66%	82%

Operational figures	2020	2019	2018	2017	2016	
Total electricity supply, incl.:	GWh	8,854	9,259	9,984	10,371	10,140
- Retail*	GWh	6,394	6,505	6,954	6,923	7,665
- Wholesale**	GWh	2,460	2,754	3,030	3,448	2,474
Retail natural gas	GWh	516	303	147	33	–
Electricity generated	GWh	4,249	4,880	5,076	5,734	4,707
Thermal energy generated	GWh	1,702	1,842	2,274	2,612	2,675
Number of employees		3,295	3,423	3,508	3,908	4,131
Moody's credit rating		Baa2 (stable)				

⁶⁾ EBITDA margin = EBITDA / revenue

⁷⁾ Operating profit margin = operating profit / revenue

⁸⁾ Profit before tax margin = profit before tax / revenue

⁹⁾ Profit margin = profit / revenue

¹⁰⁾ Equity–to–asset ratio = total equity at the end of the year / total assets at the end of the year

¹¹⁾ Net debt / EBITDA = (net debt at the beginning of the year + net debt at the end of the year) * 0.5 / EBITDA (12-months rolling)

¹²⁾ Net debt / equity = net debt at the end of the year / equity at the end of the year

¹³⁾ Current ratio = current assets at the end of the year / current liabilities at the end of the year

¹⁴⁾ Return on assets (ROA) = profit / average value of assets ((assets at the beginning of the year + assets at the end of the year) / 2)

¹⁵⁾ Return on equity (ROE) = profit / average value of equity ((equity at the beginning of the year + equity at the end of the year) / 2)

¹⁶⁾ Return on capital employed (ROCE) = operating profit / (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 without Latvijas elektriskie tīkli AS + borrowings at the end of the year without Latvijas elektriskie tīkli AS) / 2)

¹⁷⁾ Dividend pay–out ratio = dividends / profit of the Parent Company

* Including operating consumption

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

Latvenergo AS Key Figures



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Financial figures	EUR'000				
	2020	2019	2018	2017	2016
Revenue	385,612	437,529	435,199	498,580	513,563
EBITDA ¹⁾	197,889	112,651	160,927	387,100	241,606
Operating profit ²⁾	111,630	45,108	33,803	177,416	141,071
Profit before tax ³⁾	154,848	101,227	212,760	185,906	156,290
Profit	154,848	101,227	212,733	150,891	137,441
Dividends ⁴⁾	127,071	132,936	156,418	90,142	77,413
Total assets	2,760,155	3,136,958	3,141,109	3,649,200	3,204,394
Non-current assets	2,307,985	2,615,113	2,661,307	2,546,014	2,626,560
Total equity	1,746,436	1,949,287	1,993,823	2,382,638	2,177,069
Borrowings	733,392	872,899	802,268	814,772	778,323
Net debt (adjusted) ⁵⁾	548,511	555,348	494,944	486,393	518,220
Net cash flows from operating activities	446,162	378,142	394,395	449,352	201,427
Investments	50,999	48,269	41,350	89,278	79,913

¹⁾ EBITDA– earnings before interest, income tax, share of result of associates, depreciation and amortisation, and impairment of intangible assets and property, plant and equipment

²⁾ Operating profit– earnings before income tax, finance income and costs

³⁾ Profit before tax– earnings before income tax

⁴⁾ Dividends paid to the equity holder of the Parent Company. (see Note 21 b)

⁵⁾ Net debt (adjusted):

Net debt (until 2019) = (borrowings at the end of the year minus Latvijas elektriskie tīkli AS borrowings at the end of the year) minus (cash and cash equivalents at the end of the year minus Latvijas elektriskie tīkli AS cash and cash equivalents at the end of the year)

Net debt (as from 2020) = (borrowings at the end of the year minus loans to Augstsprieguma tīkls AS at the end of the year) minus cash and cash equivalents at the end of the year

These financial figures and ratios have not changed since the previous period, excluding the Net debt calculation. With the separation of the transmission assets, starting from 2020, loans of Latvijas elektriskie tīkli AS included in the calculation are replaced by loans to Augstsprieguma tīkls AS.

Financial ratios

	2020	2019	2018	2017	2016
EBITDA margin ⁶⁾	51.3%	25.7%	37.0%	77.6%	47.0%
Operating profit margin ⁷⁾	28.9%	10.3%	7.8%	35.6%	27.5%
Profit before tax margin ⁸⁾	40.2%	23.1%	48.9%	37.3%	30.4%
Profit margin ⁹⁾	40.2%	23.1%	48.9%	30.3%	26.8%
Equity-to-asset ratio ¹⁰⁾	63%	62%	63%	65%	68%
Net debt / equity (adjusted) ¹¹⁾	0.31	0.29	0.25	0.24	0.27
Current ratio ¹²⁾	2.3	1.8	2.0	4.3	2.3
Return on assets (ROA) ¹³⁾	5.3%	3.2%	6.3%	4.4%	4.3%
Return on equity (ROE) ¹⁴⁾	8.4%	5.1%	9.7%	6.6%	6.4%
Return on capital employed (ROCE) (adjusted) ¹⁵⁾	4.4%	1.7%	1.2%	5.9%	4.9%
Dividend pay-out ratio ¹⁶⁾	126%	62%	104%	66%	82%

Operational figures

	2020	2019	2018	2017	2016	
Total electricity supply, incl.:	GWh	5,318	5,502	5,826	6,265	6,039
- Retail*	GWh	4,235	4,211	4,406	4,619	5,290
- Wholesale**	GWh	1,083	1,290	1,419	1,645	749
Retail natural gas	GWh	453	294	145	33	–
Electricity generated	GWh	4,215	4,832	5,028	5,687	4,660
Thermal energy generated	GWh	1,475	1,603	2,007	2,354	2,422
Number of employees		1,267	1,328	1,355	1,431	1,472
Moody's credit rating	Baa2 (stable)					

⁶⁾ EBITDA margin = EBITDA / revenue

⁷⁾ Operating profit margin = operating profit / revenue

⁸⁾ Profit before tax margin = profit before tax / revenue

⁹⁾ Profit margin = profit / revenue

¹⁰⁾ Equity-to-asset ratio = total equity at the end of the year / total assets at the end of the year

¹¹⁾ Net debt / equity = net debt at the end of the year / equity at the end of the year

¹²⁾ Current ratio = current assets at the end of the year / current liabilities at the end of the year

¹³⁾ Return on assets (ROA) = profit / average value of assets ((assets at the beginning of the year + assets at the end of the year) / 2)

¹⁴⁾ Return on equity (ROE) = profit / average value of equity ((equity at the beginning of the year + equity at the end of the year) / 2)

¹⁵⁾ Return on capital employed (ROCE) = operating profit / (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))

¹⁶⁾ Dividend pay-out ratio = dividends / profit of the Parent Company

* Including operating consumption

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

Management Report

Latvenergo Group (the Group) is one of the largest power supply providers in the Baltics operating in electricity and thermal energy generation and trade, natural gas trade, electricity distribution services and, until 10 June 2020, lease of transmission system assets.

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

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

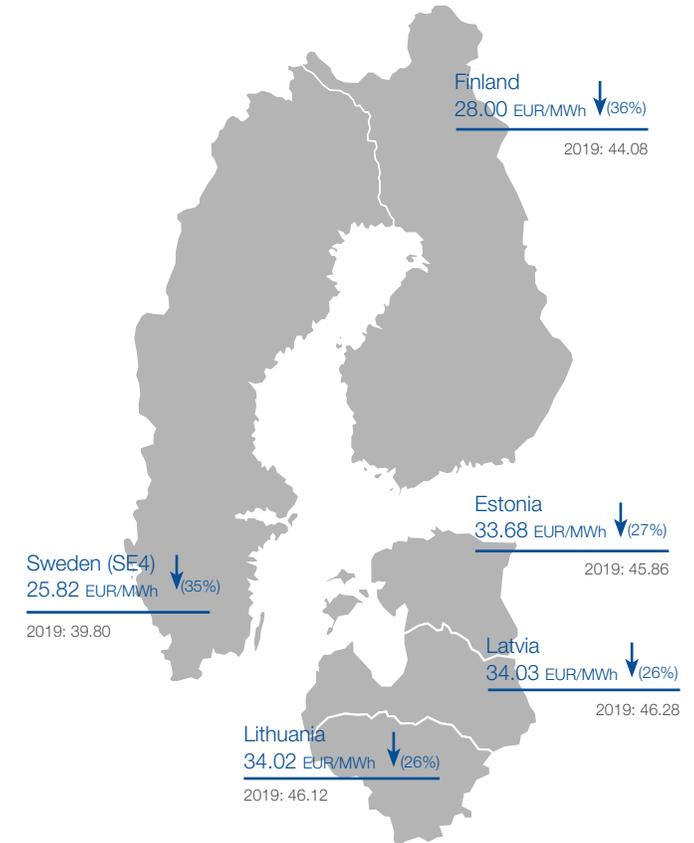
Operating Environment

In 2020, electricity spot prices in the Nordics and the Baltics were lower compared to the previous year due to the normalization of the Nordic hydro balance and lower demand for electricity due to warmer weather in winter season and COVID-19. In 2020, the electricity spot price in Latvia decreased by 26% compared to the previous year.

Energy prices declined

Due to lower demand, the average price of Brent crude oil in 2020 was 43.2 USD/bbl, which was 33% lower than in the previous year, while the average price of coal (API2 Rotterdam Coal Futures Cal 21) decreased by 19% compared to the year 2019, reaching 57.9 USD/t. Due to the decrease in oil and coal prices, there was a decline in the price of natural gas. In the reporting year, the average Front Month price of natural gas at GASPOOL (the German natural gas virtual trading point) and the TTF (the Dutch natural gas virtual trading point) was 35% lower than in the previous year. The average natural gas (Front Month) price was 9.7 EUR/MWh at the GASPOOL and 9.5 EUR/MWh at the TTF. The average price of CO₂ emission allowances (EUA DEC.20) in the reporting year decreased by 3%, declining to 24.5 EUR/t. Lower economic activity and raw material prices were reducing CO₂ prices, however, the decline in CO₂ prices was restricted by the European Commission's announcements of the new goals of the European Climate Act or the "Green Deal" to achieve climate neutrality by 2050.

Electricity wholesale price on Nord Pool power exchange



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Significant Events

Unbundling transmission system asset ownership

The most common transmission system management model in Europe is one in which the network assets are owned by the transmission system operator. Therefore, on 8 October 2019, the Cabinet of Ministers of the Republic of Latvia (CM) decided to support full unbundling of ownership of the electricity transmission system operator (TSO) until 1 July 2020, providing that transmission assets will be taken over from Latvenergo AS by Augstsprieguma tīkls AS (AST).

The revenue of the transmission system asset leasing segment represented 4% of Latvenergo Group's revenue; EBITDA and asset value represented 14% and 17% respectively.

On 10 June 2020, transmission system assets in the amount of EUR 694.3 million were separated from Latvenergo Group, transferring all the shares of Latvijas elektriskie tīkli AS (LET) in the amount of EUR 222.7 million to the Ministry of Economics. Therefore, the share capital of Latvenergo AS was decreased to EUR 612.2 million. The market value of 100% LET shares were valued by KPMG Baltics AS.

On 9 July 2020, in accordance with the decision of the CM on unbundling of transmission assets, the shareholders' meeting of Latvenergo AS decided to increase the share capital of Latvenergo AS by EUR 178.1 million by investing in Latvenergo AS retained earnings from previous years and determining the share capital of Latvenergo AS in the amount of EUR 790.3 million.

In November 2020, the legal process of property rights reform of the Latvian electricity transmission system has been completed – LET was incorporated in AST.

Along with the unbundling of LET, all LET liabilities were transferred, including the Latvenergo AS loan to LET in the amount of EUR 225 million. The AST loans will be repaid to Latvenergo AS in three instalments, of which EUR 139 million were already repaid in June 2020 and the remaining amount will be repaid in equal parts in 2022 and 2023.

The investment financing required by the Group will also decrease – in the last 5 years the average amount of investments in the transmission assets was EUR 60 million per year.

On 7 August 2020, the international credit rating agency Moody's Investors Service renewed the Latvenergo AS credit analysis, maintaining the investment grade Baa2 with a stable outlook, also taking into account the unbundling of transmission system asset ownership.

Amendments to the Electricity Market Law

On 17 September 2020, at the first reading the Saeima supported the amendments to the Electricity Market Law. The draft law provides for the deletion of some stipulations of the Electricity Market Law, which defines payments of a guaranteed fee for electrical capacity installed at cogeneration power plants. Also, it provides for terminating the order that states that the electricity costs incurred by the public trader in carrying out the statutory functions are borne by the final consumers. The draft law may have an impact on Latvenergo Group's profits and asset value.

At the same time, regarding the CM Order No. 595 *On the conceptual report "Complex measures for solving the problem of the mandatory procurement public service obligation fee and development of the electricity market"*, adopted on October 12, 2020, the average public service obligation fee (hereinafter – PSO fee) was reduced by 23% to 17,51 EUR/MWh starting from 1 January 2021.

On changes in the Management Board of Latvenergo AS

On October 30, 2020, Āris Žīgurs, the Chairman of the Management Board of Latvenergo AS, ceased to work for Latvenergo AS. As of October 31, Guntars Baļčūns, Member of the Management Board and Chief Financial Officer, is appointed as acting Chairman of the Latvenergo AS Management Board. On November 11, 2020, Uldis Bariss, Member of the Management Board and Commercial Director of Latvenergo AS, ceased to work for Latvenergo AS. The Chief Technology and Support Officer Kaspars Cikmačs continues to work in the Management Board. On November 6, 2020, Arnis Kurgs and on January 29, 2021, Uldis Mucinieks were appointed as members of the temporary board of the Company, and they will perform the duties of these positions until the establishment of the permanent composition of the board. New members of the Board of Latvenergo AS will be selected through a competition procedure.

On the impact of COVID-19 on Latvenergo Group operations

Latvenergo Group continuously evaluates the impact of the spread of COVID-19, implements measures for customer and employee safety, and ensures appropriate shift arrangements in the facilities of strategic importance: the Daugava HPPs, the Latvenergo AS CHPPs and the facilities of Sadales tīkls AS.

The restrictions implemented in the Baltics in order to limit the spread of COVID-19 reduced economic activity, including electricity consumption. In 2020, electricity consumption in Latvia decreased by 2.2%, and this was due to both the spread of COVID-19 and warmer weather.

In the reporting year, Latvenergo Group services have not been significantly affected by the spread of the virus. The Group continues to ensure generation of electricity and thermal energy, as well as uninterrupted and accessible trade and distribution of electricity and natural gas to all its customers.

Operating Results

Generation

In the reporting year, Latvenergo Group was the largest electricity producer in the Baltics, producing 29% of the total electricity generated in the Baltics. The total amount generated by Latvenergo Group's power plants comprised 4,249 GWh of electricity and 1,702 GWh of thermal energy.



The share of electricity generated from renewable energy sources comprised 60%

The amount of power generated at the Daugava HPPs was 23% higher compared to 2019, reaching 2,528 GWh. The relatively larger amount of power generated at the Daugava HPPs was impacted by higher water inflow in the Daugava River. In 2020, the average water inflow in the Daugava River was 500 m³/s, while in 2019 it was 401 m³/s. The share of electricity generated from renewable energy sources at Latvenergo Group was 60% (2019: 42%).

In the reporting year, the amount generated at the Latvenergo AS CHPPs reached 1,685 GWh, which was 39% less than in 2019. The operation of the CHPPs is adjusted to the conditions of the electricity market and heat demand.

In 2020, the total amount of thermal energy generated by Latvenergo Group decreased by 8% compared to the previous year. The decrease was impacted by warmer weather.

Trade

In 2020, Latvenergo Group maintained a stable position in the Baltic electricity market, continuing to actively expand into new business segments by launching operations in the Lithuanian household electricity market.

In the reporting year, the total electricity consumption in the Baltics decreased by 2.4% compared to 2019. This was due to warmer weather conditions and the COVID-19 emergency restrictions announced in all three Baltic countries.

In 2020, the Group supplied 6.4 TWh of electricity in the Baltics. The overall amount of retail electricity trade outside Latvia accounted for 1/3 of the total. The electricity trade volume in Latvia was 4.2 TWh, while in Lithuania it was 1.2 TWh and in Estonia it was 0.9 TWh.

Latvenergo – an energy company that operates in all segments of the market in Latvia, Lithuania and Estonia

The total number of electricity customers comprised approximately 740 thousand, including 49 thousand foreign customers. The Group has prepared for the partial opening of the Lithuanian household market to free competition from January 2021. By the end of 2020, more than 13,000 trade agreements were concluded in this segment.

In 2020, Latvenergo Group's natural gas sales to retail customers were 70% higher than in the previous year, reaching 516 GWh. The increase in natural gas sales can be observed in all three Baltic countries, due to the positive dynamics of the number of customers, especially in the segments of Latvian households and Lithuanian business customers.

At the end of the reporting year, the natural gas portfolio consisted of 13.5 thousand customers, of which 12.1 thousand were households.

In 2020, the retail activities of other services in the Baltic states continued. More than 600 contracts were signed for the installation of solar panels in the Baltics; thus, the number of concluded contracts has almost doubled compared to the previous year. By the end of the reporting year, the total installed solar panel capacity provided to Latvenergo Group's retail customers in the Baltics reached 6.3 MW; 79% of panels are installed for customers outside Latvia. In 2020, Elektrum started construction projects for two solar panel parks in Lithuania and Estonia with total planned installed capacity of 1.75 MW. Steady growth in the number of Elektrum Insured customers in the Baltics continued, reaching almost 100 thousand. The development of the Elektrum e-shop continued, exceeding 2,400 transactions in 2020. Since the opening of the electric vehicle charging network in August 2019 until the end of 2020, customers of the Elektrum mobile application have made more than 8,000 public charges.

Distribution

Distribution segment provides electricity distribution services in Latvia. Sadales tīkls AS is the largest state distribution system operator, covering approximately 98% of the territory of Latvia. Distribution system tariffs are approved by the Public Utilities Commission (PUC).

Sadales tīkls AS provides electricity distribution services to more than 800 thousand customers. During the reporting year, the customer satisfaction of Sadales tīkls AS has significantly increased, and the European Distribution System Operators' Association E.DSO has recognized the company as an example of good practice for customer service solutions in Europe.

Sadales tīkls AS – an example of good practice for customer service solutions in Europe

Since 2017, Sadales tīkls AS has been implementing an efficiency programme, which comprises process reviews, decreasing the number of employees and transportation units, and optimizing the number of technical and support real estate bases. Within the framework of this programme, we are planning to further reduce the number of employees at Sadales tīkls AS by around 800 in total by 2022. As of 31 December 2020, the number of employees at Sadales tīkls AS has been reduced by more than 650. At the end of the reporting year, the amount of smart electricity meters installed by the company comprised more than 850 thousand, which was approximately 3/4 of the total number of electricity meters of customers of Sadales tīkls AS. The measures taken by Sadales tīkls AS within the framework of the efficiency improvement programme contributed to a 5.5% reduction in the average distribution system service tariff as of 1 January 2020.

In 2020, the amount of electricity distributed was 6,286 GWh, which is 4% less than in 2019. It was affected by warmer weather and Covid-19.

Investments in modernization of distribution assets have increased the quality of distribution services by lowering System Average Interruption Frequency Index (SAIFI) and System Average Interruption Duration Index (SAIDI). In 2020, SAIFI was 2.3 times, but SAIDI was 219 minutes. Over the last five years, SAIFI has decreased by 26% and SAIDI has decreased by 24%.

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Financial Results

In 2020, Latvenergo Group’s revenue reached EUR 773.4 million, which was EUR 68.2 million or 8% less than in 2019. This was mainly affected by:

- EUR 30.7 million lower energy sales revenues due to lower electricity prices and 13% less electricity generated. In addition, 2.4% decrease in electricity consumption in the Baltics was due to warmer weather and COVID-19;
- EUR 23.7 million lower revenue from electricity distribution service due to the lower amount of distributed electricity and the reduced average electricity distribution service tariff;
- EUR 14.8 million lower heat sales due to warmer weather conditions.

Latvenergo Group’s EBITDA increased by 14% compared to 2019, reaching EUR 277.9 million. This was positively affected by lower electricity purchase prices and 23% or 480 GWh higher electricity output at the Daugava HPPs. In 2020, the electricity spot price in Latvia decreased by 26% compared to 2019. EBITDA was negatively affected by lower distribution segment revenue.

Group’s EBITDA increased by 14%

The Group’s profit for the reporting year reached EUR 116.3 million, which is by 23% more than in 2019. The Group’s ROE in 2020 reached 5.3% which is by 1.2 basis points more than in 2019. The financial indicators of the capital structure ensured achievement of the set goals, exceeding average industry indicators as well. For information on achievement of the financial goals, see the Sustainability Report section “Group Strategy”.

Investments

In 2020, the total amount of investment comprised EUR 168.9 million which was EUR 60.6 million or 26% less than in the previous year. The decrease in the amount of investment was due to EUR 58.6 million lower investments in transmission system assets than in 2019.

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

To ensure high-quality power network service, technical parameters and operational safety, a significant amount is invested in the modernization of the power network. In the reporting year, the amount invested in power network assets represented 69% of total investment. EUR 28.8 million of this was invested in transmission system assets. In the reporting year, investments in the distribution system assets amounted to EUR 87.4 million, which is 8% less than in 2019.

Contributing to environmentally friendly projects, in 2020, EUR 18.5 million was invested in the Daugava HPPs’ hydropower unit reconstruction. The Hydropower unit reconstruction programme for the Daugava

HPPs envisages the reconstruction of 11 hydropower units in order to ensure environmentally safe, sustainable and competitive operations and efficient water resource management. As of 31 December 2020, six reconstructed hydropower units have been put into operation within the programme. Latvenergo Group is proceeding with a gradual overhaul of five Daugava HPPs’ hydropower units with estimated total reconstruction costs exceeding EUR 200 million. As of 31 December 2020, work completed within the scope of the contract reached EUR 184.6 million. Reconstruction will ensure functionality of the hydropower units for another 40 years.

Funding

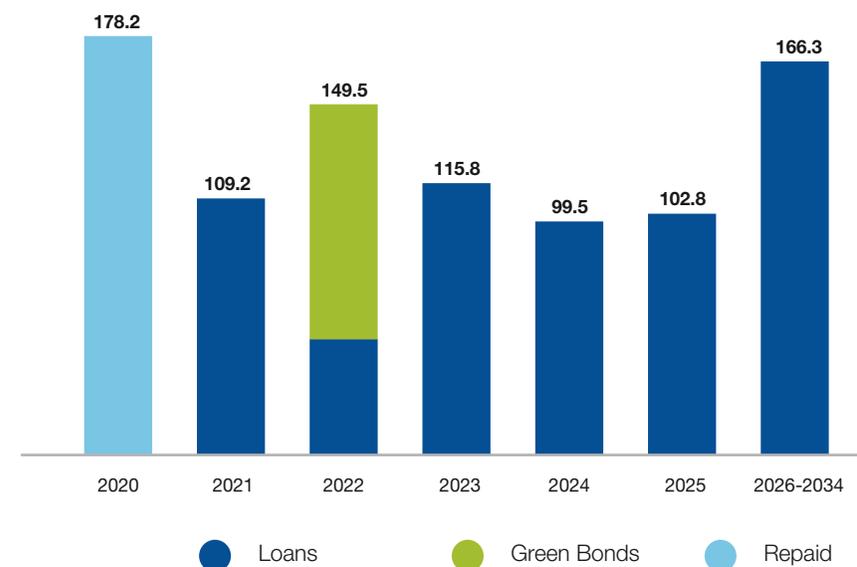
Latvenergo Group finances its investments from its own resources and external long-term borrowings, which are regularly sourced in financial and capital markets in a timely manner.

As of 31 December 2020, the Group’s borrowings amounted to EUR 743.2 million (31 December 2019: EUR 882.7 million), comprising loans from commercial banks, international investment banks, and EUR 100 million green bonds.

Latvenergo Group’s debt repayment schedule

Total borrowings as of 31 December 2020: 743.2 MEUR

MEUR





Latvenergo AS again receives the award for Best Investor Relations on the Bond Market

In 2020, the Financial and Capital Market Commission has registered the base prospectus of the third bond programme of Latvenergo AS, allowing it to make a public offering of bonds. The total amount of the bond programme in nominal value is up to EUR 200 million and the maturity of the bonds is up to 10 years. The bonds will be issued in the format of green bonds, for which the Green Bond Framework of Latvenergo AS was developed. The independent research centre CICERO Shades of Green has rated the updated Latvenergo AS green bonds framework as Dark Green (the highest category), indicating the compliance of the planned projects with long-term environmental protection and climate change mitigation objectives, as well as good governance and transparency.

After the reporting year, on 3 February 2021, Latvenergo AS has for the second time received the award for the best investor relations among all bond issuers on the Nasdaq Baltic regulated markets in the Baltic countries. When granting the award for the best investor relations, the stock exchange has especially appreciated the sustainability reports prepared by Latvenergo Group, its informative and investor-friendly website, as well as timely disclosure of information.

On 7 August 2020, the international credit rating agency Moody's Investors Service renewed the Latvenergo AS credit analysis. The rating of Latvenergo AS remained unchanged: Baa2 with a stable outlook. On 11 February 2021 Moody's completed a periodic review of the rating of Latvenergo AS. Credit rating Baa2 for Latvenergo AS has been stable for six years in a row, confirming the consistency of operations and financial soundness of Latvenergo Group.

Corporate Governance

Along with the financial results of Latvenergo Group, also the Corporate Governance Report of Latvenergo AS for 2020 is published. For detailed information see the Sustainability Report 2020.

Non-financial Report

Latvenergo Group has prepared a non-financial report in accordance with the Law on the Financial Instruments Market (Article 56⁴).

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

For detailed information on Corporate Social Responsibility (CSR) activities, description of the policies and procedures in relation to those matters, the outcome of application of the policies, risks and risk

management, and non-financial key performance indicators, please see the Sustainability Report 2020 which is available on the Latvenergo website: <http://www.latvenergo.lv>. The report is prepared in accordance with the GRI Standards – Core option requirements.

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

Further Development

Latvenergo Group's strategy for 2017–2022 foresees:

- strengthening of a sustainable and economically sound market position in core markets (in the Baltics) while considering geographic and / or product / service expansion;
- development of a generation portfolio that fosters synergy with trade and that promotes an increase in value for the Group;
- development of a customer-driven, functional, safe and efficient power network.

Comprehensive Efficiency Programme

Taking into consideration the defined development directions of the Group, Latvenergo AS approved the Strategic Development and Efficiency Programme in 2017. While the strategic development section includes major strategic projects, the efficiency section provides for the revision, centralization and digitalization of the Group's processes in order to maintain the Group's profitability in the long term considering the increase in costs due to inflation. The estimated efficiency potential for the Group's EBITDA is up to EUR 40 million. This is the Group's largest optimization plan in the last decade, and it will allow the Group to increase its value in the long run and to remain competitive in an open market and a changing energy industry.

The activities planned in the strategy have been successfully implemented in 2020. For more information please see the Sustainability Report section "Group Strategy".

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

Target group	Ratio	Year 2022
Profitability	Return on equity	> 6%
Capital structure	Net debt to equity	< 50%
	Net debt to EBITDA	< 3 times
Dividend policy	Dividend	> 80%

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The financial targets are set to ensure:

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

Financial Risk Management

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

a) Market risks

I) Price risk

Price risk might negatively affect the financial results of Latvenergo Group and Latvenergo AS due to falling revenue from generation and a mismatch between electricity purchases at floating market prices and retail sales at fixed prices.

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

In order to hedge the price risk, the Latvenergo Group and Latvenergo AS enter into long-term fixed price customer contracts, uses electricity and natural gas financial derivatives, and enter into fixed price contracts for natural gas supply. The impact of price risk on generation is hedged gradually – price has been fixed for 80%–90% of projected electricity output prior to the upcoming year. Further hedging of risk is limited by the seasonal generation pattern of the Daugava HPPs.

II) Interest rate risk

Latvenergo Group's and Latvenergo AS interest rate risk mainly arises from non-current borrowings at variable interest rates. They expose the Group and the Parent Company to the risk that finance

costs might increase significantly when the reference rate surges. Most of the borrowings from financial institutions have a variable interest rate, comprising 6-month EURIBOR and a margin. The Group's Financial Risk Management Policy stipulates maintaining more than 35% of its borrowings as fixed interest rate borrowings (taking into account the effect of interest rate swaps and issued bonds) with a duration of 1–4 years (2019: 2–4 years). Taking into account the effect of interest rate swaps and bonds with a fixed interest rate, 38% of the Group's and 39% of the Parent Company's borrowings had a fixed interest rate with an average duration of 1.6 years both for the Group and the parent Company as of 31 December 2020.

III) Currency risk

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

As of 31 December 2020, all borrowings of Latvenergo Group and Latvenergo AS are denominated in euros, and during the reporting year, there was no substantial exposure to foreign currency risk as regards the Group's and the Parent Company's investments in non-current or current assets.

To manage the foreign currency exchange risk, the Financial Risk Management Policy envisages use of foreign exchange forward contracts.

b) Credit risk

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

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

c) Liquidity risk and cash flow risk

Latvenergo Group's liquidity and cash flow risk management policy is to maintain a sufficient amount of cash and cash equivalents and the availability of long and short-term funding through an adequate amount of committed credit facilities in order to meet existing and expected commitments and compensate for fluctuations in cash flows due to the occurrence of a variety of financial risks. On 31 December 2020, Latvenergo Group's liquid assets (cash and cash equivalents – short-term deposits up to 3 months) reached EUR 100.7 million (31 December 2019: EUR 122.7 million), while the Latvenergo AS liquid assets reached EUR 98.3 million (31/12/2019: EUR 121.3 million).

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



Events after the reporting period

On 17 December 2020, the Shareholders' meeting of Enerģijas publiskais tirgotājs AS accepted decision on the reorganisation of the company through transforming it into a limited liability company Enerģijas publiskais tirgotājs SIA. On 31 March 2021 the reorganisation process was completed and Enerģijas publiskais tirgotājs AS was transformed into Enerģijas publiskais tirgotājs SIA by taking over of all rights and liabilities of Enerģijas publiskais tirgotājs AS and continuing to perform them in full.

All other significant events that would materially affect the financial position of the Latvenergo Group and Latvenergo AS after the reporting period are disclosed in Note 32 of the Group's and the Parent Company's Financial Statements.

Statement of management responsibility

Based on the information available to the Management Board of Latvenergo AS, the Latvenergo Group Consolidated and Latvenergo AS Annual Report 2020, including the Management Report, have been prepared in accordance with the International Financial Reporting Standards as adopted by the EU and in all material aspects present a true and fair view of the assets, liabilities, financial position, profit and loss and its cash flows of Latvenergo Group and Latvenergo AS. Information provided in the Management Report is accurate.

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The Management Board of Latvenergo AS:

Guntars Baļčūns
Chairman of the Management Board

Kaspars Cikmačs
Member of the Management Board

Arnis Kurgs
Member of the Management Board

Uldis Mucinieks
Member of the Management Board

13 April 2021

Profit distribution

According to the Law "On the Medium-Term Budget Framework for 2021, 2022 and 2023" the expected amount of dividends to be paid by Latvenergo AS for the use of state capital in 2021 (for the reporting year 2020) amounted not less than EUR 98,2 million (incl. income tax). The distribution of net profit and amount of dividends payable is subject to a resolution of the Latvenergo AS Shareholders Meeting.

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Statement of Profit or Loss

	Notes	Group		Parent Company	
		2020	2019	2020	2019
Revenue	6	773,391	841,636	385,612	437,529
Other income	7	28,732	25,863	63,177	23,558
Raw materials and consumables	8	(369,261)	(477,660)	(173,884)	(271,069)
Personnel expenses	9	(105,971)	(101,349)	(45,657)	(45,039)
Other operating expenses	10	(48,997)	(44,964)	(31,359)	(32,328)
EBITDA		277,894	243,526	197,889	112,651
Depreciation, amortisation and impairment of intangible assets, property, plant and equipment and right-of-use assets	13 a, 14 a, 15	(156,544)	(143,161)	(86,259)	(67,543)
Operating profit		121,350	100,365	111,630	45,108
Finance income	11	2,125	1,187	12,768	12,995
Finance costs	11	(10,776)	(9,480)	(11,293)	(11,734)
Dividends from subsidiaries	16	–	–	41,743	54,858
Profit before tax		112,699	92,072	154,848	101,227
Income tax	12	(6,234)	(7,945)	–	–
Profit for the year from continuing operations		106,465	84,127	154,848	101,227
Profit for the year from discontinued operations	30	9,844	10,232	–	–
Profit for the year		116,309	94,359	154,848	101,227
Profit attributable to:					
- Equity holder of the Parent Company	21 c	114,513	92,660	154,848	101,227
- Non-controlling interests	21 c	1,796	1,699	–	–
Basic earnings per share (in euros)	21 c	0.144	0.111	0.195	0.121
Diluted earnings per share (in euros)	21 c	0.144	0.111	0.195	0.121

The notes on pages 16 to 62 are an integral part of these Financial Statements

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The Management Board of Latvenergo AS:

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Arnis Kurgs
Member of the Management Board

Uldis Mucinieks
Member of the Management Board

Liāna Ķeldere
Accounting director of Latvenergo AS

13 April 2021

Statement of Comprehensive Income

	Notes	Group		Parent Company	
		2020	2019	2020	2019
Profit for the year		116,309	94,359	154,848	101,227
Other comprehensive loss to be reclassified to profit or loss in subsequent periods:					
- losses from change in hedge reserve	21 a, 24	(7,774)	(11,771)	(7,774)	(11,771)
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods		(7,774)	(11,771)	(7,774)	(11,771)
Other comprehensive income / (loss) not to be reclassified to profit or loss in subsequent periods:					
- gains on revaluation of property, plant and equipment	14 a, 21 a	96,264	–	–	–
- losses as a result of re-measurement on defined post-employment benefit plan	21 a, 27	(476)	(2,043)	(176)	(1,148)
Net other comprehensive income / (loss) not to be reclassified to profit or loss in subsequent periods		95,788	(2,043)	(176)	(1,148)
Other comprehensive income / (loss) for the year		88,014	(13,814)	(7,950)	(12,919)
TOTAL comprehensive income for the year		204,323	80,545	146,898	88,308
Attributable to:					
- Equity holder of the Parent Company		202,527	78,846	146,898	88,308
- Non-controlling interests		1,796	1,699	–	–

The notes on pages 16 to 62 are an integral part of these Financial Statements



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Notes	Group		Parent Company		
	31/12/2020	31/12/2019	31/12/2020	31/12/2019	
	EUR'000				
ASSETS					
Non-current assets					
Intangible assets	13 a	50,028	22,587	16,193	26,111
Property, plant and equipment	14 a	2,827,326	2,752,945	1,071,570	1,109,001
Right-of-use assets	15	8,253	5,522	4,486	3,476
Investment property	14 b	512	301	3,334	39,435
Non-current financial investments	16	40	39	645,218	831,350
Non-current loans to related parties	29 e	86,620	–	563,783	588,434
Other non-current receivables	18 b	429	433	417	421
Derivative financial instruments	24	291	–	291	–
Other financial investments	22	2,693	16,885	2,693	16,885
Total non-current assets		2,976,192	2,798,712	2,307,985	2,615,113
Current assets					
Inventories	17	68,754	104,927	50,471	89,522
Current intangible assets	13 a	3,157	–	3,157	–
Receivables from contracts with customers	18 a	108,178	111,530	75,856	82,973
Other current receivables	18 b, c	85,316	77,085	29,610	13,328
Deferred expenses		1,083	3,015	960	2,082
Current loans to related parties	29 e	–	–	178,446	205,822
Prepayment for income tax		43	140	–	140
Derivative financial instruments	24	1,266	6,717	1,266	6,717
Other financial investments	22	14,143	–	14,143	–
Cash and cash equivalents	19	100,703	122,422	98,261	121,261
Current assets excluding assets held for distribution		382,643	425,836	452,170	521,845
Assets held for distribution	30	–	640,393	–	–
Total current assets		382,643	1,066,229	452,170	521,845
TOTAL ASSETS		3,358,835	3,864,941	2,760,155	3,136,958

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The Management Board of Latvenergo AS:

Guntars Baļčūns

Chairman of the Management Board

Kaspars Cikmačs

Member of the Management Board

Arnis Kurgs

Member of the Management Board

Uldis Mucinieks

Member of the Management Board

Liāna Ķeldere

Accounting director of Latvenergo AS

13 April 2021

Notes	Group		Parent Company		
	31/12/2020	31/12/2019	31/12/2020	31/12/2019	
	EUR'000				
EQUITY AND LIABILITIES					
EQUITY					
Share capital	20	790,348	834,883	790,348	834,883
Reserves	21 a	1,154,367	1,075,235	766,115	778,162
Retained earnings		165,672	318,555	189,973	336,242
Reserves of disposal group classified as held for distribution	30	–	28,936	–	–
Equity attributable to equity holder of the Parent Company		2,110,387	2,257,609	1,746,436	1,949,287
Non-controlling interests		7,855	7,878	–	–
Total equity		2,118,242	2,265,487	1,746,436	1,949,287
LIABILITIES					
Non-current liabilities					
Borrowings	23	634,077	702,129	626,408	696,863
Lease liabilities	15	6,783	4,349	3,734	3,126
Deferred income tax liabilities	12	6,401	8,327	–	–
Provisions	27	17,317	18,491	8,402	8,489
Derivative financial instruments	24	9,672	6,149	9,672	6,149
Deferred income from contracts with customers	28 I a	139,613	143,330	863	877
Other deferred income	28 I b, c	170,413	194,033	163,480	186,297
Total non-current liabilities		984,276	1,076,808	812,559	901,801
Current liabilities					
Borrowings	23	109,122	180,542	106,984	176,036
Lease liabilities	15	1,561	1,216	806	376
Trade and other payables	26	100,912	115,708	63,704	78,381
Deferred income from contracts with customers	28 II a	15,091	13,764	813	63
Other deferred income	28 II b, c	24,799	24,857	24,021	24,031
Derivative financial instruments	24	4,832	6,983	4,832	6,983
Current liabilities excluding liabilities held for distribution		256,317	343,070	201,160	285,870
Liabilities directly associated with the assets held for distribution	30	–	179,576	–	–
Total current liabilities		256,317	522,646	201,160	285,870
Total liabilities		1,240,593	1,599,454	1,013,719	1,187,671
TOTAL EQUITY AND LIABILITIES		3,358,835	3,864,941	2,760,155	3,136,958

The notes on pages 16 to 62 are an integral part of these Financial Statements



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Statement of Changes in Equity

EUR'000

	Notes	Group						Parent Company				
		Attributable to equity holder of the Parent Company					Non-controlling interests	TOTAL	Share capital	Reserves	Retained earnings	TOTAL
		Share capital	Reserves	Retained earnings	Reserves classified as held for distribution	Total						
As of 31 December 2018		834,791	1,125,466	351,350	–	2,311,607	8,458	2,320,065	834,791	794,555	364,477	1,993,823
Increase of share capital	14 a,20	92	–	–	–	92	–	92	92	–	–	92
Dividends for 2018	21 b	–	–	(132,936)	–	(132,936)	(2,279)	(135,215)	–	–	(132,936)	(132,936)
Disposal of non-current assets revaluation reserve	21 a	–	(7,481)	7,481	–	–	–	–	–	(3,474)	3,474	–
Discontinued operations	30	–	(28,936)	–	28,936	–	–	–	–	–	–	–
Total transactions with owners and other changes in equity		92	(36,417)	(125,455)	28,936	(132,844)	(2,279)	(135,123)	92	(3,474)	(129,462)	(132,844)
Profit for the year		–	–	92,660	–	92,660	1,699	94,359	–	–	101,227	101,227
Other comprehensive loss for the year	21 a	–	(13,814)	–	–	(13,814)	–	(13,814)	–	(12,919)	–	(12,919)
Total comprehensive income for the year		–	(13,814)	92,660	–	78,846	1,699	80,545	–	(12,919)	101,227	88,308
As of 31 December 2019		834,883	1,075,235	318,555	28,936	2,257,609	7,878	2,265,487	834,883	778,162	336,242	1,949,287
Decrease of share capital	20	(222,678)	–	–	–	(222,678)	–	(222,678)	(222,678)	–	–	(222,678)
Increase of share capital	20	178,143	–	(178,143)	–	–	–	–	178,143	–	(178,143)	–
Dividends for 2019	21 b	–	–	(127,071)	–	(127,071)	(1,819)	(128,890)	–	–	(127,071)	(127,071)
Disposal of non-current assets revaluation reserve	21 a	–	(8,882)	8,882	–	–	–	–	–	(4,097)	4,097	–
Discontinued operations	30	–	–	28,936	(28,936)	–	–	–	–	–	–	–
Total transactions with owners and other changes in equity		(44,535)	(8,882)	(267,396)	(28,936)	(349,749)	(1,819)	(351,568)	(44,535)	(4,097)	(301,117)	(349,749)
Profit for the year		–	–	114,513	–	114,513	1,796	116,309	–	–	154,848	154,848
Other comprehensive income / (loss) for the year	21 a	–	88,014	–	–	88,014	–	88,014	–	(7,950)	–	(7,950)
Total comprehensive income for the year		–	88,014	114,513	–	202,527	1,796	204,323	–	(7,950)	154,848	146,898
As of 31 December 2020		790,348	1,154,367	165,672	–	2,110,387	7,855	2,118,242	790,348	766,115	189,973	1,746,436

The notes on pages 16 to 62 are an integral part of these Financial Statements

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The Management Board of Latvenergo AS:

Guntars Baļčūns

Chairman of the Management Board

Kaspars Cikmačs

Member of the Management Board

Arnis Kurgs

Member of the Management Board

Uldis Mucinieks

Member of the Management Board

Liāna Ķeldere

Accounting director of Latvenergo AS

13 April 2021



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Statement of Cash Flows

Notes	EUR'000			
	Group		Parent Company	
	2020	2019	2020	2019
Cash flows from operating activities				
	112,699	92,072	154,848	101,227
Profit before tax				
Profit before tax from discontinued operation	30	9,946	12,667	–
Profit before tax, total	122,645	104,739	154,848	101,227
Adjustments:				
- Depreciation, amortisation and impairment of intangible assets, property, plant and equipment (PPE) and right-of-use assets	13 a, 14 a, 15	168,146	167,918	86,259
- Loss from disposal of non-current assets		22,284	26,980	17,007
- Interest expense	11	10,355	9,346	10,963
- Interest income	11	(2,137)	(1,034)	(12,780)
- Fair value (income) / loss on derivative financial instruments	8	(1,242)	293	(1,242)
- Dividends from subsidiaries	16	–	–	(41,743)
- Decrease in provisions	27	(1,434)	(3,691)	(531)
- Unrealised loss / (income) on currency translation differences	11	105	(54)	105
- Gain from distribution of assets / non-current financial investment of Parent Company		(5,001)	–	(36,246)
Operating profit before working capital adjustments		313,721	304,497	176,640
Decrease / (increase) in inventories		36,205	(32,990)	39,061
(Increase) / decrease in receivables from contracts with customers and other receivables		(31,821)	41,083	69,643
(Decrease) / increase in trade and other liabilities		(6,659)	11,757	(28,311)
Impact of non-cash offsetting of operating receivables and liabilities from subsidiaries, net		–	–	200,140
Cash generated from operating activities		311,446	324,347	457,173
Interest paid		(11,517)	(9,483)	(12,195)
Interest paid on leases	15	(87)	(54)	(8)
Interest received		2,118	1,084	1,192
Paid corporate income tax		(10,766)	(461)	–
Net cash flows from operating activities		291,194	315,433	446,162

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13 April 2021

Notes	EUR'000			
	Group		Parent Company	
	2020	2019	2020	2019
Cash flows from investing activities				
Loans issued to subsidiaries, net	29 e	–	–	(286,688)
Repayment of loans to related parties	29 e	138,560	–	138,560
Purchase of intangible assets and PPE		(184,748)	(254,947)	(68,937)
Dividends received from subsidiaries	16	–	–	12,426
Proceeds from redemption of other financial investments		50	49	50
Net cash flows used in investing activities		(46,138)	(254,898)	(204,589)
Cash flows from financing activities				
Repayment of issued debt securities (bonds)	23	(35,000)	–	(35,000)
Proceeds on borrowings from financial institutions	23	39,500	180,291	35,000
Repayment of borrowings	23	(143,176)	(112,102)	(138,692)
Received financing from European Union		1,515	579	1,351
Lease payments	15	(1,024)	(821)	(161)
Dividends paid to non-controlling interests	21 b	(1,819)	(2,279)	–
Dividends paid to equity holder of the Parent Company	21 b	(127,071)	(132,936)	(127,071)
Net cash flows used in financing activities		(267,075)	(67,268)	(264,573)
Net decrease in cash and cash equivalents		(22,019)	(6,733)	(23,000)
Cash and cash equivalents at the beginning of the year	19	122,722	129,455	121,261
Cash and cash equivalents at the end of the year	19	100,703	122,722	98,261

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1. Corporate information

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

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

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

- Sadales tīkls AS (since 18 September 2006) with 100% interest held.
- Elektrum Eesti OÜ (since 27 June 2007) and its subsidiary Elektrum Latvija SIA (since 18 September 2012) with 100% interest held.
- Elektrum Lietuva, UAB (since 7 January 2008) with 100% interest held.
- Liepājas enerģija SIA (since 6 July 2005) with 51% interest held.
- Enerģijas publiskais tirgotājs AS (since 25 February 2014, on 31 March 2021 reorganised into a limited liability company (SIA)) with 100% interest held.

From 10 February 2011 till 10 June 2020 the Group included Latvijas elektriskie tīkli AS with 100% interest held in the company.

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

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

The Management Board of Latvenergo AS:

Since 25 September 2018 the Management Board of Latvenergo AS was comprised of the following members: Āris Žīgurs (Chairman of the Board), Uldis Bariss, Guntars Baļčūns and Kaspars Cikmačs;

Since 31 October 2020 the Management Board of Latvenergo AS was comprised of the following members: Guntars Baļčūns (Chairman of the Board), Uldis Bariss and Kaspars Cikmačs;

Since 6 November 2020 the Management Board of Latvenergo AS was comprised of the following members: Guntars Baļčūns (Chairman of the Board), Uldis Bariss, Kaspars Cikmačs and Arnis Kurgs;

Since 12 November 2020 the Management Board of Latvenergo AS was comprised of the following members: Guntars Baļčūns (Chairman of the Board), Kaspars Cikmačs and Arnis Kurgs;

Since 1 February 2021 the Management Board of Latvenergo AS was comprised of the following members: Guntars Baļčūns (Chairman of the Board), Kaspars Cikmačs, Arnis Kurgs and Uldis Mucinieks.

The Supervisory Board of Latvenergo AS:

Since 9 October 2019 until 10 June 2020 the Supervisory Board of Latvenergo AS was comprised of the following members: Edmunds Valantis (Chairman), Edijs Šaicāns (Deputy Chairman) and Irēna Bērziņa;

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

The Supervisory body– Audit Committee:

Since 9 October 2019 Audit Committee was comprised of the following members: Torbens Pedersens (Torben Pedersen), Svens Dinsdorfs, Marita Salgrāve;

Since 11 June 2020 Audit Committee was comprised of the following members: Torbens Pedersens (Torben Pedersen), Svens Dinsdorfs, Marita Salgrāve, Toms Siliņš and Gundars Ruža;

Since 20 November 2020 Audit Committee was comprised of the following members: Torbens Pedersens (Torben Pedersen), Svens Dinsdorfs, Toms Siliņš and Gundars Ruža;

Since 3 February 2021 Audit Committee was comprised of the following members: Torbens Pedersens (Torben Pedersen), Svens Dinsdorfs, Ilvija Grūba, Toms Siliņš and Gundars Ruža.

The Management Board of Latvenergo AS has approved the Latvenergo Group and Latvenergo AS Financial statements 2020 on 13 April 2021. The Financial Statements are subject to Shareholder's approval on the Shareholder's Meeting.

2. Summary of significant accounting policies

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

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

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

The Financial Statements for 2020 include the financial information in respect of the Latvenergo Group and Latvenergo AS for the year ended 31 December 2020 and comparative information for 2019. Where it has been necessary, comparatives for 2019 are reclassified using the same principles applied for preparation of the Financial Statements for 2020.

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



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

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

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

a) Standards issued and which became effective, and are relevant for the Group's and the Parent Company's operations

- **Amendments to the Conceptual Framework for Financial Reporting**

Amendments are effective for the periods beginning on or after 1 January 2020. The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance – in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Group and the Parent Company have assessed the impact of these amendments on the Group's and the Parent Company's Financial statements and disclosures, and these changes do not have a significant impact on their financial results.

- **Amendments to IFRS 3 - Definition of a business**

Amendments are effective for the periods beginning on or after 1 January 2020. The amendments revise definition of a business. A business must have inputs and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present, including for early stage companies that have not generated outputs. An organised workforce should be present as a condition for classification as a business if are no outputs. The definition of the term 'outputs' is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. It is also no longer necessary to assess whether market participants can replace missing elements or integrating the acquired activities and assets. An entity can apply a 'concentration test'. The assets acquired would not represent a business if substantially all the fair value of gross assets acquired were concentrated in a single asset (or a group of similar assets). The Group and the Parent Company have assessed the impact of these amendments on the Group's and the Parent Company's Financial statements and disclosures, and these amendments do not have a material effect on the Group's and the Parent Company's financial statements.

- **Amendments to IAS 1 and IAS 8 - Definition of materiality**

Amendments are effective for the periods beginning on or after 1 January 2020. The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating, or obscuring it could reasonably be expected to influence the decisions that the primary users of general-purpose financial statements make based on those financial statements, which provide financial information about a specific reporting entity. By reviewing estimates and assumptions used in the preparation of the financial statements, the Group and the Parent Company have evaluated and concluded that these amendments do not have impact on the Group's and the Parent Company's financial position.

- **Amendments to IFRS 16 – Covid-19 Related Rent Concessions**

Amendments are effective for the periods beginning on or after 1 January 2020. The amendments provided lessees (but not lessors) with relief in the form of an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification. The Group and the Parent Company as a lessee have not used such reliefs.

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

- **Amendments to IAS 1 – Classification of liabilities as current or non-current**

Amendments are effective for the periods beginning on or after 1 January 2023, not yet adopted by the EU. The Group and the Parent Company will assess the impact of these amendments on their financial statements to determine whether they may have a material effect on the Group's and the Parent Company's financial position.

- **Amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018-2020**

Amendments are effective for the periods beginning on or after 1 January 2022, not yet adopted by the EU. The Group and the Parent Company will assess the impact of these amendments on their financial statements to determine whether they may have a material effect on the Group's and the Parent Company's Financial statements and disclosures.

Consolidation

a) Subsidiaries

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

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

The acquisition method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured, as the fair value of the assets given, equity instruments issued, and liabilities incurred or assumed at the date of exchange. Costs directly attributable to the acquisition are expensed



to the Statement of Profit or Loss as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

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

b) Transactions with non-controlling interests and owners

The Group treats transactions with non-controlling interests as transactions with equity owners of the economic entity. Changes in a Parent's ownership interest in a subsidiary that do not result in the Parent losing control over the subsidiary are equity transactions (i.e. transactions with owners in their capacity as owners). For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in the Group's equity.

c) Distributions of non-cash assets to owners

The Parent Company recognises a liability for dividend payable to its owner when it declares a distribution and has an obligation to distribute the assets concerned to its owner. A liability to distribute non-cash assets as a dividend to its owner is measured at the fair value of the assets to be distributed. When dividend payable is settled, the difference, if any, between the carrying amount of the assets distributed and the carrying amount of the dividend payable is recognised in profit or loss.

Foreign currency translation

a) Functional and presentation currency

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

b) Transactions and balances

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

Financial assets and liabilities

Financial Assets

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

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

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

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

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

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

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

Debt instruments

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

- at *Amortised cost*: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are 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 Group and the Parent Company subsequently measure all equity investments at fair value. Where the Group's or the Parent Company's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit



or loss following the de-recognition of the investment. Dividends from such investments continue to be recognised in profit or loss when the Group's and the Parent Company's right to receive payments is established.

Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI or FVPL are not reported separately from other changes in fair value.

Financial Liabilities

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

De-recognition

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

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

The Group and the Parent Company derecognise a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group and the Parent Company also derecognise a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value. On de-recognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

Impairment

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

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

Counterparty model is used on individual contract basis for deposits, investments in State Treasury bonds, loans to subsidiaries and cash and cash equivalents. The expected credit losses according to this model for those are based on assessment of the individual counterparty's risk of default based

on Moody's 12 months corporate default and recovery rates if no significant increase in credit risk is identified. The circumstances indicating a significant increase in credit risk is significant increase in Moody's default and recovery rates (by 1 percentage point) and counterpart's inability to meet payment terms (overdue 30 days or more, insolvency or bankruptcy, or initiated similar legal proceedings and other indications on inability to pay). If significant increase in credit risk identified, calculated lifetime expected credit loss.

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

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

Derivative financial instruments

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

3. Financial risk management

3.1. Financial risk factors

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

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

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

EUR'000

Notes	Group			Parent Company		
	Financial assets at amortised cost	Derivatives used for hedging	Financial instruments at fair value through profit or loss	Financial assets at amortised cost	Derivatives used for hedging	Financial instruments at fair value through profit or loss
Financial assets as of 31 December 2020						
Receivables from contracts with customers	18 a	108,178	-	75,856	-	-
Other current financial receivables	18 b	84,864	-	29,328	-	-
Loans to related parties	29 e	86,620	-	742,229	-	-
Derivative financial instruments	24 l	-	503	-	503	1,054
Other financial investments	22	16,836	-	16,836	-	-
Cash and cash equivalents	19	100,703	-	98,261	-	-
		397,201	503	962,510	503	1,054
Financial assets as of 31 December 2019						
Receivables from contracts with customers	18 a	111,530	-	82,973	-	-
Other current financial receivables	18 b	76,891	-	13,221	-	-
Loans to related parties	29 e	-	-	794,256	-	-
Derivative financial instruments	24 l	-	4,684	-	4,684	2,033
Other financial investments	22	16,885	-	16,885	-	-
Cash and cash equivalents	19	122,422	-	121,261	-	-
		327,728	4,684	1,028,596	4,684	2,033

EUR'000

Notes	Group			Parent Company		
	Financial liabilities at amortised cost	Derivatives used for hedging	Financial instruments at fair value through profit or loss	Financial liabilities at amortised cost	Derivatives used for hedging	Financial instruments at fair value through profit or loss
Financial liabilities as of 31 December 2020						
Borrowings	23	743,199	-	733,392	-	-
Derivative financial instruments	24 l	-	14,504	-	14,504	-
Lease liabilities	15	8,344	-	4,540	-	-
Trade and other financial current payables	26	76,429	-	51,664	-	-
		827,972	14,504	789,596	14,504	-
Financial liabilities as of 31 December 2019						
Borrowings	23	882,671	-	872,899	-	-
Derivative financial instruments	24 l	-	10,912	-	10,912	2,220
Lease liabilities	15	5,565	-	3,502	-	-
Trade and other financial current payables	26	91,410	-	68,249	-	-
		979,646	10,912	944,650	10,912	2,220

a) Market risk

I) Foreign currencies exchange risk

As of 31 December 2020 and 31 December 2019 the Group and the Parent Company had borrowings denominated only in euros (Note 23). Their revenues and most of the financial assets and liabilities were denominated in euros. Accordingly, neither the Group nor the Parent Company were subject to a significant foreign currencies exchange risk.

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

The Group's Treasury Financial Risk Management Policy is to hedge all anticipated cash flows (capital expenditure and purchase of inventory) in each major foreign currency that might create significant currency risk. During 2020 and 2019 the Group and the Parent Company had no capital expenditure project where expected transactions would create significant currency risk.

II) Interest rate risk

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



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During 2020 if euro interest rates had been 50 basis points higher with all other variables held constant, the Group's income from the cash reserves held at bank for the year would have been EUR 488 thousand higher (2019: EUR 633 thousand) and the Parent Company's income from the cash reserves held at bank for the year would have been EUR 476 thousand higher (2019: EUR 621 thousand).

The Group's and the Parent Company's cash flow interest rate risk mainly arises from long-term borrowings at variable rates. They expose the Group and the Parent Company to a risk that finance costs might increase significantly when interest rates rise up. The Group's policy is to maintain more than 35% of its borrowings as fixed interest rates borrowings (taking into account the effect of interest rate swaps) with duration between 1–4 years (2019: 2–4 years).

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

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

To hedge cash flow interest rate risk, the Group and the Parent Company have entered into interest rate swap agreements with total notional amount of EUR 193.8 million (2019: EUR 229.4 million) (Note 24 II). 38% of the total Group's and 39% the Parent Company's borrowings as of 31 December 2020 (31/12/2019: 45% and 45% respectively) had fixed interest rate (taking into account the effect of the interest rate swaps) and average fixed rate duration was 1.6 years for the Group and the Parent Company (2019: 1.8 years for the Group and the Parent Company).

If interest rates on euro denominated borrowings at floating base interest rate (after considering hedging effect) had been 50 basis points higher with all other variables held constant over the period until the next annual report, the Group's profit for the year would have been EUR 661 thousand lower (over the next 12 months period after 31/12/2019: EUR 2,297 thousand), the Parent Company's profit for the year would have been EUR 654 thousand lower (over the next 12 months period after 31/12/2019: EUR 2,255 thousand).

As of 31 December 2020, if short and long term euro interest rates had been 50 basis points higher with all other variables held constant fair value of interest rate swaps would have been EUR 3,698 thousand higher (31/12/2019: EUR 4,634 thousand higher), which would have been attributable to the Statement of Comprehensive Income as hedge accounting item. However, if short and long term euro interest rates had been 50 basis points lower with all other variables held constant fair value of interest rate swaps would have been EUR 3,832 thousand lower (31/12/2019: EUR 4,815 thousand lower), which would have been attributable to the Statement of Comprehensive Income as hedge accounting item.

III) Price risk

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

The most significant price risk is related to purchase of electricity and natural gas. To hedge the risk related to changes in the price of electricity and natural gas the Parent Company during 2020 and 2019 has purchased electricity forward and future contracts and natural gas forward contracts (Note 24 III, IV).

b) Credit risk

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

The maximum credit risk exposure related to financial assets (see table below) comprises of carrying amounts of cash and cash equivalents (Note 19), receivables from contracts with customers and other receivables (Note 18), derivative financial instruments (Note 24), other financial investments (Note 22) and loans to related parties (Note 29 e).

Assessment of maximum possible exposure to credit risk

	Notes	Group		Parent Company	
		31/12/2020	31/12/2019	31/12/2020	31/12/2019
Receivables from contracts with customers	18 a	108,178	111,530	75,856	82,973
Other current financial receivables	18 b	84,864	76,891	29,328	13,221
Loans to related parties	29 e	86,620	–	742,229	794,256
Cash and cash equivalents	19	100,703	122,422	98,261	121,261
Derivative financial instruments	24	1,557	6,717	1,557	6,717
Other financial investments	22	16,836	16,885	16,836	16,885
		398,758	334,445	964,067	1,035,313

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



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

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

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

	EUR'000			
	Group		Parent Company	
	31/12/2020	31/12/2019	31/12/2020	31/12/2019
Investment level credit rating*	100,703	117,347	98,261	116,186
No or non-investment level credit rating	–	5,075	–	5,075
	100,703	122,422	98,261	121,261

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

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

	EUR'000			
	Group		Parent Company	
	31/12/2020	31/12/2019	31/12/2020	31/12/2019
Aa2	22,289	70,621	20,882	69,468
Aa3	33,836	1,926	33,049	1,926
Baa1	35,106	40,466	34,860	40,458
Baa2	373	4,334	373	4,334
Baa3	9,099	–	9,097	–
Non-investment level credit rating	–	5,075	–	5,075
	100,703	122,422	98,261	121,261

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

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

c) Liquidity risk

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

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

**Liquidity analysis (contractual undiscounted gross cash flows)**

EUR'000

Notes	Group					Parent Company				
	Less than 1 year	From 1 to 2 years	From 3 to 5 years	Over 5 years	TOTAL	Less than 1 year	From 1 to 2 years	From 3 to 5 years	Over 5 years	TOTAL
As of 31 December 2020										
Borrowings from banks	111,778	52,815	325,072	169,886	659,551	109,564	50,625	321,690	167,427	649,306
Issued debt securities (bonds)	1,900	102,079	–	–	103,979	1,900	102,079	–	–	103,979
Derivative financial instruments	7,248	4,926	3,424	1,237	16,835	7,248	4,926	3,424	1,237	16,835
Lease liabilities*	1,755	1,675	3,522	2,137	9,089	871	871	2,111	930	4,783
Trade and other current financial payables	26	76,429	–	–	76,429	51,664	–	–	–	51,664
		199,110	161,495	332,018	173,260	865,883	171,247	158,501	327,225	169,594
As of 31 December 2019										
Borrowings from banks	148,892	112,531	267,429	243,819	772,671	144,303	110,795	264,260	243,315	762,673
Issued debt securities (bonds)	37,849	1,900	102,203	–	141,952	37,849	1,900	102,203	–	141,952
Derivative financial instruments	8,740	3,959	3,003	1,154	16,856	8,740	3,959	3,003	1,154	16,856
Lease liabilities*	1,261	1,062	1,670	2,399	6,392	428	428	1,284	1,612	3,752
Trade and other current financial payables	26	91,410	–	–	91,410	68,249	–	–	–	68,249
		288,152	119,452	374,305	247,372	1,029,281	259,569	117,082	370,750	246,081

* The carrying amount of the lease (discounted) for the Group is EUR 8,344 thousand and for the Parent Company EUR 4,540 thousand (31 December 2019: Group – EUR 5,565 thousand, Parent Company – EUR 3,502 thousand) (Note 15)

3.2. Capital management

The Group's and the Parent Company's objectives when managing capital are to safeguard the Group's and the Parent Company's ability to continue as a going concern as well as to ensure necessary financing for investment program and to avoid breaches of covenants (no breaches in 2020 nor 2019), which are linked to capital structure and are stipulated in the majority of loan agreements.

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

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

The capital ratio figures were as follows

	Group		Parent Company	
	31/12/2020	31/12/2019	31/12/2020	31/12/2019
Total equity	2,118,242	2,265,487	1,746,436	1,949,287
Total assets	3,358,835	3,864,941	2,760,155	3,136,958
Capital Ratio	63%	59%	63%	62%

4. Critical accounting estimates and judgements

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

The Group and the Parent Company has assessed the situation at the end of the reporting period and has determined that the spread of Covid-19 and related restrictions have not created a significant negative impact on the Group's and the Parent Company's financial results, considering the nature and continuity of services provided by the Group and the Parent Company. As disclosed in the Management Report, during reporting period electricity consumption has decreased for certain groups of users due the restrictions imposed to prevent the spread of Covid-19.

The Group's and the Parent Company's operations were not significantly disrupted during the first wave of Covid-19 in the spring of 2020, and the Group and the Parent Company do not expect significant disruptions in the future performance that could impact the Group's and the Parent Company's ability to continue as a going concern and the measurement of assets and liabilities.

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



a) Estimates concerning property, plant and equipment

I) Useful lives of property, plant and equipment

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

II) Recoverable amount of property, plant and equipment

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

III) Revaluation

Revaluation for part of the Group's and the Parent Company's property, plant and equipment are performed by independent, external and certified valuation experts by applying the depreciated replacement cost model or income method. Valuation has been performed according to international standards on property valuation, based on current use of property, plant and equipment that is estimated as the most effective and best use of these assets. As a result of valuation, depreciated replacement cost was determined for each asset. Depreciated replacement cost is the difference between the cost of replacement or renewal of similar asset at the time of revaluation and the accumulated loss of an asset's value that encompasses physical deterioration, functional (technological) obsolescence and economic (external) obsolescence. Physical depreciation was determined proportionally to the age of the property, plant and equipment item. In assessment of property, plant and equipment items for which a reconstruction is planned in the near future additional functional depreciation was determined. Remaining useful lives of property, plant and equipment items after revaluation were revised according to estimated total depreciation. Income method is based on the identification and analysis of generation capacity, forecasting of electricity trade prices, analysis of historical generation and operating expenses and forecast of future costs, capital expenditure, net cash flows, as well calculation of discount and capitalisation rates, based on market data.

For detailed most recent revaluation results see Note 14 c.

b) Impairment of financial assets

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

- non-current and current loans to related parties
- other non-current receivables
- other financial investments
- receivables from contracts with customers
- other current receivables
- cash and cash equivalents.

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

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

Using the portfolio model the Group and the Parent Company apply the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for trade receivables of basic business activities (electricity, natural gas and heat and supporting services sales, IT and telecommunication services sales). To measure expected credit losses these receivables have been grouped based on shared credit risk characteristics and the days past due. The Group and the Parent Company therefore have concluded that the expected loss rates for these receivables are a reasonable approximation of the credit risk exposure. The expected loss rates are based on the payment profiles of sales and the corresponding historical credit losses experienced. 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 Group and the Parent Company has assumed that macro-economic situation and its future projections do not have significant impact on expected credit loss.

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

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



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

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

c) Estimates concerning revenue recognition from contracts with customers

I) Recognition of mandatory procurement PSO fees

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

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

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

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

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

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

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

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

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

customer relationship period, which is estimated as period after which requested power output for connection object could significantly change due to technological reasons.

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

d) Recognition and reassessment of provisions

As of 31 December 2020, the Group had set up provisions for environmental protection, post-employment benefits and termination benefits totalling EUR 19.2 million (31/12/2019: EUR 20.1 million) and the Parent Company in amount of EUR 8.7 million (31/12/2019: EUR 9.0 million) (Note 27). The amount and timing of the settlement of these obligations is uncertain. A number of assumptions and estimates have been used to determine the present value of provisions, including the amount of future expenditure, inflation rates, and the timing of settlement of the expenditure. The actual expenditure may also differ from the provisions recognised as a result of possible changes in legislative norms, technology available in the future to restore environmental damages, and expenditure covered by third parties. For revaluation of provisions for post-employment obligations probabilities of retirement in different employees' aging groups as well as variable demographic factors and financial factors (including expected remuneration increase and determined changes in benefit amounts) have been estimated. The probabilities and other factors are determined on the basis of previous experience. According to defined development directions per Strategy of Latvenergo Group for the period 2017–2022, management of the Parent Company approved the Strategic Development and Efficiency Programme. Provisions for employees' termination benefits are recognised on a basis of Strategic Development and Efficiency Programme of Latvenergo Group for the period in which it is planned to implement the efficiency program (including Latvenergo AS and Sadales tīkls AS efficiency activities), by which it is intended to reduce gradually the number of employees by the year 2022. The key assumptions made to determine the amount of provisions are provided in Note 27.

e) Evaluation of effectiveness of hedging instruments

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

f) 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 lessee.



g) Recognition of connection service fees to transmission system (IFRS 16) (discontinued operation)

Connection fees to transmission system are recognised as income over the estimated lease period. The estimated lease period is based on the Management estimate.

Income from connection to transmission system and other service fees is deferred as an ongoing service is identified as part of the agreement with the lessee. Operating lease agreement term is 5 years, the period over which revenue from connection fees is recognised is longer, as it is reasonably certain that assets, whose costs are partly reimbursed by connection fees will be leased for a longer period than defined original lease term.

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

In October 2017, the Parent Company applied for a one-off compensation from the state, at the same time opting out of the receipt of 75% of the guaranteed annual payments for installed electrical capacity in combined heat and power plant CHPP-1 and CHPP-2. The one-off compensation was calculated as 75% of the discounted future guaranteed payments for installed electrical capacity. On 21 November 2017, the Cabinet of Ministers of the Republic of Latvia accepted an order on one-off compensation to Latvenergo AS on guaranteed support for the installed capacity of cogeneration power plants. Conditional grant part recognised as deferred income in the Group's and the Parent Company's statement of financial position (Note 28) and to be allocated to income on a straight-line basis until fulfilling obligation till the end of the support period – 23 September 2028. EUR 23,990 thousand were recognised as 'Other income' in the Group's and the Parent Company's statement of profit or loss in 2020 (2019: EUR 23,990 thousand) (Note 7). Consequently, EUR 185,429 thousand remained recognised as deferred income as of 31 December 2020 (31 December 2019: EUR 209,419 thousand) and to be allocated to income on a straight-line basis until fulfilling obligation till the end of the support period – 23 September 2028.

i) Deferred tax recognition

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

j) Recognition of financial security for participating in commodities exchange

Management of the Parent Company had initially estimated the financial collateral for securing the operations in Nasdaq Commodities exchange as a liquid asset, but with a restriction (restricted cash and cash equivalents) that could be fully recoverable without penalties over a 3-months period after termination of participation in exchange.

As of 31 December 2020 the management of the Parent Company revised its judgements (estimates) and taking into account that the Parent Company has no intention to discontinue trade operations in Nasdaq Commodities exchange, considering that electricity and natural gas financial transactions are part of the Parent Company's activities, and therefore these assets should not be estimated as liquid and should be recognised as non-current or current financial receivables.

5. Operating segment information

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

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

The Group divides its operations into three main operating segments– generation and trade, distribution and lease of transmission system assets. The Parent Company divides its operations into one main operating segment– generation and trade.

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

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

Generation and trade comprises the Group's electricity and thermal energy generation operations, which are organised into the legal entities: Latvenergo AS and Liepājas enerģija SIA; electricity and natural gas trade (including electricity and natural gas wholesale) in the Baltics carried out by Latvenergo AS, Elektrum Eesti OÜ and Elektrum Lietuva, UAB, as well as administration of the mandatory procurement process provided by Enerģijas publiskais tirgotājs AS.

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

The operations of the lease of transmission system (till 10 June 2020) assets operating segment is managed by Latvijas elektriskie tīkli AS– the owner of transmission system assets (330 kV and 110 kV transmission lines, substations and distribution points), which provides financing of investments in these assets. In the financial statements this operating segment is classified as discontinued operation (Note 30).

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

EUR'000

	Group							Parent Company				
	Generation and trade	Distribution	Lease of transmission system assets*	Corporate functions	TOTAL segments	Adjustments and eliminations	TOTAL Group	Generation and trade	Corporate functions	TOTAL segments	Adjustments and eliminations	TOTAL Parent Company
2020												
Revenue												
External customers	471,247	294,927	15,967	7,217	789,358	–	789,358	354,686	30,926	385,612	–	385,612
Inter-segment	984	1,380	1,594	45,856	49,814	(49,814)	–	535	24,341	24,876	(24,876)	–
TOTAL revenue	472,231	296,307	17,561	53,073	839,172	(49,814)	789,358	355,221	55,267	410,488	(24,876)	385,612
Results												
EBITDA	159,120	105,870	16,554	12,904	294,448	–	294,448	148,180	49,709	197,889	–	197,889
Depreciation, amortisation and impairment of intangible assets, property, plant and equipment and right-of-use assets	(77,751)	(67,623)	(11,602)	(11,170)	(168,146)	–	(168,146)	(74,681)	(11,578)	(86,259)	–	(86,259)
Segment profit before tax	81,369	38,247	4,952	1,734	126,302	(8,658)	117,644	73,499	38,131	111,630	43,218	154,848
Segment assets at the end of the year	1,263,651	1,795,034	–	95,907	3,154,592	204,243	3,358,835	1,131,977	125,634	1,257,611	1,502,544	2,760,155
Segment liabilities at the end of the year	231,837	190,086	–	15,567	437,490	803,103	1,240,593	232,318	16,765	249,083	764,636	1,013,719
Capital expenditure	40,560	87,431	28,796	12,144	168,931	(76)	168,855	38,851	12,148	50,999	–	50,999
2019												
Revenue												
External customers	516,626	318,105	36,643	6,905	878,279	–	878,279	395,727	41,802	437,529	–	437,529
Inter-segment	1,315	1,611	3,387	45,739	52,052	(52,052)	–	767	22,520	23,287	(23,287)	–
TOTAL revenue	517,941	319,716	40,030	52,644	930,331	(52,052)	878,279	396,494	64,322	460,816	(23,287)	437,529
Results												
EBITDA	103,347	125,093	39,798	12,729	280,967	–	280,967	92,550	20,101	112,651	–	112,651
Depreciation, amortisation and impairment of intangible assets, property, plant and equipment and right-of-use assets	(56,485)	(75,276)	(24,756)	(11,400)	(167,917)	–	(167,917)	(53,196)	(14,347)	(67,543)	–	(67,543)
Segment profit before tax	46,862	49,817	15,042	1,329	113,050	(8,293)	104,757	39,354	5,754	45,108	56,119	101,227
Segment assets at the end of the year	1,353,654	1,681,422	642,151	87,966	3,765,193	99,748	3,864,941	1,204,151	168,915	1,373,066	1,763,892	3,136,958
Segment liabilities at the end of the year	279,554	189,399	179,576	12,018	660,547	938,907	1,599,454	276,953	12,936	289,889	897,782	1,187,671
Capital expenditure	32,823	95,139	87,406	14,763	230,131	(704)	229,427	31,484	16,785	48,269	–	48,269

* In the financial statements operating segment of lease of transmission system assets is classified as discontinued operation (Note 30)



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

EUR'000

	Group					Parent Company				
	Generation and trade	Distribution	Lease of transmission system assets*	Corporate functions	TOTAL segments	TOTAL Group	Generation and trade	Corporate functions	TOTAL segments	TOTAL Parent Company
2020										
Revenue from contracts with customers recognised over time:										
Trade of energy and related supply services	414,617	3,150	–	14	417,781	417,781	310,839	14	310,853	310,853
Distribution system services	1	275,586	–	–	275,587	275,587	–	–	–	–
Heat sales	53,349	67	–	12	53,428	53,428	42,623	12	42,635	42,635
Other revenue	3,280	16,029	–	5,647	24,956	24,956	1,414	26,789	28,203	28,203
Total revenue from contracts with customers	471,247	294,832	–	5,673	771,752	771,752	354,876	26,815	381,691	381,691
Other revenue:										
Lease of transmission system assets (Note 30)	–	–	15,631	–	15,631	15,631	–	–	–	–
Lease of other assets	–	95	–	1,544	1,639	1,639	–	3,921	3,921	3,921
Other revenue	–	–	336	–	336	336	–	–	–	–
Total other revenue	–	95	15,967	1,544	17,606	17,606	–	3,921	3,921	3,921
TOTAL revenue, including	471,247	294,927	15,967	7,217	789,358	789,358	354,876	30,736	385,612	385,612
Latvia	319,542	294,926	15,967	6,917	637,352	637,352	303,461	29,330	332,791	332,791
Outside Latvia	151,705	1	–	300	152,006	152,006	51,415	1,406	52,821	52,821
2019										
Revenue from contracts with customers recognised over time:										
Trade of energy and related supply services	445,390	3,063	–	–	448,453	448,453	337,441	–	337,441	337,441
Distribution system services	1	299,332	–	–	299,333	299,333	–	–	–	–
Heat sales	68,148	75	–	12	68,235	68,235	56,842	12	56,854	56,854
Other revenue	3,087	15,532	–	5,731	24,350	24,350	1,444	31,826	33,270	33,270
Total revenue from contracts with customers	516,626	318,002	–	5,743	840,371	840,371	395,727	31,838	427,565	427,565
Other revenue:										
Lease of transmission system assets (Note 30)	–	–	36,116	–	36,116	36,116	–	–	–	–
Lease of other assets	–	103	–	1,162	1,265	1,265	–	9,964	9,964	9,964
Other revenue	–	–	527	–	527	527	–	–	–	–
Total other revenue	–	103	36,643	1,162	37,908	37,908	–	9,964	9,964	9,964
TOTAL revenue, including	516,626	318,105	36,643	6,905	878,279	878,279	395,727	41,802	437,529	437,529
Latvia	339,153	318,091	36,643	6,565	700,452	700,452	322,141	40,509	362,650	362,650
Outside Latvia	177,473	14	–	340	177,827	177,827	73,586	1,293	74,879	74,879

* In the financial statements operating segment of lease of transmission system assets is classified as discontinued operation (Note 30)



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Adjustments and eliminations

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

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

Reconciliation of profit before tax

EUR'000

	Notes	Group		Parent Company	
		2020	2019	2020	2019
EBITDA		294,448	280,967	197,889	112,651
Depreciation, amortisation and impairment of intangible assets, PPE and right-of-use assets		(168,146)	(167,917)	(86,259)	(67,543)
Segment profit before tax		126,302	113,050	111,630	45,108
Finance income	11	2,125	1,187	12,768	12,995
Finance costs	11	(10,783)	(9,480)	(11,293)	(11,734)
Dividends received from subsidiaries	16	–	–	41,743	54,858
Profit before tax		117,644	104,757	154,848	101,227

Reconciliation of assets

EUR'000

	Notes	Group		Parent Company	
		31/12/2020	31/12/2019	31/12/2020	31/12/2019
Segment operating assets		3,154,592	3,765,193	1,257,611	1,373,066
Connection usage rights		–	(39,739)	–	–
Non-current financial investments	16	40	39	645,218	831,350
Loans to related parties	29 e	86,620	–	742,229	794,256
Other financial investments	22	16,836	16,885	16,836	16,885
Prepayment for income and other taxes		44	141	–	140
Cash and cash equivalents	19	100,703	122,722	98,261	121,261
Non-current financial investments and cash and cash equivalents of discontinued operation		–	(300)	–	–
Total assets		3,358,835	3,864,941	2,760,155	3,136,958

Reconciliation of liabilities

EUR'000

	Notes	Group		Parent Company	
		31/12/2020	31/12/2019	31/12/2020	31/12/2019
Segment operating liabilities		437,490	660,547	249,083	289,889
Deferred income tax liabilities	12	6,401	8,327	–	–
Current corporate income tax liabilities		2	2	–	–
Borrowings	23	743,199	882,671	733,392	872,899
Derivative financial instruments	24	9,504	9,216	9,504	9,216
Provisions and other payables		43,997	38,691	21,740	15,667
Total liabilities		1,240,593	1,599,454	1,013,719	1,187,671

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

Revenue from major customer in 2020 for the Group amounted to EUR 51,089 thousand and for the Parent Company EUR 50,857 thousand (2019: EUR 58,161 thousand and EUR 58,161 thousand) arising from sales by the generation and trade segment.

6. Revenue

Accounting policy

Revenue from contracts with customers (IFRS 15)

Revenue from contracts with customers in scope for IFRS 15 encompasses sold goods or services provided as output of the entity's ordinary activities. The Group and Parent Company use the following criteria to identify contracts with customers:

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

In evaluating whether collectability of an amount of consideration is probable, the Group and the Parent Company use portfolio approach practical expedient for all energy and related supply services, distribution system services and heat sales customers. Group and the Parent Company reasonably 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. Collectability is assessed individually for other customers.

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

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



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

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

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

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

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

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

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

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

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

Trade of energy and related supply services

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

Sales of distribution system services (the Group)

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

Heat sales

Revenue from sales of thermal energy is recognised at the end of each month based on the meter readings and corresponds to the invoiced amount.

Sales of IT & telecommunication services

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

	IFRS applied	Group		Parent Company	
		2020	2019	2020	2019
EUR'000					
Revenue from contracts with customers recognised over time:					
Trade of energy and related supply services	IFRS 15	417,781	448,453	310,853	337,441
Distribution system services	IFRS 15	275,587	299,333	–	–
Heat sales	IFRS 15	53,428	68,235	42,635	56,854
Other revenue	IFRS 15	24,956	24,350	28,203	33,270
TOTAL revenue from contracts with customers		771,752	840,371	381,691	427,565
Other revenue:					
Lease of other assets	IFRS 16	1,639	1,265	3,921	9,964
TOTAL other revenue		1,639	1,265	3,921	9,964
TOTAL revenue		773,391	841,636	385,612	437,529

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

	Group		Parent Company	
	2020	2019	2020	2019
EUR'000				
Latvia	619,746	662,544	328,870	352,686
Outside Latvia	152,006	177,827	52,821	74,879
TOTAL revenue from contracts with customers	771,752	840,371	381,691	427,565

Accounting policy

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

Mandatory procurement PSO fees

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



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

Distribution system and transmission system services (Parent Company)

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

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

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

	Group		Parent Company	
	2020	2019	2020	2019
Mandatory procurement PSO fees	84,665	88,082	88,177	90,605
Distribution system services	12,641	11,181	184,915	198,092
Transmission system services	1,654	1,557	1,686	1,596
TOTAL revenue recognised applying agent accounting principle	98,960	100,820	274,778	290,293

EUR'000

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

Accounting policy

Revenue from contracts with customers

Connection fees to distribution system (the Group)

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

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

Revenue from other sources

Lease of transmission system assets until 10 June 2020 (IFRS 16) (Group, discontinued operation (Note 30))

Revenues from lease of transmission system assets are recognised on the basis of lease payment amount which are calculated for transmission system operator accordingly to determined fee per lease agreement and recognised on a straight-line basis over term of the lease. Concluded agreements on the lease of transmission system assets meet IFRS 16 'Leases' criteria that is used for revenue recognition from lease.

Connection fees to transmission system until 10 June 2020 (IFRS 16) (Group, discontinued operation (Note 30))

Revenue from connection fees to transmission system are received as upfront payments from lessee under lease agreement and are carried in the Statement of Financial Position as deferred income and amortised to Statement of Profit or Loss on a straight-line over basis estimated lease period (Note 4 g).

Electricity connection fees to transmission system are recognised by the Group based on the necessity for a connection to the transmission network based on the request of lessee, which acts on behalf of users. For each connection fee a separate arrangement within the base lease agreement is concluded. Connection fee to transmission system partly reimburses the cost of infrastructure to be built and is needed for connection of transmission system user to the network. Connection service fee to transmission system is calculated in accordance with Latvian regulatory authority (Public Utilities Commission) stated methodology.

Deferred income from contracts with customers

	Notes	Group		Parent Company	
		31/12/2020	31/12/2019	31/12/2020	31/12/2019
Non-current deferred income from connection fees	28 I, a	138,750	142,453	–	–
Current deferred income from connection fees	28 II, a	14,167	13,629	–	–
Non-current other deferred income	28 I, a	863	877	863	877
Current other deferred income	28 II, a	924	135	813	63
TOTAL liabilities		154,704	157,094	1,676	940

EUR'000

Movement in deferred connection fees – from contracts with customers for the Group (non-current and current part)

	Notes	Group		Parent Company	
		2020	2019	2020	2019
At the beginning of the year		157,094	156,765	940	–
Received connection fees for connection to distribution system	28	10,749	12,902	–	–
Received advance payments for contracts with customers	28	808	940	808	940
Credited to the Statement of Profit or Loss		(13,947)	(13,513)	(72)	–
At the end of the year		154,704	157,094	1,676	940

EUR'000



7. Other income

	Notes	EUR'000			
		Group		Parent Company	
		2020	2019	2020	2019
Compensation from the state on state support for the installed capacity of CHPPs	4 h	23,990	23,990	23,990	23,990
Profit from distribution of non-current financial investments	16	–	–	36,246	–
Fines and penalties		2,060	(175)	1,483	(1,135)
Net gain on sale of assets held for sale and property, plant and equipment		1,123	378	1,026	378
Compensations and insurance claims		535	745	238	232
Other operating income		1,024	925	194	93
TOTAL other income		28,732	25,863	63,177	23,558

8. Raw materials and consumables

	Notes	EUR'000			
		Group		Parent Company	
		2020	2019	2020	2019
Energy costs:					
Electricity and costs of related supply services		154,667	168,699	50,433	56,701
(Gains) / losses on fair value changes on electricity forwards and futures	24 l	(2,334)	2,326	(2,334)	2,326
Electricity transmission services costs	29 a	71,054	71,552	957	1,015
Natural gas and other energy resources costs		117,185	205,905	111,151	199,027
Losses / (gains) on fair value changes on natural gas forwards	24 l	1,092	(2,033)	1,092	(2,033)
		341,664	446,449	161,299	257,036
Raw materials, spare parts and maintenance costs		27,597	31,211	12,585	14,033
TOTAL raw materials and consumables used		369,261	477,660	173,884	271,069

9. Personnel expenses

	EUR'000			
	Group		Parent Company	
	2020	2019	2020	2019
Wages and salaries	79,457	77,075	34,603	34,081
State social insurance contributions	18,733	18,370	8,182	8,152
Expenditure of employment termination	1,783	(265)	275	162
Pension costs – defined contribution plan	3,612	2,066	1,571	919
Other benefits defined in the Collective Agreement	1,040	1,108	370	420
Life insurance costs	1,613	3,161	656	1,326
Capitalised personnel expenses	(267)	(166)	–	(21)
TOTAL personnel expenses, including remuneration to the management of continuing operations	105,971	101,349	45,657	45,039
Remuneration to the management including discontinued operation:				
Wages and salaries	2,153	2,183	861	763
State social insurance contributions	516	513	208	183
Expenditure of employment termination	90	–	90	–
Pension costs– defined contribution plan	25	11	13	6
Life insurance costs	17	21	1	4
TOTAL remuneration to the management*	2,801	2,728	1,173	956

* Remuneration to the Group's management includes remuneration to the members of the Management Boards of the Group entities, including management of discontinued operation (2020: EUR 160 thousand; 2019: EUR 135 thousand), the Supervisory Board and the Supervisory body (Audit Committee) of the Parent Company. Remuneration to the Parent Company's management includes remuneration to the members of the Parent Company's Management Board, the Supervisory Board and the Supervisory body (Audit Committee).

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

	Number of employees			
	Group		Parent Company	
	2020	2019	2020	2019
Number of employees at the end of the year	3,295	3,423	1,267	1,328
Average number of employees during the year	3,362	3,476	1,281	1,342



10. Other operating expenses

	EUR'000			
	Group		Parent Company	
	2020	2019	2020	2019
Selling expenses and customer services	7,526	5,360	5,444	3,937
Information technology maintenance	5,667	5,336	5,338	4,963
Transportation expenses	5,022	5,592	1,643	1,833
Environment protection and work safety	9,394	7,658	8,223	6,799
Real estate maintenance and utilities expenses	4,967	5,129	4,143	5,401
Lease of real estate and fixed assets	201	165	137	450
Telecommunications services	2,289	1,964	2,284	2,150
Real estate tax	979	961	964	1,061
Public utilities regulation fee	1,710	1,860	761	893
Audit fee	89	89	41	41
Changes in impairment losses on financial assets, net	(2,796)	(1,495)	(2,502)	(1,245)
Net losses from sale of assets held for sale and PPE	4,503	4,515	379	319
Other expenses	9,446	7,830	4,504	5,726
TOTAL other operating expenses	48,997	44,964	31,359	32,328

Audit of the Group's Sustainability report and financial covenants is amounted to EUR 4 thousand (2019: EUR 4 thousand). Latvijas elektriskie tīkli AS audit fee in the amount of EUR 7 thousand (2019: EUR 7 thousand) included in expenses of discontinued operation (Note 30). In addition to audit services, in 2020 auditors also provided other services, the costs of which are included in the position 'Other expenses'; for the Group in the amount of EUR 3 thousand (2019: EUR 8 thousand), Parent Company – EUR 2 thousand (2019: EUR 7 thousand).

11. Finance income and costs

	EUR'000			
	Group		Parent Company	
	2020	2019	2020	2019
Interest income	2,032	1,088	1,097	1,086
Interest income on loans to subsidiaries	–	–	11,578	11,810
Net gain on issued debt securities (bonds)	93	44	93	44
Net gain on currency exchange rate fluctuations	–	55	–	55
TOTAL finance income	2,125	1,187	12,768	12,995

	Notes	EUR'000			
		Group		Parent Company	
		2020	2019	2020	2019
Interest expense on borrowings		8,421	6,776	9,031	9,077
Interest expense on issued debt securities (bonds)		2,273	2,880	2,273	2,880
Interest expense on assets lease		131	96	69	57
Capitalised borrowing costs	14 a	(479)	(423)	(479)	(423)
Net losses on redemption of other financial investments		50	49	50	49
Net losses on currency exchange rate fluctuations		105	–	105	–
Other finance costs		275	102	244	94
TOTAL finance costs		10,776	9,480	11,293	11,734

12. Income tax

Accounting policy

Corporate income tax

Latvia

Corporate income tax is paid on distributed profits which has been generated as of 1 January 2018 and not previously taxed (less dividends received from subsidiaries), and deemed profit distributions. Both distributed profits and deemed profit distributions are subject to the tax rate of 20% of their gross amount, or 20/80 of net expense. Corporate income tax on dividends is recognised in the statement of profit or loss as expense in the reporting period when respective dividends are declared, while, as regards other deemed profit distribution items, at the time when expense is incurred in the reporting year.

Lithuania

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

Estonia

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

Deferred income tax

Latvia and Estonia

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

Lithuania

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

	EUR'000			
	Group		Parent Company	
	2020	2019	2020	2019
Current income tax for the year	8,160	8,565	–	–
Deferred income tax credit	(1,926)	(620)	–	–
TOTAL income tax	6,234	7,945	–	–

13. Intangible assets

Accounting policy

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

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

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

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

	Group					Parent Company					EUR'000
	Usage rights and licences	Greenhouse gas emission allowances	Software	Assets under development	TOTAL	Usage rights and licences	Greenhouse gas emission allowances	Software	Assets under development	TOTAL	
As of 31 December 2018											
Cost	2,507	6,723	48,135	184	57,549	10,796	6,723	45,242	165	62,926	
Accumulated amortisation	(2,362)	–	(36,108)	–	(38,470)	(5,016)	–	(35,097)	–	(40,113)	
Net book amount	145	6,723	12,027	184	19,079	5,780	6,723	10,145	165	22,813	
Year ended 31 December 2019											
Additions	–	25,607	–	2,348	27,955	–	25,607	–	2,233	27,840	
Transfers	–	–	2,384	(2,384)	–	1	–	2,249	(2,250)	–	
Disposals	(13)	(21,306)	–	–	(21,319)	(458)	(21,306)	–	–	(21,764)	
Amortisation charge	–	–	(3,128)	–	(3,128)	–	–	(2,778)	–	(2,778)	
Closing net book amount as of 31 December 2019	132	11,024	11,283	148	22,587	5,323	11,024	9,616	148	26,111	
As of 31 December 2019											
Cost	2,507	11,024	50,487	148	64,166	10,797	11,024	47,467	148	69,436	
Accumulated amortisation	(2,375)	–	(39,204)	–	(41,579)	(5,474)	–	(37,851)	–	(43,325)	
Net book amount	132	11,024	11,283	148	22,587	5,323	11,024	9,616	148	26,111	
Year ended 31 December 2020											
Additions	–	9,547	–	4,805	14,352	–	9,547	–	4,269	13,816	
Transfers	641	–	4,219	(4,860)	–	3	–	4,216	(4,219)	–	
Disposals	–	(17,414)	–	–	(17,414)	–	(17,414)	–	–	(17,414)	
Reclassified to current intangible assets	–	(3,157)	–	–	(3,157)	–	(3,157)	–	–	(3,157)	
Impairment charge	–	–	(81)	–	(81)	–	–	(81)	–	(81)	
Amortisation charge	(1,683)	–	(2,898)	–	(4,581)	(460)	–	(2,622)	–	(3,082)	
Recognised usage rights after distribution of discontinued operation*	38,100	–	–	222	38,322	–	–	–	–	–	
Closing net book amount as of 31 December 2020	37,190	–	12,523	315	50,028	4,866	–	11,129	198	16,193	
As of 31 December 2020											
Cost	58,173	–	52,617	315	111,105	10,800	–	49,593	198	60,591	
Accumulated amortisation	(20,983)	–	(40,094)	–	(61,077)	(5,934)	–	(38,464)	–	(44,398)	
Net book amount	37,190	–	12,523	315	50,028	4,866	–	11,129	198	16,193	

* Until 10 June 2020, Latvijas elektriskie tīkli AS was a Latvenergo Group's company, that ensured the construction of connections to the transmission network and recognised usage rights for connection to transmission system network within the Group was excluded in consolidation process





b) Greenhouse gas emission allowances:

Accounting policy

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

	Group		Parent Company	
	2020	2019	2020	2019
	Number of allowances	Number of allowances	Number of allowances	Number of allowances
At the beginning of the year	1,784,364	1,805,556	1,688,912	1,661,313
Allowances allocated free of charge*	125,103	218,345	112,769	205,721
Purchased allowances	375,000	1,040,552	375,000	1,035,000
Written off verified allowances	(1,227,142)	(1,229,089)	(1,218,559)	(1,213,122)
Sold allowances	(80,000)	(51,000)	-	-
At the end of the year	977,325	1,784,364	958,122	1,688,912
including estimated allowances used during the reporting year (unverified)	(812,710)	(1,219,149)	(812,710)	(1,219,149)
Allowances available at the end of the year	164,615	565,215	145,412	469,763

* The number of allowances received by the Group and the Parent Company from the Government free of charge, in accordance with the law "On Pollution" and Directives of the Ministry of Environmental Protection and Regional Development of the Republic of Latvia. Therefore, their carrying amount as of 31 December 2020 was nil (31/12/2019: nil). Received European Union Allowances (EUA) must be used until the end of 2021.

Current intangible assets

	Group		Parent Company	
	2020	2019	2020	2019
Net book amount at the beginning of the year	-	-	-	-
Additions	-	-	-	-
Disposals	-	-	-	-
Reclassified from non-current intangible assets	3,157	-	3,157	-
Closing net book amount at the end of the year	3,157	-	3,157	-

EUR'000

14. Property, plant and equipment

a) Property, plant and equipment

Accounting policy

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

The acquisition cost comprises the purchase price, transportation costs, installation, and other direct expenses related to the acquisition or implementation. The cost of the self-constructed item of PPE includes the cost of

materials, services and workforce. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group or the Parent Company and the cost of an item can be measured reliably. All other repair and maintenance expenses are charged directly to the Statement of Profit or Loss when the expenditure is incurred. Borrowing costs are capitalised to fixed assets proportionally to the part of the cost of fixed assets under construction over the period of construction.

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

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

Type of property, plant and equipment (PPE)	Estimated useful life, years
Buildings and facilities	15 – 100
Assets of Hydropower plants:	
- hydropower plants' buildings and facilities,	25 – 100
- hydropower plants' technology equipment and machinery	10 – 40
Transmission system electricity lines and electrical equipment (until 10 June 2020):	
- electricity lines	20 – 50
- electrical equipment of transformer substations	12 – 40
Distribution system electricity lines and electrical equipment:	
- electricity lines	30 – 50
- electrical equipment of transformer substations	30 – 35
Technology equipment and machinery	3 – 40
Other property, plant and equipment	2 – 25

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

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

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

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



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

EUR'000

	Group							Parent Company						
	Land, buildings and facilities	Assets of Hydro Power Plant	Distribution system electricity lines and electrical equipment	Transmission system electricity lines and electrical equipment	Technology equipment and machinery	Other PPE	Assets under construction	Property, plant and equipment TOTAL	Land, buildings and facilities	Assets of Hydro Power Plant	Technology equipment and machinery	Other PPE	Assets under construction	Property, plant and equipment TOTAL
As of 31 December 2018														
Cost or revalued amount	485,098	2,055,572	2,889,265	933,079	637,706	147,744	207,746	7,356,210	349,581	2,055,572	612,253	103,877	70,349	3,191,632
Accumulated depreciation and impairment	(248,134)	(1,267,062)	(1,391,596)	(538,909)	(509,190)	(98,862)	(5,364)	(4,059,117)	(201,337)	(1,267,062)	(498,204)	(86,088)	(5,055)	(2,057,746)
Net book amount	236,964	788,510	1,497,669	394,170	128,516	48,882	202,382	3,297,093	148,244	788,510	114,049	17,789	65,294	1,133,886
Year ended 31 December 2019														
Additions	–	–	–	–	–	–	226,986	226,986	–	–	–	–	45,941	45,941
Invested in share capital (Note 20)	87	–	–	–	5	–	–	92	87	–	5	–	–	92
Transfers	10,111	20,332	84,723	141,808	5,465	17,315	(279,754)	–	3,049	20,331	5,373	8,638	(37,391)	–
Reclassified to investment property	(135)	–	–	–	–	–	–	(135)	304	–	–	–	(2,243)	(1,939)
Reclassified to non-current assets for sale	–	–	–	–	–	(146)	–	(146)	–	–	–	–	–	–
Disposals	(441)	(1)	(5,154)	(224)	(323)	(42)	(56)	(6,241)	(6,057)	(1)	(307)	(154)	(457)	(6,976)
Reversed impairment charge	3,781	–	–	–	15,982	–	7	19,770	3,781	–	15,982	–	–	19,763
Depreciation	(15,154)	(25,864)	(65,465)	(23,439)	(40,630)	(12,747)	–	(183,299)	(10,118)	(25,864)	(39,067)	(6,717)	–	(81,766)
Assets attributable to the discontinued operation (Note 30)	(33,538)	–	–	(512,315)	–	(202)	(55,120)	(601,175)	–	–	–	–	–	–
Closing net book amount as of 31 December 2019	201,675	782,977	1,511,773	–	109,015	53,060	94,445	2,752,945	139,290	782,976	96,035	19,556	71,144	1,109,001
As of 31 December 2019														
Cost or revalued amount	456,257	2,050,409	2,921,846	–	637,869	157,052	99,802	6,323,235	341,761	2,050,409	612,341	105,335	76,199	3,186,045
Accumulated depreciation and impairment	(254,582)	(1,267,432)	(1,410,073)	–	(528,854)	(103,992)	(5,357)	(3,570,290)	(202,471)	(1,267,433)	(516,306)	(85,779)	(5,055)	(2,077,044)
Net book amount	201,675	782,977	1,511,773	–	109,015	53,060	94,445	2,752,945	139,290	782,976	96,035	19,556	71,144	1,109,001
Year ended 31 December 2020														
Additions	(866)	–	–	–	–	(80)	164,997	164,051	–	–	–	–	46,730	46,730
Transfers	5,480	21,119	78,177	2,923	26,262	15,046	(149,007)	–	2,585	21,120	26,097	6,198	(56,000)	–
Reclassified (to) / from investment property, net	(477)	–	–	–	–	–	–	(477)	2,427	–	–	–	–	2,427
Reclassified to non-current assets for sale	–	–	–	–	(21)	(22)	–	(43)	–	–	–	(1)	–	(1)
Disposals	(364)	(4)	(5,340)	(33)	(201)	(42)	(417)	(6,401)	(299)	(4)	(195)	(236)	(741)	(1,475)
Investment in share capital of other company	–	–	–	–	–	–	–	–	(2,449)	–	(15)	(503)	–	(2,967)
Increase of assets as a result of revaluation	–	–	96,264	–	–	–	–	96,264	–	–	–	–	–	–
Reversed impairment charge as a result of revaluation	–	–	8,660	–	–	–	–	8,660	–	–	–	–	–	–
Impairment charge	(3,037)	–	–	–	(4,465)	–	373	(7,129)	(3,037)	–	(4,465)	–	386	(7,116)
Depreciation	(14,051)	(25,612)	(65,945)	(10,958)	(34,552)	(12,439)	–	(163,557)	(9,667)	(25,612)	(33,161)	(6,589)	–	(75,029)
Changes in value of assets attributable to the discontinued operation*	2,722	–	–	8,068	9	(1,929)	(25,857)	(16,987)	–	–	–	–	–	–
Closing net book amount as of 31 December 2020	191,082	778,480	1,623,589	–	96,047	53,594	84,534	2,827,326	128,850	778,480	84,296	18,425	61,519	1,071,570
As of 31 December 2020														
Cost or revalued amount	426,279	2,045,830	3,006,885	–	649,011	156,217	89,518	6,373,740	341,001	2,045,830	623,104	101,718	66,188	3,177,841
Accumulated depreciation and impairment	(235,197)	(1,267,350)	(1,383,296)	–	(552,964)	(102,623)	(4,984)	(3,546,414)	(212,151)	(1,267,350)	(538,808)	(83,293)	(4,669)	(2,106,271)
Net book amount	191,082	778,480	1,623,589	–	96,047	53,594	84,534	2,827,326	128,850	778,480	84,296	18,425	61,519	1,071,570

* Until 10 June 2020, Latvijas elektriskie tīkli AS was a Latvenergo Group's company, that was the owner of the transmission system assets and ensured the construction of the transmission network. Changes in value of assets include additions, disposals and depreciation of property, plant and equipment.



Impairment charge or reversed charge is included in the Statement of Profit or Loss under 'Depreciation, amortisation and impairment of intangible assets and property, plant and equipment'.

As of 31 December 2020, cost of fully depreciated PPE which are still in use for the Group amounted to EUR 354,967 thousand (31/12/2019: EUR 545,956 thousand) and for the Parent Company amounted to EUR 270,456 thousand (31/12/2019: EUR 313,243 thousand).

In 2020 the Group and the Parent Company have capitalised borrowing costs in the amount of EUR 479 thousand (2019: EUR 423 thousand) (see Note 11). Rate of capitalised borrowing costs was of 1.58% (2019: 1.03%).

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

b) Investment property

Accounting policy

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

EUR'000

	Group		Investment properties for lease*		Parent Company		TOTAL Investment property	
	Investment property held for capital appreciation		Investment properties for lease*		Investment property held for capital appreciation		2020	2019
	2020	2019	2020	2019	2020	2019	2020	2019
Cost at the beginning of the year	910	1,638	64,377	94,626	876	1,604	65,253	96,230
Accumulated depreciation and impairment at the beginning of the year	(609)	(1,171)	(25,209)	(33,263)	(609)	(1,171)	(25,818)	(34,434)
Net book amount at the beginning of the year	301	467	39,168	61,363	267	433	39,435	61,796
Reclassified to investment property held for capital appreciation	477	135	–	–	477	135	477	135
Reclassified from property, plant and equipment to investment property	–	–	–	1,804	–	–	–	1,804
Reclassified to property, plant and equipment	–	–	(2,904)	–	–	–	(2,904)	–
Disposal	(6)	–	(24)	(58)	(6)	(8)	(30)	(66)
Investment in the share capital of other company	–	–	(32,333)	(21,354)	–	–	(32,333)	(21,354)
Sold	(263)	(929)	(840)	(223)	(257)	(929)	(1,097)	(1,152)
Impairment charge	3	636	–	–	3	636	3	636
Depreciation	–	(8)	(217)	(2,364)	–	–	(217)	(2,364)
Cost at the end of the year	1,455	910	4,005	64,377	1,427	876	5,432	65,253
Accumulated depreciation and impairment at the end of the year	(943)	(609)	(1,155)	(25,209)	(943)	(609)	(2,098)	(25,818)
Net book amount at the end of the year	512	301	2,850	39,168	484	267	3,334	39,435

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

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

c) Property, plant and equipment revaluation

Accounting policy

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

The following hydropower plants, transmission system and distribution system assets (property, plant and equipment) are revalued regularly but not less frequently than every five years:

a) Assets of Hydropower plants:

- hydropower plants' buildings and facilities,
- hydropower plants' technology equipment and machinery;

b) Transmission system electricity lines and electrical equipment (until 10 June 2020):

- electricity lines,
- electrical equipment of transformer substations;

c) Distribution system electricity lines and electrical equipment:

- electricity lines,
- electrical equipment of transformer substations.

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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.

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

	Group			
	Revalued property, plant and equipment groups			TOTAL revalued PPE
	Assets of Hydropower plants (the Parent Company)	Distribution system electricity lines and electrical equipment	Transmission system electricity lines and electrical equipment	
EUR'000				
At revalued amounts				
As of 31 December 2020				
Revalued	2,045,830	3,006,885	–	5,052,715
Accumulated depreciation and impairment	(1,267,350)	(1,383,296)	–	(2,650,646)
Revalued net book amount	778,480	1,623,589	–	2,402,069
As of 31 December 2019				
Revalued	2,050,409	2,921,846	1,059,864	6,032,119
Accumulated depreciation and impairment	(1,267,432)	(1,410,073)	(547,549)	(3,225,054)
Revalued net book amount	782,977	1,511,773	512,315	2,807,065
At amounts stated on historical cost basis				
As of 31 December 2020				
Cost	432,117	1,518,927	–	1,951,044
Accumulated depreciation and impairment	(182,739)	(512,629)	–	(695,368)
Net book amount	249,378	1,006,298	–	1,255,676
As of 31 December 2019				
Cost	413,734	1,377,374	586,842	2,377,950
Accumulated depreciation and impairment	(176,619)	(458,211)	(180,153)	(814,983)
Net book amount	237,115	919,163	406,689	1,562,967

Assets of Hydropower plants were revalued in 2017. The revaluation was performed by an independent, external and certified valuation expert by applying the income method or the replacement cost model. Income method is based on average perennial water inflow in each HPP, power exchange (Nordpool Spot) forecasts of electricity prices, analysis of historical generation and operating expenses, forecast of expenses based on public available state statistics, forecast of capital expenditure, forecast of net cash

flows, as well as discount and capitalisation rate calculation using the weighted average cost of capital (WACC) formula based on market data.

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

The nominal pre-tax discount rate used in valuation is 7.5%. If the pre-tax rate would be increased by 0.1% then the value of the revalued assets of hydropower plants would decrease by EUR 45,938 thousand. If the pre-tax rate would be decreased by 0.1%, the value of the revalued assets of hydropower plants would increase by EUR 48,308 thousand. If electricity price would increase by 1%, the value of assets would increase by EUR 27,665, if the prices would be by 1% less, the value of assets would decrease by EUR 27,665.

Management has evaluated changes in the input data used in valuation since revaluation and has estimated that their changes do not have a significant impact on the value of revalued property, plant and equipment groups.

Distribution system electrical equipment was revalued as of 1 April 2020, as a result the carrying value increased by EUR 30,739 thousand of which EUR 30,870 thousand was recognised as increase in property, plant and equipment revaluation reserve in equity (see Note 21), while impairment in amount of EUR 131 thousand was recognised in profit or loss.

External valuation expert used cost approach and assessed how components of the replacement or renewal costs of the same property, plant and equipment items have changed since the previous revaluation. The values of sub-categories of property, plant and equipment were indexed by cost components. Material costs were indexed according to the data of the Central Statistical Bureau on price changes or the available information provided by Sadales tīkls AS on changes in construction / establishment costs from purchases made during the last 12 months. At the same time component of labour costs was indexed according to the data of the Central Statistical Bureau on wage growth in the respective period. According to the data of Central Statistical Bureau, the increase in labour costs since the period of previous revaluation (compared to the previous period) ranged from 1.47% to 9.51% per year and changes in prices of materials ranged from -4.28% to 2.7% per year. For materials, the value of which has been determined using the information provided by Sadales tīkls AS, price changes since the previous revaluation have ranged from -12.65% to 11.2%. After determining the estimated replacement or renewal value, the valuation expert estimated the physical and functional depreciation for each item of property, plant and equipment.

The revaluation result of the distribution system electricity lines has been recognised in the Financial statements of 2020 as an adjusting event, considering the revaluation has been performed as of 1 January 2021. As a result an increase in value of assets in the amount of EUR 74,185 thousand was recognised in the Statement of Financial Position as of 31 December 2020, of which EUR 65,394 thousand was recognised in property, plant and equipment revaluation reserve in equity (see Note 21), while reversal of previously recognised impairment in the amount of EUR 8,791 thousand was recognised in the Statement of Profit or Loss position ‘Depreciation, amortisation and impairment of intangible assets, property, plant and equipment and right-of-use assets’.



External valuation expert used cost approach in valuation of electricity lines, by assessing the control estimate values of cost items of the electricity lines construction used for the construction of Sadales tīkls AS electricity network. The control estimate is an estimate of the median object for the construction or reconstruction of electricity lines, which corresponds to the median value of the price for each group of electricity lines (property, plant and equipment), not 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. Initial replacement value for 1 km of electricity lines by each of electricity lines group, by regions, and by population levels of the territory was determined. Specialised databases of construction specialists, construction estimates of other customers for construction works and construction companies in Latvia, which were attributable to the valuation date, were used as source for market prices. After determining the estimated replacement or renewal value, the valuation expert estimated the physical and functional depreciation for each item of property, plant and equipment.

A quantitative sensitivity analysis of significant assumptions used in calculation of revalued amounts as of the date of revaluation is indicated below:

	Date of revaluation	EUR'000					
		Labour costs		Material costs		Useful lives	
		1% increase	1% decrease	1% increase	1% decrease	1% increase	1% decrease
Revaluation of electrical equipment	01/04/2020	742	(743)	2,963	(2,476)	2,130	(2,140)
Revaluation of electricity lines	31/12/2020	5,484	(5,499)	5,387	(5,438)	6,772	(6,592)

Summary of quantitative information about the significant unobservable inputs

	Date of revaluation	Proportion of labour costs (%)		Proportion of material costs (%)		Useful lives (years)
		Range	Average	Range	Average	Range
		Revaluation of electrical equipment	01/04/2020	0-30	23	70-100
Revaluation of electricity lines	31/12/2020	25-49	38	51-75	62	30-50

d) Impairment

Accounting policy

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

The key assumptions used in determining recoverable amount of the asset are based on the Group entities' or the Parent Company's management best estimation of the range of economic conditions that will exist over the remaining useful life of the asset, on the basis of the most recent financial budgets and forecasts approved by the management for a maximum period of 10 years. Assets are reviewed for possible reversal of the impairment

whenever events or changes in circumstances indicate that impairment must be reviewed. The reversal of impairment for the assets that are accounted at cost, less depreciation and impairment, is recognised in the Statement of Profit or Loss. Reversal of impairment loss for revalued assets is recognised in the Statement of Profit or Loss to the extent that an impairment loss on the same revalued asset was previously recognised in the Statement of Profit or Loss; the remaining reversals of impairment losses of revalued assets are recognised in Comprehensive Income.

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

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

In October 2017, the Parent Company applied for a one-off compensation from the state, at the same time opting out of the receipt of 75% of the guaranteed annual payments for installed electrical capacity in combined heat and power plant CHPP-1 and CHPP-2 (Note 4 h). The one-off compensation was calculated as 75% of the discounted future guaranteed payments for installed electrical capacity. On 21 November 2017, the Cabinet of Ministers of the Republic of Latvia accepted an order on one-off compensation to Latvenergo AS on guaranteed support for the installed capacity of cogeneration power plants. Conditional grant part recognised as deferred income in the Group's and the Parent Company's statement of financial position (Note 28) and to be allocated to income on a straight-line basis until fulfilling obligation till the end of the support period– 23 September 2028. EUR 23,990 thousand were recognised as 'Other income' in the Group's and Parent Company's statement of profit or loss in 2020 (2019: EUR 23,990 thousand) (Note 7). Consequently, EUR 185,429 thousand remained recognised as deferred income as of 31 December 2020 (31 December 2019: EUR 209,419 thousand) and to be allocated to income on a straight-line basis until fulfilling obligation till the end of the support period – 23 September 2028.

As of 31 December 2020, the future discounted cash flows generated by the operation of Latvenergo AS CHPPs are evaluated in the amount of nil (see below). Consequently, the value of Latvenergo CHPPs assets is estimated equal to the deferred income as of 31 December 2020– EUR 185,429 thousand.

As a result of the above transactions, an additional impairment in the amount of EUR 7,502 thousand was recognised for Latvenergo AS CHPPs in 2020 (2019: reversal of an impairment EUR 19,475 thousand). The recognised impairment is included in the Statement of Profit or Loss position 'Depreciation, amortisation and impairment of intangible assets, property, plant and equipment and right-of-use assets'.

To ensure the carrying value is in line with recognised impairment, the future cash flows expected to be derived from the operation of Latvenergo AS CHPPs were evaluated. Forecasted period is 2021–2028 and the terminal value appraisal, evaluated as a fraction of the balance sheet's assets value, is included. Revenue stream forecast mainly corresponds to the remaining intensity of electrical capacity payments and the support period for CHPP-2 till September 23, 2028 (for CHPP-1 ended in late 2020), as it is set out in regulations by Cabinet of Ministers of the Republic of Latvia No. 561, dated 2 September 2020. The forecast of expenses is based on historical data, the budget approved by the management for 2021, the service maintenance agreements and assumed inflation. Nominal pre-tax discount rate used to determine value in use of cash-generating unit by discounting cash flows is 7.5% (2019: 7.5%). As a result of calculation, the future discounted cash flows generated by Latvenergo AS CHPPs are evaluated as nil. A 1% increase in the discount rate would have an



impact of EUR 0.8 million (2019: EUR 1.4 million) on the recoverable amount of the assets. If the annual electrical capacity payments for cogeneration power plant CHPP-2 would be discontinued, then impairment of approximately EUR 80 million would be recognised. Impairment is estimated by assuming that capacity payment revenue decrease would be partly offset by a higher revenue from electricity production.

The accumulated impairment as of 31 December 2020 amounted to EUR 242,136 thousand (31/12/2019: EUR 234,634 thousand).

15. Leases

a) Right-of-use assets and lease liabilities

Accounting policy

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

Lessee

To assess whether the contract is a lease or contains a lease, the Group and the Parent Company assess whether:

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

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

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

Low value leases are fully accounted without additional exemption.

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

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

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

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

The right-of-use asset is amortised on a straight-line basis from the commencement date to the end of the useful life of the underlying asset. Depreciation is calculated on a straight-line basis from the commencement date of the lease to the end of the lease term, unless an asset is scheduled to be redeemed. The right-of-use asset is periodically reduced for impairment losses, if any, and adjusted for any 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 interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the lessee shall use the incremental interest rate.

Lease liabilities include the present value of the following lease payments:

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

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

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

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

The Group and the Parent Company have concluded several agreements for lease of land and real estate, as well as concluded an agreement until 2028 on a lease of the fiber of the combined optical cable (OPGW - optical ground wire with dual function).

The Group and the Parent Company have recognised the right-of-use assets for land, buildings and facilities.

Right-of-use assets

	Notes	Group	Parent Company
EUR'000			
Net book amount			
As of 31 December 2018			
Initial recognition value		8,075	3,870
As of 1 January 2019		8,075	3,870
Recognised changes in lease agreements		(230)	3
Excluded right-of-use assets of discontinued operation	30	(1,099)	-
Depreciation		(1,224)	(397)
As of 31 December 2019		5,522	3,476
Recognised changes in lease agreements		4,178	1,746
Depreciation		(1,447)	(736)
As of 31 December 2020		8,253	4,486



Lease liabilities

	Notes	Group	Parent Company
EUR'000			
As of 31 December 2018		–	–
Initial recognition value		8,075	3,870
As of 1 January 2019		8,075	3,870
Of which are:			
- Non-current		6,839	3,500
- Current		1,236	370
Recognised changes in lease agreements		(222)	3
Excluded lease liabilities of discontinued operation	30	(1,107)	–
Decrease of lease liabilities		(1,277)	(428)
Recognised interest liabilities		96	57
As of 31 December 2019		5,565	3,502
Of which are:			
- Non-current		4,349	3,126
- Current		1,216	376
Recognised changes in lease agreements		4,178	1,746
Decrease of lease liabilities		(1,530)	(777)
Recognised interest liabilities		131	69
As of 31 December 2020		8,344	4,540
Of which are:			
- Non-current		6,783	3,734
- Current		1,561	806

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

b) Expenses from leases (IFRS 16)

The following amounts are recognised in profit or loss:

	EUR'000			
	Group		Parent Company	
	2020	2019	2020	2019
Depreciation for the right-of-use assets (land, buildings and facilities)	1,447	1,224	736	397
Interest expense on lease liabilities (included in finance costs)	131	96	69	57
Short-term lease expenses	201	165	137	450
TOTAL expenses from leases	1,779	1,485	942	904

In the Statement of Cash Flows for the year ended 31 December 2020, lease payments of the Group in amount of EUR 400 thousand (the Parent Company: EUR 632 thousand) have been made by non-cash offsetting and included in cash flows from operating activities in working capital adjustments (2019: the Group and the Parent Company EUR 400 thousand). Other lease payments of the Group in amount of EUR 1,111 thousand (the Parent Company: EUR 169 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) (2019: the Group EUR 875 thousand and the Parent Company EUR 18 thousand).

c) Income from leases

	Notes	Group		Parent Company	
		2020	2019	2020	2019
EUR'000					
Income from leases (the Group and the Parent Company is the lessor)	6	1,639	1,265	3,921	9,964

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

	Group		Parent Company	
	2020	2019	2020	2019
EUR'000				
< 1 year	1,271	1,251	3,921	9,964
1–5 years	3,920	3,693	4,379	15,110
> 5 years	1,602	2,002	1,601	2,002
TOTAL rental income	6,793	6,946	9,902	27,076

16. Non-current financial investments

The Parent Company's participating interest in subsidiaries and other non-current financial investments

Name of the company	Country of incorporation	Business activity held	31/12/2020		31/12/2019	
			Interest held, %	EUR'000	Interest held, %	EUR'000
Investments in subsidiaries:						
Latvijas elektriskie tīkli AS	Latvia	Lease of transmission system assets	–	–	100%	186,432
Sadales tīkls AS	Latvia	Electricity distribution	100%	641,450	100%	641,150
Enerģijas publiskais tirgotājs AS	Latvia	Administration of mandatory electricity procurement process	100%	40	100%	40
Elektrum Eesti OÜ	Estonia	Electricity and natural gas trade	100%	35	100%	35
Elektrum Lietuva, UAB	Lithuania	Electricity and natural gas trade	100%	98	100%	98
Liepājas enerģija SIA	Latvia	Thermal energy generation and trade, electricity generation	51%	3,556	51%	3,556
TOTAL				645,179		831,311
Other non-current financial investments:						
Pirmais Slēgtais Pensiju Fonds AS	Latvia	Management of pension plans	46.30%	36	46.30%	36
Rīgas siltums AS	Latvia	Thermal energy generation and trade, electricity generation	0.0051%	3	0.0051%	3
TOTAL				39		39

**The Group's non-current financial investments**

Name of the company	Country of incorporation	Business activity held	31/12/2020		31/12/2019	
			Interest held, %	EUR'000	Interest held, %	EUR'000
Other non-current financial investments						
Pirmais Slēgtais Pensiju Fonds AS	Latvia	Management of pension plans	48.15%	37	48.15%	36
Rīgas siltums AS	Latvia	Thermal energy generation and trade, electricity generation	0.0051%	3	0.0051%	3
TOTAL				40		39

The Group owns 48.15% of the shares of the closed pension fund Pirmais Slēgtais Pensiju Fonds AS (Latvenergo AS– 46.30%). However, the Group and the Parent Company are only a nominal shareholder as the Pension Fund is a non-profit company, and all risks and benefits arising from associate's activities and investments in the pension plan are taken and accrued by the members of the Pension Fund pension plan. For this reason, the investment in Pirmais Slēgtais Pensiju Fonds AS is valued at acquisition cost. On 26 May 2020 Latvijas elektriskie tīkli AS sold 1/6 of presumed capital shares of Pirmais Slēgtais Pensiju Fonds AS to Sadales tīkls AS and Enerģijas publiskais tirgotājs AS.

As of 31 December 2020 Enerģijas publiskais tirgotājs AS and Sadales tīkls AS jointly own one share of Pirmais Slēgtais Pensiju Fonds AS with nominal value in the amount of EUR 1,422 (1.85% interest held in share capital) and consequently, each entity owns 1/2 of the notional shares in the amount of EUR 711 per share.

In 2020, the Parent Company invested EUR 300 thousand in the share capital of Sadales tīkls AS, by investing the Parent Company's real estate and property, plant and equipment related to distribution

Summarised financial information for subsidiaries

Subsidiaries	EUR'000							
	Equity		Net profit for the year		Dividends from subsidiaries*		Carrying amount of interest from investment	
	31/12/2020	31/12/2019	31/12/2020	31/12/2019	31/12/2020	31/12/2019	31/12/2020	31/12/2019
Latvijas elektriskie tīkli AS	–	233,757	2,249	9,486	9,742	17,945	–	186,432
Sadales tīkls AS	1,011,688	917,097	22,050	29,317	29,317	33,743	641,450	641,150
Enerģijas publiskais tirgotājs AS	40	40	–	–	–	–	40	40
Elektrum Eesti OÜ	911	960	239	288	288	250	35	35
Elektrum Lietuva, UAB	455	881	77	504	504	548	98	98
Liepājas enerģija SIA	16,918	17,075	3,555	4,464	1,892	2,372	3,556	3,556
	1,030,012	1,169,810	28,170	44,059	41,743	54,858	645,179	831,311

* in 2020 dividends from subsidiaries received in cash in the amount of EUR 12,426 thousand and with non-cash offset in the amount of EUR 29,317 thousand (2019: EUR 21,115 thousand received in cash and with non-cash offset in the amount of EUR 33,743 thousand)

Summarised financial information for non-controlling interests

Non-controlling interest of subsidiaries	EUR'000							
	Non-current assets		Current assets		Non-current liabilities		Current liabilities	
	31/12/2020	31/12/2019	31/12/2020	31/12/2019	31/12/2020	31/12/2019	31/12/2020	31/12/2019
Liepājas enerģija SIA (49 %)	16,706	17,645	1,302	2,027	6,320	8,602	3,320	2,611

system in the amount of EUR 35,300 thousand and its related liabilities (borrowings) in the amount of EUR 35,000 thousand.

In 2019, the Parent Company invested EUR 808 thousand in the share capital of Latvijas elektriskie tīkli AS, by investing the Parent Company's real estate related to transmission system in the amount of EUR 26,846 thousand and its related liabilities (borrowings) in the amount of EUR 26,038 thousand, as well as its lease, supervisory and governance activities.

On 10 June 2020, transmission system assets in the amount of EUR 694.3 million were separated from Latvenergo Group, transferring all the shares of Latvijas elektriskie tīkli AS in the amount of EUR 222.7 million to the Ministry of Economics. The separation of Latvijas elektriskie tīkli AS was carried out by reducing the share capital of Latvenergo AS, it was reduced to EUR 612.2 million (Note 20).

Profit from distribution of non-current financial investments in Latvijas elektriskie tīkli AS for the Parent Company is disclosed in Note 7 and for the Group in Note 30.

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

Movement in non-current investments

	EUR'000			
	Group		Parent Company	
	2020	2019	2020	2019
At the beginning of the year	39	40	831,350	830,542
Invested in share capital	–	–	300	808
Disposal of investment in Latvijas elektriskie tīkli AS	–	–	(186,432)	–
Discontinued operation	1	(1)	–	–
At the end of the year	40	39	645,218	831,350



17. Inventories

Accounting policy

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

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

Existence of inventories as of the end of reporting period is verified during stock-taking.

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

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

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

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

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

	EUR'000			
	Group		Parent Company	
	31/12/2020	31/12/2019	31/12/2020	31/12/2019
Raw materials and materials	17,224	15,114	824	762
Natural gas	41,621	80,907	41,620	80,907
Goods for sale	2,508	1,874	549	421
Other inventories	8,203	8,156	8,060	8,065
Prepayments for inventories	189	163	25	41
Allowance for raw materials and other inventories	(991)	(1,287)	(607)	(674)
TOTAL inventories	68,754	104,927	50,471	89,522

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

Movement on the allowance for inventories

	EUR'000			
	Group		Parent Company	
	2020	2019	2020	2019
At the beginning of the year	1,287	1,137	674	736
(Credited) / charged to the Statement of Profit or Loss	(296)	150	(67)	(62)
At the end of the year	991	1,287	607	674

18. Receivables from contracts with customers and other receivables

Accounting policy

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

- Energy and related services sales, including distribution system services,
- Heating sales,
- Other sales (IT & telecommunication services, connection service fees and other services),
- Receivables from subsidiaries,
- Other financial receivables.

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

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

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

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

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

	EUR'000			
	Group		Parent Company	
	31/12/2020	31/12/2019	31/12/2020	31/12/2019
Individually assessed receivables with lifetime ECL assessment (counterparty model)	2,775	5,105	6,257	9,068
Receivables with lifetime ECL assessment by simplified approach (portfolio model)	105,403	106,425	69,599	73,905
TOTAL receivables from contracts with customers	108,178	111,530	75,856	82,973



a) Receivables from contracts with customers, net

EUR'000

	Group		Parent Company	
	31/12/2020	31/12/2019	31/12/2020	31/12/2019
Receivables from contracts with customers:				
- Electricity, natural gas trade and related services customers (portfolio model)	136,647	138,926	102,120	107,721
- Heating customers (portfolio model)	9,463	9,210	7,386	7,127
- Other receivables from contracts with customers (portfolio model)	3,557	5,019	1,093	2,571
- Other receivables from contracts with customers (counterparty model)	2,780	5,112	1,480	2,452
- Subsidiaries (counterparty model)	–	–	4,782	6,623
	152,447	158,267	116,861	126,494
Allowances for expected credit loss from contracts with customers:				
- Electricity, natural gas trade and related services customers (portfolio model)	(41,761)	(44,108)	(40,672)	(43,187)
- Heating customers (portfolio model)	(328)	(325)	(315)	(315)
- Other receivables from contracts with customers (portfolio model)	(2,175)	(2,297)	(13)	(12)
- Other receivables from contracts with customers (counterparty model)	(5)	(7)	(2)	(3)
- Subsidiaries (counterparty model)	–	–	(3)	(4)
	(44,269)	(46,737)	(41,005)	(43,521)
Receivables from contracts with customers, net:				
- Electricity, natural gas trade and related services customers (portfolio model)	94,886	94,818	61,448	64,534
- Heating customers (portfolio model)	9,135	8,885	7,071	6,812
- Other receivables from contracts with customers (portfolio model)	1,382	2,722	1,080	2,559
- Other receivables from contracts with customers (counterparty model)	2,775	5,105	1,478	2,449
- Subsidiaries (counterparty model)	–	–	4,779	6,619
	108,178	111,530	75,856	82,973

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

EUR'000

Late payment delay in days	ECL rate	Group						Parent Company					
		31/12/2020			31/12/2019			31/12/2020			31/12/2019		
		Receivables	Allowances for ECL	Net	Receivables	Allowances for ECL	Net	Receivables	Allowances for ECL	Net	Receivables	Allowances for ECL	Net
On time	0.20%	102,220	(220)	102,000	100,773	(221)	100,552	67,146	(148)	66,998	69,391	(154)	69,237
Less 30 days	3%	1,923	(58)	1,865	4,139	(124)	4,015	1,251	(38)	1,213	3,193	(96)	3,097
Past due 30 - 59 days	20%	1,070	(214)	856	1,194	(239)	955	990	(198)	792	1,083	(217)	866
Past due 60 - 89 days	50%	422	(211)	211	470	(235)	235	391	(195)	196	432	(216)	216
Past due 90 - 179 days	60%	572	(343)	229	785	(471)	314	508	(305)	203	562	(337)	225
Past due 180 - 359 days	75%	970	(728)	242	1,414	(1,060)	354	789	(592)	197	1,055	(791)	264
Past due more than 360 days	100%	15,997	(15,997)	–	17,971	(17,971)	–	13,480	(13,480)	–	15,405	(15,405)	–
Insolvent debtors*	100%	26,493	(26,493)	–	26,409	(26,409)	–	26,044	(26,044)	–	26,298	(26,298)	–
TOTAL		149,667	(44,264)	105,403	153,155	(46,730)	106,425	110,599	(41,000)	69,599	117,419	(43,514)	73,905

* receivables under insolvency process and with an established payment schedule

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

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

EUR'000

	Notes	Group		Parent Company	
		31/12/2020	31/12/2019	31/12/2020	31/12/2019
Other receivables from contracts with customers		2,780	5,112	1,480	2,452
Allowances for expected credit loss on other receivables from contracts with customers		(5)	(7)	(2)	(3)
Receivables from subsidiaries	29 b	–	–	4,170	5,022
Accrued income from subsidiaries	29 c	–	–	612	1,601
Allowances for expected credit loss on subsidiaries receivables	29 b	–	–	(3)	(4)
TOTAL		2,775	5,105	6,257	9,068

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

There is no significant concentration of credit risk with respect to receivables from contracts with customers as the Group and the Parent Company have large number of customers except major heating customer the net debt of which as of 31 December 2020 amounted to EUR 7,077 thousand (31/12/2019: EUR 6,818 thousand).

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

**Movements in loss allowances for impaired receivables from contracts with customers**

	Group		Parent Company	
	2020	2019	2020	2019
At the beginning of the year	46,737	47,803	43,521	44,337
Receivables written off during the year as uncollectible	(3,681)	(1,935)	(3,252)	(1,422)
Allowances for expected credit losses	1,213	869	736	606
At the end of the year	44,269	46,737	41,005	43,521

EUR'000

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

	Level of SICR	Group		Parent Company	
		31/12/2020	31/12/2019	31/12/2020	31/12/2019
Current financial receivables:					
Unsettled revenue on mandatory procurement PSO fee recognised as assets*	Stage 1	77,273	74,938	–	–
	Stage 1	32	76	26	71
Receivables for lease	Stage 3	16	–	7	–
	Stage 1	6,641	1,236	5,054	300
Other current financial receivables	Stage 3	1,728	1,877	1,331	1,234
Other accrued income	Stage 1	874	872	874	872
	Stage 1	(164)	(231)	(116)	(134)
Allowances for expected credit loss	Stage 3	(1,536)	(1,877)	(1,215)	(1,234)
Receivables for lease from subsidiaries (Note 29 b)	Stage 1	–	–	73	615
Other financial receivables from subsidiaries (Note 29 b)	Stage 1	–	–	21,460	9,640
Other accrued income from subsidiaries (Note 29 c)	Stage 1	–	–	1,850	1,864
Allowances for expected credit loss on subsidiaries receivables (Note 29 b)	Stage 1	–	–	(16)	(7)
TOTAL current financial receivables		84,864	76,891	29,328	13,221
TOTAL other financial receivables		84,864	76,891	29,328	13,221

EUR'000

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

As of 31 December 2020 the Group and the Parent Company have no significant concentration of credit risk with respect to other financial receivables except the commodities exchange– Nasdaq Commodities– the net debt of which to the Group as of 31 December 2020 amounted to EUR 2,348 thousand (31/12/2019: the net debt to the Group of transmission system operator– Augstsprieguma tīkls AS including receivables from contracts with customer amounted to EUR 39,870 thousand; see Note 29 b) and receivable from State of guaranteed fee for the installed electrical capacity of cogeneration power plants and unsettled revenue on mandatory procurement PSO fee recognised as assets. Loss allowance for other financial receivables assessed individually and based on counterparty's model (Note 4).

c) Other non-financial receivables

EUR'000

	Group		Parent Company	
	31/12/2020	31/12/2019	31/12/2020	31/12/2019
Non-current non-financial receivables	429	433	417	421
Total non-current non-financial receivables	429	433	417	421
Current non-financial receivables:				
Pre-tax and overpaid taxes	226	69	212	58
Other current receivables	226	125	70	49
Total current non-financial receivables	452	194	282	107
TOTAL non-financial receivables	881	627	699	528

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

19. Cash and cash equivalents**Accounting policy**

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

	Notes	Group		Parent Company	
		31/12/2020	31/12/2019	31/12/2020	31/12/2019
Cash at bank		100,703	85,665	98,261	84,504
Short-term bank deposits		–	30,000	–	30,000
Restricted cash and cash equivalents*		–	6,757	–	6,757
Cash and cash equivalents		100,703	122,422	98,261	121,261
Cash attributable to discontinued operation	30	–	300	–	–
TOTAL cash and cash equivalents with discontinued operation		100,703	122,722	98,261	121,261

EUR'000

* Restricted cash and cash equivalents as of 31 December 2019 consist of the financial security for participating in Nasdaq Commodities Exchange. As of 31 December 2020 the management of the Parent Company revised its judgements (estimates) and recognised financial security as current financial receivables (see Note 4.)

In existing rate environment, cash at bank balances practically don't earn any interests. Short-term deposits are placed for different periods between several days and three months depending on the immediate cash needs of the Group and the Parent Company and cash flow forecasts. During 2020 the average annual effective interest rate earned on short-term cash deposits was 0.15% (2019: 0.15%). If cash balances at banks exceed certain limits, the banks apply the European Central Bank's deposit facility rate for cash balances above set limits.

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



20. Share capital

As of 31 December 2020, the registered share capital of the Latvenergo AS is EUR 790,348 thousand (31/12/2019: EUR 834,883 thousand) and consists of 790,348 thousand ordinary shares (31/12/2019: 834,883 thousand) with the nominal value of EUR 1 per share (31/12/2019: EUR 1 per share). All shares have been fully paid.

On 10 June 2020, transmission system assets were separated from the Latvenergo Group, transferring all the shares of Latvijas elektriskie tīkli AS to the Ministry of Economics and decreasing share capital of Latvenergo AS in the amount of EUR 222,678 thousand. On 9 June 2020 changes of share capital were registered in the Commercial Register of the Republic of Latvia according to the decision by the Register of Enterprises of the Republic of Latvia.

On 9 July 2020, in accordance with the decision of the Cabinet of Ministers of the Republic of Latvia on unbundling of transmission assets dated 8 October 2019, the shareholders' meeting of Latvenergo AS decided to increase the share capital of Latvenergo AS by investing in Latvenergo AS retained earnings from previous years in the amount of EUR 178,143 thousand. On 16 July 2020 changes of share capital were registered in the Commercial Register of the Republic of Latvia according to the decision by the Register of Enterprises of the Republic of Latvia.

In June 2019, in accordance with the Directive No. 177 of the Cabinet of Ministers of the Republic of Latvia, dated 16 April 2019 – "On the Investment of the State's property units in the Share Capital of Latvenergo AS", real estate in the amount of EUR 92 thousand was invested in the share capital of Latvenergo AS (Note 14 a).

21. Reserves, dividends and earnings per share

a) Reserves

		Group						Parent Company				EUR'000
	Notes	Property, plant and equipment revaluation reserve	Hedge reserve	Post-employment benefit plan revaluation reserve	Other reserves	TOTAL reserves of continuing operations	Reserves classified as held for distribution	TOTAL	Property, plant and equipment revaluation reserve	Hedge reserve	Post-employment benefit plan revaluation reserve	TOTAL
As of 31 December 2018		1,120,169	5,544	(357)	110	1,125,466	-	1,125,466	789,344	5,544	(333)	794,555
Non-current assets revaluation reserve attributable to discontinued operations	30	(29,171)	-	-	-	(29,171)	29,171	-	-	-	-	-
Post-employment benefit plan revaluation reserve attributable to discontinued operations	30	-	-	(18)	-	(18)	18	-	-	-	-	-
Disposal of non-current assets revaluation reserve	14 a	(7,226)	-	-	-	(7,226)	(255)	(7,481)	(3,474)	-	-	(3,474)
(Losses) / gains on re-measurement of defined post-employment benefit plan	27 a, 30	-	-	(2,045)	-	(2,045)	2	(2,043)	-	-	(1,148)	(1,148)
Losses from fair value changes of derivative financial instruments	24	-	(11,771)	-	-	(11,771)	-	(11,771)	-	(11,771)	-	(11,771)
As of 31 December 2019		1,083,772	(6,227)	(2,420)	110	1,075,235	28 936	1,104,171	785,870	(6,227)	(1,481)	778,162
Non-current assets revaluation reserve attributable to discontinued operations	30	-	-	-	-	-	(28 683)	(28,683)	-	-	-	-
Post-employment benefit plan revaluation reserve attributable to discontinued operations	30	-	-	-	-	-	(21)	(21)	-	-	-	-
Increase of non-current assets revaluation reserve as a result of revaluation	14 a	96,264	-	-	-	96,264	-	96,264	-	-	-	-
Disposal of non-current assets revaluation reserve	14 a	(8,882)	-	-	-	(8,882)	(232)	(9,114)	(4,097)	-	-	(4,097)
Losses on re-measurement of defined post-employment benefit plan	27 a, 30	-	-	(476)	-	(476)	-	(476)	-	-	(176)	(176)
Losses from fair value changes of derivative financial instruments	24	-	(7,774)	-	-	(7,774)	-	(7,774)	-	(7,774)	-	(7,774)
As of 31 December 2020		1,171,154	(14,001)	(2,896)	110	1,154,367	-	1,154,367	781,773	(14,001)	(1,657)	766,115

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

b) Dividends

Accounting policy

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

In 2020 the dividends declared to equity holders of the Parent Company for 2019 were EUR 127,071 thousand or EUR 0.16003 per share (in 2019 for 2018: EUR 132,936 thousand or EUR 0.15923 per share).

According to the Law "On the Medium-Term Budget Framework for 2021, 2022 and 2023" the expected amount of dividends to be paid by Latvenergo AS for the use of state capital in 2021 (for the reporting year 2020) amounted to not less than EUR 98,2 million (incl. income tax). The distribution of net profit and amount of dividends payable is subject to a resolution of the Latvenergo AS Shareholders Meeting.

c) Earnings per share

Accounting policy

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

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

	Group		Parent Company	
	2020	2019	2020	2019
Profit attributable to the equity holder of the Parent Company (in thousand EUR)	114,513	92,660	154,848	101,227
Weighted average number of shares (thousand)	794,059	834,845	794,059	834,845
Basic earnings per share (in euros)	0.144	0.111	0.195	0.121
Diluted earnings per share (in euros)	0.144	0.111	0.195	0.121

22. Other financial investments

Carrying (amortised cost) amount of other financial investments

EUR'000

	Group		Parent Company	
	31/12/2020	31/12/2019	31/12/2020	31/12/2019
Financial investments in Latvian State Treasury bonds:				
- non-current	2,693	16,885	2,693	16,885
- current	14,143	-	14,143	-
TOTAL other financial investments	16,836	16,885	16,836	16,885

As of 31 December 2020 the entire Group's and the Parent Company's other financial investments were Latvian State Treasury bonds with 10-year maturity, which were purchased with the purpose to invest liquidity reserve in the low risk financial instruments with higher yield. In 2020 in connection with the amortisation of other financial investments net losses in the amount of EUR 50 thousand (2019: EUR 49 thousand) (Note 11) are recognised from changes in the value of the purchased bonds. All financial investments are denominated in euros. The maximum exposure to credit risk at the reporting date is the carrying amount of other financial investments.

In 2020 the fair value of other financial investments is higher than the carrying amount by EUR 1,195 thousand (2019: EUR 2,031 thousand). Other financial investments in Latvian State Treasury bonds are listed. The fair value of other financial investments is calculated by discounting their future cash flows and using as discount factor the market quoted yield to maturity rates of the respective bonds as of the end of the reporting period (Level 2).

23. Borrowings

	Group		Parent Company	
	31/12/2020	31/12/2019	31/12/2020	31/12/2019
Non-current borrowings from financial institutions	533,898	601,826	526,229	596,560
Issued debt securities (bonds)	100,179	100,303	100,179	100,303
Total non-current borrowings	634,077	702,129	626,408	696,863
Current portion of non-current borrowings from financial institutions	107,428	142,885	105,330	138,691
Issued debt securities (bonds)	-	34,969	-	34,969
Current borrowings	-	291	-	-
Accrued interest on non-current borrowings	617	713	577	692
Accrued coupon interest on issued debt securities (bonds)	1,077	1,684	1,077	1,684
Total current borrowings	109,122	180,542	106,984	176,036
TOTAL borrowings	743,199	882,671	733,392	872,899

Movement in borrowings

	Group		Parent Company	
	2020	2019	2020	2019
At the beginning of the year	882,671	814,343	872,899	802,268
Borrowings received	39,500	180,291	35,000	180,000
Borrowings repaid	(143,176)	(112,102)	(138,692)	(109,513)
Repayment of issued debt securities (bonds)	(35,000)	-	(35,000)	-
Change in accrued interest on borrowings	(703)	183	(722)	188
Changes in outstanding value of issued debt securities (bonds)	(93)	(44)	(93)	(44)
At the end of the year	743,199	882,671	733,392	872,899

**Borrowings by categories of lenders**

EUR'000

	Group		Parent Company	
	31/12/2020	31/12/2019	31/12/2020	31/12/2019
Foreign investment banks	334,506	351,458	334,506	351,458
Commercial banks	307,437	394,257	297,630	384,485
Issued debt securities (bonds)	101,256	136,956	101,256	136,956
TOTAL borrowings	743,199	882,671	733,392	872,899

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

EUR'000

	Group		Parent Company	
	31/12/2020	31/12/2019	31/12/2020	31/12/2019
Fixed rate non-current and current borrowings:				
- < 1 year (current portion of non-current borrowings)	1,077	86,700	1,077	86,700
- 1–5 years	100,179	100,303	100,179	100,303
Total fixed rate borrowings	101,256	187,003	101,256	187,003
Floating rate non-current and current borrowings:				
- < 1 year (current borrowings)	–	292	–	1
- < 1 year (current portion of non-current borrowings)	108,169	93,675	106,031	89,459
- 1–5 years	367,474	363,360	362,162	358,595
- > 5 years	166,300	238,341	163,943	237,841
Total floating rate borrowings	641,943	695,668	632,136	685,896
TOTAL borrowings	743,199	882,671	733,392	872,899

Borrowings by repricing of interest, including the impact of derivative instruments

EUR'000

	Group		Parent Company	
	31/12/2020	31/12/2019	31/12/2020	31/12/2019
- < 1 year	461,003	522,950	451,196	513,178
- 1–5 years	182,196	259,721	182,196	259,721
- > 5 years	100,000	100,000	100,000	100,000
TOTAL borrowings	743,199	882,671	733,392	872,899

As of 31 December 2020 and as of 31 December 2019 all of the Group's and the Parent Company's borrowings were denominated in euros.

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

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

I) Pledges

As of 31 December 2020 the Group's and the Parent Company's assets are not pledged to secure the borrowings, except the pledge on assets of Liepājas Enerģija SIA of maximum secured claims in the amount of EUR 29 million (31/12/2019: EUR 25 million) to secure its current and non-current borrowings. As of the end of the reporting year there has been pledged the property, plant and equipment in the net book amount of EUR 26 million and the claims on the receivables accounts in the amount of EUR 3 million (31/12/2019: EUR 23 million and EUR 2 million, respectively).

II) Un-drawn borrowing facilities

As of 31 December 2020, the un-drawn committed non-current credit facilities amount to EUR 35 million (31/12/2019: EUR 85 million).

As of 31 December 2020, the Group had entered into five overdraft agreements with total notional amount of EUR 128 million (31/12/2019: two overdraft agreements of EUR 19 million) of which four overdraft agreements were entered by the Parent Company with total notional amount of EUR 125 million (31/12/2019: one overdraft agreements of EUR 15 million). In respect of all the overdraft agreements all conditions precedent have been met. At the end of the reporting year, no credit lines were used (31/12/2019: EUR 291 thousand of credit lines were used).

III) Weighted average effective interest rate

During the reporting year the weighted average effective interest rate (including interest rate swaps) on non-current borrowings was 1.38% (2019: 1.48%), weighted average effective interest rate for current borrowings was 0.77% (2019: 0.87%). As of 31 December 2020 interest rates for non-current borrowings in euros were 6 month EURIBOR+ 0.94% (31/12/2019: +0.99%) for the Group and 6 month EURIBOR+ 0.93% (31/12/2019: +0.98%) for Latvenergo AS. As of 31 December 2020, the total notional amount of interest rate swap agreements concluded by the Group amounted to EUR 193.8 million (31/12/2019: EUR 229.4 million) and the interest rate was fixed for the initial periods from 7 to 10 years.

IV) Issued and outstanding debt securities (bonds)

In 2013 the Parent Company (Latvenergo AS) issued bonds in the amount of EUR 35 million with maturity date – 22 May 2020 (ISIN code – LV0000801165) with the annual coupon rate of 2.8%. In 2015 and in 2016, Latvenergo AS issued green bonds in the total amount of EUR 100 million with the maturity date 10 June 2022 (ISIN code – LV0000801777) with the annual coupon rate of 1.9%. The total nominal amount of outstanding bonds as of 31 December 2020 was EUR 100 million (31/12/2019: EUR 135 million). All issued bonds are quoted in NASDAQ Baltic Stock Exchange. The issued debt securities (bonds) are measured at amortised cost at the end of reporting year.

As of 31 December 2020, the fair value of issued debt securities (bonds) exceeds their carrying amount by EUR 2.5 million (31/12/2019: EUR 3.5 million). The fair value of debt securities (bonds) issued is calculated by discounting their future cash flows and using the market quoted yield to maturity rates of the respective bonds as of the end of the reporting year as discount factor (Level 2).

24. Derivative financial instruments

Accounting policy

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

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

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

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

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

Cash flow hedge

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

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

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

I) Outstanding fair values of derivatives and their classification

	Notes	Group				Parent Company			
		31/12/2020		31/12/2019		31/12/2020		31/12/2019	
		Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Interest rate swaps	24 II	-	(9,504)	-	(9,216)	-	(9,504)	-	(9,216)
Electricity forwards and futures	24 III	617	-	-	(3,916)	617	-	-	(3,916)
Natural gas forwards	24 IV	940	(4,993)	6,717	-	940	(4,993)	6,717	-
Currency exchange forwards	24 V	-	(7)	-	-	-	(7)	-	-
Total outstanding fair values of derivatives		1,557	(14,504)	6,717	(13,132)	1,557	(14,504)	6,717	(13,132)

	Group				Parent Company			
	31/12/2020		31/12/2019		31/12/2020		31/12/2019	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Non-current	291	(9,672)	-	(6,149)	291	(9,672)	-	(6,149)
Current	1,266	(4,832)	6,717	(6,983)	1,266	(4,832)	6,717	(6,983)
TOTAL fair values of derivative financial instruments	1,557	(14,504)	6,717	(13,132)	1,557	(14,504)	6,717	(13,132)

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

	Notes	Group		Parent Company	
		2020	2019	2020	2019
Included in the Statement of Profit or Loss					
Electricity forwards and futures	8	2,334	(2,326)	2,334	(2,326)
Natural gas forwards	8	(1,092)	2,033	(1,092)	2,033
		1,242	(293)	1,242	(293)
Included in the Statement of Comprehensive Income					
Interest rate swaps	24 II	(288)	(1,841)	(288)	(1,841)
Electricity forwards and futures	24 III	2,199	(17,443)	2,199	(17,443)
Natural gas forwards	24 IV	(9,678)	7,513	(9,678)	7,513
Currency exchange forwards	24 V	(7)	-	(7)	-
		(7,774)	(11,771)	(7,774)	(11,771)
Total loss on fair value changes		(6,532)	(12,064)	(6,532)	(12,064)

II) Interest rate swaps

As of 31 December 2020, the Group and the Parent Company had interest rate swap agreements with total notional amount of EUR 193.8 million (31/12/2019: EUR 229.4 million). Interest rate swaps are concluded with 7 to 10 year initial maturities and hedged floating rates are 6 month EURIBOR. As of 31 December 2020, fixed interest rates vary from 0.087% to 2.41% (31/12/2019: from 0.087% to 2.5775%).

As at the end of the year all the outstanding interest rate swap agreements with total notional amount of EUR 193.8 million were eligible for hedge accounting and were assessed prospectively and retrospectively to test whether they are effective within the hedging period (31/12/2019: 100% with notional amount of EUR 229.4 million). All contracts are designed as cash flow hedges. It was established that they are fully effective and therefore there is no ineffective portion to be recognised within profit or loss in the Statement of Profit or Loss.

Fair value changes of interest rate swaps

	Group				Parent Company			
	2020		2019		2020		2019	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Outstanding fair value at the beginning of the year	-	(9,216)	-	(7,375)	-	(9,216)	-	(7,375)
Included in Statement of Comprehensive Income	-	(288)	-	(1,841)	-	(288)	-	(1,841)
Outstanding fair value at the end of the year	-	(9,504)	-	(9,216)	-	(9,504)	-	(9,216)





The main interest rate hedging criteria stated in the Financial Risk Management policy is to ensure average fixed rate duration from 1 to 4 years and fixed rate portion at more than 35% of borrowings. As of 31 December 2020 38% (31/12/2019: 45%) of the Group's and 39% (31/12/2019: 45%) of the Parent Company's borrowings had fixed interest rates (taking into account the effect from the interest rate swaps), and average remaining time to interest re-pricing was 1.6 years (2019: 1.8 years) for the Group and the Parent Company.

III) Electricity forwards and futures

As of 31 December 2020, the Group and the Parent Company have entered into 101 electricity forward and future contracts (31/12/2019: 28 contracts) with total outstanding electricity purchase volume of 358,873 MWh (31/12/2019: 1,676,105 MWh) and notional value of EUR 8 million (31/12/2019: EUR 41 million). Electricity forward and future contracts are concluded for the maturities from one month to one year with expiration date during the period from 1 January 2020 to 31 December 2022.

The Group and the Parent Company enter into electricity future contracts in the Nasdaq Commodities exchange, as well as concludes electricity forward contracts with other counterparties. Electricity forward and future contracts are intended for hedging of the electricity price risk and are used for fixing the price of electricity purchased in the Nord Pool AS power exchange.

Electricity forward and future contracts with total outstanding volume of 283,578 MWh as of 31 December 2020 (31/12/2019: 1,247,040 MWh) are designated to comply with hedge accounting treatment and were reassessed prospectively and retrospectively to test whether they are effective within the hedging period. All contracts are designed as cash flow hedges. For the contracts which are fully effective contracts fair value gains are included in other comprehensive income.

Fair value changes of electricity forward and future contracts

Notes	EUR'000								
	Group				Parent Company				
	2020		2019		2020		2019		
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	
	Outstanding fair value at the beginning of the year								
	-	(3,916)	15,853	-	-	(3,916)	15,853	-	
Included in the Statement of Profit or Loss	8	114	2,220	(105)	(2,221)	114	2,220	(105)	(2,221)
Included in Statement of Comprehensive Income		503	1,696	(15,748)	(1,695)	503	1,696	(15,748)	(1,695)
	Outstanding fair value at the end of the year								
	617	-	-	(3,916)	617	-	-	(3,916)	

IV) Natural gas swaps

As of 31 December 2020 the Group and the Parent Company have entered into 30 natural gas price swap contracts (31/12/2019: 36 contracts) with total outstanding natural gas purchase volume of 3,390,000 MWh (31/12/2019: 3,690,000 MWh) and notional value of EUR 57 million (31/12/2019: EUR 71 million). Natural gas swap contracts are concluded for the maturities from one month to one season with expiration date during the period of 1 January 2021 to 31 March 2022. The Group and the

Parent Company have concluded natural gas swap contracts with other counterparties. Natural gas swap contracts are intended for hedging of the natural gas price risk and are used for fixing the price of natural gas purchased in wholesale gas market. 16 natural gas swap contracts with total outstanding volume of 2,370,000 MWh as of 31 December 2020 are designated to comply with hedge accounting treatment (31/12/2019: 13 contracts of 1,650,000 MWh) and were reassessed prospectively and retrospectively to test whether they are effective within the hedging period.

Fair value changes of natural gas forward contracts

Notes	EUR'000								
	Group				Parent Company				
	2020		2019		2020		2019		
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	
	Outstanding fair value at the beginning of the year								
	6,717	-	-	(2,829)	6,717	-	-	(2,829)	
Included in the Statement of Profit or Loss	8	(1,092)	-	2,033	-	(1,092)	-	2,033	
Included in Statement of Comprehensive Income		(4,685)	(4,993)	4,684	2,829	(4,685)	(4,993)	4,684	2,829
	Outstanding fair value at the end of the year								
	940	(4,993)	6,717	-	940	(4,993)	6,717	-	

V) Currency exchange forwards

As at 31 December 2020 the Group and the Parent Company have entered in two EUR/USD currency exchange forwards. The notional principal amount of the outstanding currency exchange forwards as at 31 December 2020 were USD 0.932 million (31/12/2019: 0).

The hedged highly probable forecasted USD currency transactions are expected to occur at various dates during the next 3 months. Gains / (losses) on fair value changes as a result of realised hedge agreements on EUR/USD currency exchange forwards as at 31 December 2020 are recognised in the hedging reserve in equity as they qualify under requirements of hedge accounting according to the Financial Risk Management Policy.

All outstanding EUR/USD currency exchange forwards at 31 December 2020 were designed as cash flow hedges for USD transactions of Riga TEC-2 combined heat and power plant on the contract of replacement of the stator windings of the gas turbine generator.

Fair value changes of forward currencies exchange contracts

	EUR'000							
	Group				Parent Company			
	2020		2019		2020		2019	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
	Outstanding fair value at the beginning of the year							
	-	-	-	-	-	-	-	-
Included in Statement of Comprehensive Income		-	(7)	-	-	-	(7)	-
	Outstanding fair value at the end of the year							
	-	(7)	-	-	-	(7)	-	-



25. Fair values and fair value measurement

Accounting policy

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

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

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

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

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

- a) The fair values of borrowings with floating interest rates approximate their carrying amount, as their actual floating interest rates approximate the market price of similar financial instruments available to the Group and the Parent Company, i.e., the floating part of the interest rate corresponds to the money market price while the added part of the interest rate corresponds to the risk premium the lenders in financial and capital markets require from companies of similar credit rating level (Level 2);
- b) The fair value of loans to subsidiaries with fixed rates calculations are based on discounted cash flows using discount factor of respective maturity EUR swap rates increased by average market margin of short term financing
- c) The Group and the Parent Company enter into derivative financial instruments with various counterparties, financial institutions and energy utility company, with investment grade credit ratings. The derivative financial instruments are determined by using various valuation methods and models with market observable inputs. The models incorporate the credit quality of counterparties, foreign exchange spot and forward rates. The fair values of interest rate swaps are obtained from corresponding bank's revaluation reports and in financial statements fair values of financial instruments as specified by banks are disclosed. To make sure the fair values of interest rate swaps are accurate in any material aspect, the Group and the Parent Company makes its own interest rate swaps fair value calculations by discounting financial instruments future contractual cash flows using euro annual bond 6 months Euribor interest rate swap curve. The fair value of electricity forward and future contracts and natural gas swap contracts is calculated as discounted difference between actual market and settlement prices for the volume set in the agreements. If counterparty is a bank, calculated fair values of financial instruments are compared to bank's revaluation reports and the bank's calculated fair values of the financial instruments are used in the financial reports; In case of electricity forward and future contracts and natural gas swap contracts are concluded with counterparties, fair values as calculated by the Group and the Parent Company are disclosed in Financial Statements;

d) The fair value of the bonds issued and financial investments in government bonds are calculated by discounting their future cash flows using the market quoted yield to maturity rates of the respective bonds as of the end of the reporting year as discount factor;

e) The fair value of investment properties is determined using the income method, by discounting expected future cash flows. In 2020, the nominal pre-tax discount rate used to determine the fair value of investments is 4.40% (2019: 4.61%) as included in the electricity distribution and transmission system service tariff calculation methodology.

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

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

EUR'000

Type of assets	Notes	Group				Parent Company			
		Fair value measurement using			TOTAL	Fair value measurement using			TOTAL
		Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)		Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
As of 31 December 2020									
Assets measured at fair value									
Revalued property, plant and equipment	14 c	-	-	2,402,069	2,402,069	-	-	778,480	778,480
Non-current financial investments	16	-	-	40	40	-	-	39	39
<i>Derivative financial instruments, including:</i>									
Electricity forwards and futures	24	-	617	-	617	-	617	-	617
Natural gas forwards	24	-	940	-	940	-	940	-	940
Assets for which fair values are disclosed									
Investment properties	14 b	-	-	512	512	-	-	3,334	3,334
Other financial investments	22	-	16,836	-	16,836	-	16,836	-	16,836
Floating rate loans to subsidiaries	29 e	-	-	-	-	-	131,133	-	131,133
Fixed rate loans to related parties	29 e	-	86,620	-	86,620	-	611,096	-	611,096
Current financial receivables	18 a, b	-	-	193,042	193,042	-	-	105,184	105,184
Cash and cash equivalents	19	-	100,703	-	100,703	-	98,261	-	98,261
As of 31 December 2019									
Assets measured at fair value									
Revalued property, plant and equipment	14 c	-	-	2,807,065	2,807,065	-	-	782,977	782,977
Non-current financial investments	16	-	-	39	39	-	-	39	39
<i>Derivative financial instruments, including:</i>									
Natural gas forwards	24	-	6,717	-	6,717	-	6,717	-	6,717
Assets for which fair values are disclosed									
Investment properties	14 b	-	-	301	301	-	-	39,435	39,435
Other financial investments	22	-	16,885	-	16,885	-	16,885	-	16,885
Floating rate loans to subsidiaries	29 e	-	-	-	-	-	151,289	-	151,289
Fixed rate loans to subsidiaries	29 e	-	-	-	-	-	642,967	-	642,967
Current financial receivables	18 a, b	-	-	188,421	188,421	-	-	96,194	96,194
Cash and cash equivalents	19	-	122,422	-	122,422	-	121,261	-	121,261

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



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

EUR'000

Type of liability	Notes	Group				Parent Company			
		Fair value measurement using			TOTAL	Fair value measurement using			TOTAL
		Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)		Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
As of 31 December 2020									
Liabilities measured at fair value									
<i>Derivative financial instruments, including:</i>									
Interest rate swaps	24	–	9,504	–	9,504	–	9,504	–	9,504
Natural gas forwards	24	–	4,993	–	4,993	–	4,993	–	4,993
Currency exchange forwards	24	–	7	–	7	–	7	–	7
Liabilities for which fair values are disclosed									
Issued debt securities (bonds)	23	–	101,256	–	101,256	–	101,256	–	101,256
Borrowings	23	–	641,943	–	641,943	–	632,136	–	632,136
Trade and other financial current payables	26	–	–	76,429	76,429	–	–	51,664	51,664
As of 31 December 2019									
Liabilities measured at fair value									
<i>Derivative financial instruments, including:</i>									
Interest rate swaps	24	–	9,216	–	9,216	–	9,216	–	9,216
Electricity forwards and futures	24	–	3,916	–	3,916	–	3,916	–	3,916
Liabilities for which fair values are disclosed									
Issued debt securities (bonds)	23	–	136,956	–	136,956	–	136,956	–	136,956
Borrowings	23	–	745,715	–	745,715	–	735,943	–	735,943
Trade and other financial current payables	26	–	–	91,410	91,410	–	–	68,249	68,249

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

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

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

Type of liability	Group				Parent Company			
	Carrying amount		Fair value		Carrying amount		Fair value	
	31/12/2020	31/12/2019	31/12/2020	31/12/2019	31/12/2020	31/12/2019	31/12/2020	31/12/2019
Financial assets								
Fixed rate loans to related parties	86,620	–	89,409	–	611,096	642,967	641,936	673,987
Other financial investments	16,836	16,885	18,031	18,916	16,836	16,885	18,031	18,916
Financial liabilities								
<i>Interest-bearing liabilities, including:</i>								
Issued debt securities (bonds)	101,256	136,956	103,762	140,471	101,256	136,956	103,762	140,471

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

26. Trade and other payables

	EUR'000			
	Group		Parent Company	
	31/12/2020	31/12/2019	31/12/2020	31/12/2019
Financial liabilities:				
Payables for materials and services	45,415	55,900	43,589	55,971
Payables for electricity and natural gas	16,688	24,803	748	6,193
Accrued expenses	12,085	9,106	6,132	4,702
Other financial current payables	2,241	1,601	1,195	1,383
TOTAL financial liabilities	76,429	91,410	51,664	68,249
Non-financial liabilities:				
State social security contributions and other taxes	13,258	12,031	7,244	4,776
Advances received	8,515	8,403	3,771	3,641
Other current payables	2,710	3,864	1,025	1,715
TOTAL non-financial liabilities	24,483	24,298	12,040	10,132
TOTAL trade and other current payables	100,912	115,708	63,704	78,381

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

27. Provisions

Accounting policy

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

Provisions are presented in the Statement of Financial Position at the best estimate of the expenditure required to settle the present obligation at the end of reporting period. Provisions are used only for expenditures for which the provisions were originally recognised and are reversed if an outflow of resources is no longer probable.

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

	EUR'000			
	Group		Parent Company	
	31/12/2020	31/12/2019	31/12/2020	31/12/2019
Non-current:				
- post-employment benefits (recognised in profit or loss)	12,802	12,666	5,745	5,608
- post-employment benefits (recognised in equity)	2,896	2,420	1,488	1,480
- termination benefits	957	2,744	507	740
- environmental provisions	662	661	662	661
	17,317	18,491	8,402	8,489
Current:				
- termination benefits	1,846	1,631	250	517
	19,163	20,122	8,652	9,006

a) Provisions for post-employment benefits

Accounting policy

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

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

	Notes	Group		Parent Company	
		2020	2019	2020	2019
At the beginning of the year		15,086	12,767	7,088	5,868
Current service cost		1,337	1,170	617	522
Interest cost		87	134	41	62
Post-employment benefits paid		(1,288)	(989)	(521)	(512)
Losses as a result of changes in actuarial assumptions	21 a	476	2,043	176	1,148
Transfer of Latvenergo AS employees to Sadales tīkls AS		-	-	(168)	-
Discontinued operation	30	-	(39)	-	-
At the end of the year		15,698	15,086	7,233	7,088

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

	Notes	Group		Parent Company	
		2020	2019	2020	2019
At the beginning of the year		15,086	12,767	7,088	5,868
Credited to the Statement of Comprehensive Income	21 a	476	2,043	176	1,148
Credited to the Statement of Profit or Loss		136	315	137	72
Transfer of Latvenergo AS employees to Sadales tīkls AS		-	-	(168)	-
Discontinued operation	30	-	(39)	-	-
At the end of the year		15,698	15,086	7,233	7,088





Weighted average discount rate used for discounting benefit obligations was 0.58% (2019: 1.05%), considering EIOPA risk-free interest rate, interest rates of Latvian government bonds and EURBMK BBB electricity industry rate at the end of the reporting year. The Group's Collective Agreement provides indexation of employees' wages at least at the level of inflation. Long-term inflation determined at the level of 3.0% (2019: 3.0%) when calculating long-term post-employment benefits. In calculation of these liabilities also the probability, determined on the basis of previous experience, of retirement in different employees' aging groups was also considered.

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

EUR'000

Assumptions	Date of valuation	Group						Parent Company					
		Discount rate		Future salary changes		Retirement probability changes		Discount rate		Future salary changes		Retirement probability changes	
		1% increase	1% decrease	1% increase	1% decrease	1% increase	1% decrease	1% increase	1% decrease	1% increase	1% decrease	1% increase	1% decrease
Impact on provisions for post-employment benefits	31/12/2020	1,173	(1,728)	2,031	(1,701)	2,250	(1,855)	499	(732)	864	(720)	956	(785)
	31/12/2019	1,948	(1,596)	1,880	(1,577)	2,084	(1,722)	827	(675)	798	(667)	885	(728)

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

Contributions are monitored on an annual basis and the current agreed contribution rate is 5%. The next valuation is due to be completed as at 31 December 2021. Expected contributions to post-employment benefit plan for the year ending 31 December 2021 are EUR 4,3 million. The weighted average duration of the defined benefit obligation is 19.91 years (2019– 19.51 years).

EUR'000

	Date of valuation	Group				Parent Company			
		Less than 1 year	From 1 to 5 years	Over 5 years	TOTAL	Less than 1 year	From 1 to 5 years	Over 5 years	TOTAL
Defined benefit obligation	31/12/2020	2,059	2,281	11,358	15,698	1,508	1,054	4,671	7,233
	31/12/2019	2,397	2,143	10,546	15,086	1,734	1,082	4,272	7,088

b) Termination benefits

Accounting policy

Termination benefits are measured in accordance with IAS 19 and are payable when employment is terminated by the Group Companies before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group and the Parent Company recognise termination benefits at the earlier of the following dates: (a) when the Group entity can no longer withdraw the offer of those benefits; and (b) when the Group entity recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of terminations benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value. Management judgements related to the measurement of provisions for termination benefits is disclosed in Note 4 d.

Termination benefits paid out are included in the Statement of Profit or Loss position 'Personnel expenses' within expenditure of employment termination (Note 9), while termination benefits and projected future liability values are recognised as a liability in the Statement of Financial Position and as accrued costs within expenditure of employment termination (Note 9):

EUR'000

	Group		Parent Company	
	2020	2019	2020	2019
At the beginning of the year	4,375	6,970	1,257	1,878
Termination benefits paid	(2,387)	(939)	(289)	(158)
Changes in provisions	815	(1,656)	(211)	(463)
At the end of the year	2,803	4,375	757	1,257



According to defined development directions per Strategy of Latvenergo Group for the period 2017–2022, management of the Parent Company approved the Strategic Development and Efficiency Programme. Provisions for employees' termination benefits are recognised on a basis of Strategic Development and Efficiency Programme of Latvenergo Group for the period in which it is planned to implement the efficiency program (including Latvenergo AS and Sadales tīkls AS efficiency activities), by which it is intended to reduce gradually the number of employees by the year 2022.

Assumptions used in calculation of termination benefits are as follows– average employee earnings at the time of termination - average earnings per year, with projected increase (salary indexation) in the year 2021 by 0% (2020: 3,5%) and in the year 2022 by 3.0% for Latvenergo AS and in the year 2021 by 0% (2020: 2.3%) and in the year 2022 by 1.2% for Sadales tīkls AS, average employee length of service at the time of termination, the State Social Insurance Contributions rate is 23.59% in 2021 and 2022.

The amount of provisions at the end of reporting year is estimated in accordance with the estimated future liability value as of 31 December 2020, using the fixed discount rate of 0.079% as adopted by the Latvenergo Group (31/12/2019: 0.651%).The discount rate is comprised of a 2–year EUROWAP rate of -0.526% and a corporate risk premium of 0.605 % (determined on the basis of interest rate on Latvenergo AS issued bonds yield spreads above the market rate) (31/12/2019: 3–year EUROWAP rate– 0.243%, corporate risk premium– 0.894%).

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

Assumptions	Date of valuation	Group						Parent Company					
		Discount rate		Future salary changes		Average employee length of service		Discount rate		Future salary changes		Average employee length of service	
		1% increase	1% decrease	1% increase	1% decrease	1% increase	1% decrease	1% increase	1% decrease	1% increase	1% decrease	1% increase	1% decrease
Impact on provisions for termination benefits	31/12/2020	(37)	38	50	(51)	16	(16)	(12)	13	27	(27)	4	(4)
	31/12/2019	(89)	92	68	(67)	7	(102)	(24)	25	37	(36)	7	(7)

EUR'000

c) Environmental provisions

Accounting policy

Environmental protection provisions are recognised to cover environmental damages that have occurred before the end of the reporting period when this is required by law or when the Group's or the Parent Company's past environmental policies have demonstrated that the Group or the Parent Company have a constructive present obligation to liquidate this environmental damage. Experts' opinions and prior experience in performing environmental work are used to set up the provisions.

	EUR'000			
	Group		Parent Company	
	2020	2019	2020	2019
At the beginning of the year	661	1,220	661	1,220
Charged to the Statement of Profit or Loss	1	(559)	1	(559)
At the end of the year	662	661	662	661

The environmental provision for the Group represents the estimated cost for Latvenergo AS of cleaning up CHPP–1 combined heat and power plant ash–fields in accordance with the requests made by the regional Environmental Authority of Riga and feasibility study on this project.

28. Deferred income

Accounting policy

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

Grants related to expense items

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

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

Grants related to assets

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

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

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	EUR'000			
	Group		Parent Company	
	31/12/2020	31/12/2019	31/12/2020	31/12/2019
I) Non-current deferred income				
a) contracts with customers				
From connection fees	138,750	142,453	–	–
Other deferred income	863	877	863	877
	139,613	143,330	863	877
b) operating lease				
Other deferred income	366	383	366	383
	366	383	366	383
c) other				
On grant for the installed electrical capacity of CHPPs	161,440	185,429	161,440	185,429
On financing from European Union funds	8,459	7,889	1,601	256
Other deferred income	148	332	73	229
	170,047	193,650	163,114	185,914
TOTAL non-current deferred income	310,026	337,363	164,343	187,174
II) Current deferred income				
a) contracts with customers				
From connection fees	14,167	13,629	–	–
Other deferred income	924	135	813	63
	15,091	13,764	813	63
b) operating lease				
Other deferred income	20	20	20	20
	20	20	20	20
c) other				
On grant for the installed electrical capacity of CHPPs	23,990	23,990	23,990	23,990
On financing from European Union funds	782	787	7	12
Other deferred income	7	60	4	9
	24,779	24,837	24,001	24,011
TOTAL current deferred income	39,890	38,621	24,834	24,094
TOTAL deferred income	349,916	375,984	189,177	211,268

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

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

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

	Notes	Group		Parent Company	
		2020	2019	2020	2019
At the beginning of the year		375,984	486,722	211,268	234,127
Received deferred non-current income (financing)		1,441	46,337	1,441	259
Received advance payments for contracts with customers	6	808	940	808	940
Received connection fees for connection to distribution system	6	10,749	12,902	–	–
Received connection fees for connection to transmission system		–	1,795	–	–
Compensation for the installed electrical capacity of CHPPs credited to the Statement of Profit or Loss		(23,990)	(23,990)	(23,990)	(23,990)
Transferred to deferred income of discontinued operation	30	–	(132,507)	–	–
Credited to the Statement of Profit or Loss		(15,076)	(16,215)	(350)	(68)
At the end of the year		349,916	375,984	189,177	211,268

29. Related party transactions

Accounting policy

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

Trading transactions taking place under normal business activities with the Latvian government including its departments and agencies and transactions between state-controlled entities and providers of public utilities are excluded from the scope of related party quantitative disclosures. The Group and the Parent Company enter into transactions with many of these bodies on an arm's length basis. Transactions with government related entities include sales of energy and related services and does not contain individually significant transactions and quantitative disclosure of transactions with those related parties is impossible due to broad range of the Latvenergo Group's and the Parent Company's customers, except for transactions with transmission system operator – Augstsprieguma tīkls AS and Latvijas elektriskie tīkli AS since 10 June 2020.

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

	Group		Parent Company			
	2020	2019	2020		2019	
	Other related parties*	Other related parties*	Subsidiaries	Other related parties*	Subsidiaries	Other related parties*
Sales of goods, PPE and services, finance income:						
- Sales of goods and services	9,046	11,472	54,090	8,484	52,347	10,560
- Sales of property, plant and equipment	–	–	1,621	–	1,003	–
- Lease of assets	16,293	36,339	2,376	662	8,802	223
- Interest income	1,169	–	10,651	1,169	11,810	–
TOTAL	26,508	47,811	68,738	10,315	73,962	10,783
Purchases of goods, PPE, and services:						
- Purchases of goods and services	79,833	77,403	268,058	6,600	304,079	6,187
- Purchases of property, plant and equipment and construction services	29,517	87,395	13	392	2,272	–
- Lease of assets	689	63	182	200	302	54
TOTAL	110,039	164,861	268,253	7,192	306,653	6,241
<i>including gross expenses from transactions with subsidiaries recognised in net amount through profit or loss:</i>						
- Sadales tīkls AS	–	–	265,853	–	283,032	–
	–	–	265,853	–	283,032	–

* Transmission system operator– Augstsprieguma tīkls AS and other entities controlled by the management members of Latvenergo Group

EUR'000

Notes	Group		Parent Company	
	31/12/2020	31/12/2019	31/12/2020	31/12/2019
b) Balances at the end of the year arising from sales/purchases of goods, PPE and services:				
Receivables from related parties:				
- subsidiaries	–	–	25,704	15,277
- government related and other related parties*	2,387	39,924	1,653	1,213
- loss allowances for expected credit loss from receivables of subsidiaries	–	–	(19)	(11)
- loss allowances for expected credit loss from receivables of government related and other related parties*	(5)	(54)	(3)	(2)
	2,382	39,870	27,335	16,477
Payables to related parties:				
- subsidiaries	–	–	24,956	26,182
- government related and other related parties*	8,324	10,753	1,805	722
	8,324	10,753	26,761	26,904
c) Accrued income raised from transactions with related parties:				
- for goods sold/services provided for subsidiaries	–	–	1,115	1,842
- for interest received from subsidiaries	–	–	1,346	1,622
	–	–	2,461	3,464
d) Accrued expenses raised from transactions with related parties:				
- for purchased goods/received services from subsidiaries	–	–	2,646	1,335
- for purchased goods/received services from government related entities*	–	1,460	–	–
	–	1,460	2,646	1,335

* Related parties included transmission system operator– Augstsprieguma tīkls AS, Latvijas elektriskie tīkli AS (since 10 June 2020) and Pirmais Slēgtais Pensiju Fonds AS

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

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

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

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

Dividends received from subsidiaries are disclosed in Note 16.



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e) Loans to related parties

Non-current and current loans to related parties

EUR'000

	Group		Parent Company	
	31/12/2020	31/12/2019	31/12/2020	31/12/2019
Non-current loans to subsidiaries				
Sadales tīkls AS	–	–	477,507	427,351
Latvijas elektriskie tīkli AS	–	–	–	161,460
Allowances for expected credit loss	–	–	(344)	(377)
Non-current loans to other related parties				
Augstsprieguma tīkls AS	86,672	–	86,672	–
Allowances for expected credit loss	(52)	–	(52)	–
TOTAL non-current loans	86,620	–	563,783	588,434
Current portion of non-current loans				
Sadales tīkls AS	–	–	76,648	75,377
Latvijas elektriskie tīkli AS	–	–	–	27,259
Allowances for expected credit loss	–	–	(55)	(66)
Current loans to subsidiaries				
Latvijas elektriskie tīkli AS	–	–	–	7,228
Sadales tīkls AS	–	–	10,000	15,182
Elektrum Eesti OÜ	–	–	7,937	7,052
Elektrum Lietuva, UAB	–	–	10,209	3,967
Enerģijas publiskais tirgotājs AS	–	–	73,781	69,889
Allowances for expected credit loss	–	–	(74)	(66)
TOTAL current loans	–	–	178,446	205,822
TOTAL loans to related parties	86,620	–	742,229	794,256

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

All current loans to related parties as of 31 December 2020 will be settled in 2021.

Movement in loans issued to related parties

EUR'000

	Group		Parent Company	
	2020	2019	2020	2019
At the beginning of the year	–	–	794,256	765,815
Change in current loans in cash (net)	–	–	286,688	272,103
Change in current loans by non-cash offsetting of operating receivables and payables (net)	–	–	(364,096)	(219,388)
Issued non-current loans	225,232	–	225,232	–
Repayment of loan in cash	(138,560)	–	(138,560)	–
Issued non-current loans by non-cash offset	–	–	20,000	33,743
Repaid non-current loans by non-cash offset	–	–	(81,275)	(58,029)
Impairment for expected credit loss	(52)	–	(16)	12
At the end of the year	86,620	–	742,229	794,256
<i>incl. loan movement through bank account</i>				
Issued loans to subsidiaries	–	–	573,957	707,032
Repaid loans issued to subsidiaries	–	–	(287,269)	(434,929)
Repaid loans issued to other related parties	(138,560)	–	(138,560)	–
Issued loans, net	(138,560)	–	148,128	272,103

Interest received from related parties

EUR'000

	Group		Parent Company	
	2020	2019	2020	2019
Interest received	926	–	11,578	11,810
	926	–	11,578	11,810

I) Non-current loans, including current portion

Concluded non-current loan agreements with Sadales tīkls AS

EUR'000

Agreement conclusion date	Principal amount of the loan	Outstanding loan amount		Interest rate	Maturity date
		31/12/2020	31/12/2019		
29 September 2011	316,271	29,300	38,316	6 months EURIBOR + fixed rate	1 September 2025
6 February 2013	42,686	6,403	10,672	fixed rate	10 September 2022
18 September 2013	42,686	12,806	17,074	fixed rate	10 August 2023
29 October 2014	90,000	40,000	50,000	fixed rate	10 September 2024
20 October 2015	90,000	50,000	60,000	fixed rate	21 October 2025
22 August 2016	60,000	40,000	46,667	fixed rate	22 August 2026
22 August 2016	50,000	35,000	40,000	fixed rate	14 June 2027
14 December 2018	260,000	231,938	240,000	fixed rate	31 January 2030
3 March 2020	200,000	108,708	–	fixed rate	25 March 2030
TOTAL	1,151,643	554,155	502,729		



As of 31 December 2020, total outstanding amount of non-current loans with Sadales tīkls AS amounted to EUR 554,155 thousand (31/12/2019: EUR 502,729 thousand), including current portion of the loan repayable in 2021 – EUR 76,648 thousand (31/12/2019: EUR 75,377 thousand). As of 31 December 2020, 5% of loans issued to Sadales tīkls AS (31/12/2019: 8%) was bearing floating interest rate, which was influenced by 6 months EURIBOR interbank rate fluctuations. During 2020 the effective average interest rate of non-current loans was 1.53% (2019: 1.65%). As of 31 December 2020, impairment for expected credit loss of non-current loans to Sadales tīkls AS in the amount of EUR 399 thousand EUR (31/12/2019: EUR 322 thousand) was recognised. Non-current loans are not secured with a pledge or otherwise.

Non-current loans to Sadales tīkls AS by maturity

	EUR'000	
	Parent Company	
	31/12/2020	31/12/2019
Non-current loan:		
- < 1 year (current portion)	76,648	75,377
- 1 – 5 years	311,665	278,198
- > 5 years	165,842	149,154
	554,155	502,729

Concluded non-current loan agreements with Latvijas elektriskie tīkli AS and Augstsprieguma tīkls AS

	Agreement conclusion date	Principal amount of the loan	Outstanding loan amount		Interest rate	Maturity date
			31/12/2020	31/12/2019		
a) Latvijas elektriskie tīkli AS						
	1 April 2011	97,467	–	10,164	6 months EURIBOR + fixed rate	1 April 2025
	3 September 2013	44,109	–	22,054	fixed rate	10 September 2023
	10 June 2016	156,500	–	156,500	fixed rate	10 June 2028
		298,076	–	188,718		
b) Augstsprieguma tīkls AS						
	8 May 2020	225,232	86,672	–	fixed rate	15 March 2023

As of 31 December 2020, total outstanding amount of non-current loans to Latvijas elektriskie tīkli AS amounted to nil (31/12/2019: EUR 188,718 thousand), including current portion of the loan repayable in 2021 – nil (31/12/2019: EUR 27,259 thousand). As of 31 December 2020 none (31/12/2019: 5%) of the loans issued to Latvijas elektriskie tīkli AS was set floating interest rate, which was influenced by 6 months EURIBOR interbank rate fluctuations. During 2020 the effective average interest rate of non-current loans was 0.67% (2019: 1.72%).

Along with the distribution of transmission system assets and unbundling of Latvijas elektriskie tīkli AS on 10 June 2020, all Latvijas elektriskie tīkli AS liabilities were transferred to Augstsprieguma tīkls AS, including the Latvenergo AS loan to Latvijas elektriskie tīkli AS in amount of EUR 225,232 thousand, of which EUR 138,560 thousand were repaid on 19 June 2020.

Non-current loans to Latvijas elektriskie tīkli AS and Augstsprieguma tīkls AS by maturity

	Group		Parent Company	
	31/12/2020	31/12/2019	31/12/2020	31/12/2019
Non-current loan:				
- < 1 year (current portion)	–	–	–	27,259
- 1 – 5 years	86,672	–	86,672	101,039
- > 5 years	–	–	–	60,420
	86,672	–	86,672	188,718

II) Current loans

To ensure efficiency and centralised management of Latvenergo Group companies' financial resources and using the functionality of Group accounts and possibility for non-cash offsetting of mutual invoices between the parties, current loans are provided. In the reporting period Latvenergo AS issued loans to subsidiaries in accordance with mutually concluded agreement 'On provision of mutual financial resources', allowing the subsidiaries to borrow and to repay the loan according to daily operating needs and including non-cash offsetting of operating receivables and payables. In 2020 the effective average interest rate was 0.53% (2019: 0.48%).

On 31 March 2019 an agreement was concluded between Latvenergo AS and Enerģijas publiskais tirgotājs AS for issue of the current loan in amount of EUR 110,000 thousand to ensure Enerģijas publiskais tirgotājs AS financial resources for the fulfilment of public supplier duties and mandatory procurement process administration. Maturity date of the loan was 31 March 2020 with the possibility to extend the contract for one year if the condition is met that neither of parties propose a termination of the agreement one month before the expiration of the agreement. An agreement concluded on 29 March 2018 with amount of EUR 150,000 thousand and maturity date - 31 March 2019 is repaid. Loan annual interest rate is fixed at 1.115% (2019: 1.115%). As of 31 December 2020, net outstanding amount of current loan is EUR 73,709 thousand (31/12/2019: EUR 67,971 thousand).

As of 31 December 2020 impairment for expected credit loss of current loans to related parties is recognised in the amount of EUR 73 thousand (31/12/2019: EUR 66 thousand).

f) Interest paid to related parties

Financial transactions between related parties have been carried out by using current loans with a target to effectively and centrally manage Latvenergo Group companies' financial resources, using Group accounts. In the reporting period Latvenergo AS has received borrowings from subsidiaries in accordance with mutually concluded agreement 'On provision of mutual financial resources'. In 2020 the effective average interest rate was 0.53% (2019: 0.48%). At the end of the reporting year Latvenergo AS has no borrowings from related parties (31/12/2019: nil).

	Group		Parent Company	
	2020	2019	2020	2019
Interest received	–	–	11	38
	–	–	11	38

30. Discontinued operation

Accounting policy

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale or distribution and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale.

The Group classifies assets and liabilities held for distribution if the discontinued operation is available for immediate distribution in its present condition and distribution is highly probable, as well is measured at the lower of their carrying amount and fair value less costs to distribute.

Assets and liabilities classified as held for distribution are presented separately from the other assets and other liabilities in the Statement of Financial Position.

On 8 October 2019, the Cabinet of Ministers of the Republic of Latvia supported the implementation of the “full ownership unbundling” model for the electricity transmission system operator by its Protocol Decision No. 46 §38. On 10 June 2020, the Parent Company terminated its ownership in subsidiary Latvijas elektriskie tīkli AS and transmission system assets in the amount of EUR 694.3 million were separated from the Latvenergo Group, transferring all the shares of Latvijas elektriskie tīkli AS in the fair value of EUR 222.7 million to the Ministry of Economics.

In the 2019 and 2020 Financial Statements the subsidiary Latvijas elektriskie tīkli AS was classified as a discontinued operation in accordance with IFRS 5, “Non-current Assets Held for Sale and Discontinued Operations”. In the Statement of Financial Position the Group disclosed assets, reserves and liabilities held for distribution as of 31 December 2019 and in the Statement of Profit or Loss – profit from discontinued operation for 2020 and for 2019. In the Group’s operating segments results financial results of Latvijas elektriskie tīkli AS are disclosed in transmission system assets lease segment because until the termination of its ownership on 10 June 2020 the Management Board of the Parent Company continued to review financial results of this operating segment.

Financial information of discontinued operation disclosed in tables below includes financial results of transmission system assets lease business, amounts of net assets, reserves in equity, liabilities and cash flows results.

Statement of Profit or Loss

EUR'000

	Group	
	2020	2019
Revenue	15,967	36,643
Other income	1,104	1,664
Raw materials and consumables used	(1)	(21)
Personnel expenses	(271)	(450)
Other operating expenses	(245)	(395)
EBITDA	16,554	37,441
Depreciation, amortisation and impairment of intangible assets, property, plant and equipment and right-of-use assets	(11,602)	(24,756)
Operating profit	4,952	12,685
Finance costs	(7)	(17)
Profit before tax	4,945	12,668
Income tax	(102)	(2,436)
Profit from distribution of discontinued operations	5,001	–
Profit for the year from discontinued operation	9,844	10,232

The major classes of assets, reserves and liabilities classified as held for distribution

EUR'000

	Notes	Group	
		2020	2019
Assets			
Property, plant and equipment	14 a	–	601,175
Right-of-use assets	15	–	1,099
Inventories		–	184
Receivables		–	37,635
Cash and cash equivalents	19	–	300
Assets held for distribution		–	640,393
Liabilities			
Provisions	27	–	(39)
Lease liabilities	15	–	(1,107)
Deferred tax liability		–	(2,435)
Deferred income	28	–	(132,507)
Trade and other payables		–	(43,488)
Liabilities directly associated with assets held for distribution		–	(179,576)
Net assets directly associated with disposal group		–	460,817
Amounts included in accumulated other comprehensive income:			
Non-current assets revaluation reserve	21	–	28,916
Post-employment benefit plan revaluation reserve	21	–	20
Reserves of disposal group classified as held for distribution		–	28,936

Net cash flows from discontinued operation

EUR'000

	Group	
	2020	2019
Net cash flows from operating activities	27,449	85,853
Net cash flows used in investing activities	(27,573)	(85,825)
Net cash flows used in financing activities	(15)	(28)
Net changes in cash and cash equivalents	(139)	–



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31. Commitments and contingent liabilities

As of 31 December 2020, the Group had commitments amounting to EUR 66.6 million (31/12/2019: EUR 156.3 million) and the Parent Company had commitments amounting to EUR 28.9 million (31/12/2019: EUR 52.3 million) for capital expenditure contracted but not delivered at the end of the reporting period.

Latvenergo AS has issued support letters to its subsidiaries– on 15 February 2021 to Enerģijas publiskais tirgotājs AS, on 17 February 2021 to Sadales tīkls AS and on 25 February 2021 to Elektrum Lietuva, UAB acknowledging that its position as the shareholder is to ensure that subsidiaries are managed so that they have sufficient financial resources and are able to carry their operations and settle their obligations.

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

The Management Board of Latvenergo AS:

Guntars Baļčūns
Chairman of the Management Board

Kaspars Cikmačs
Member of the Management Board

Arnīs Kurģis
Member of the Management Board

Uldis Mucinieks
Member of the Management Board

Liāna Ķeldere
Accounting director of Latvenergo AS

13 April 2021

32. Events after the reporting year

Accounting policy

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

On 11 February 2021 international credit rating agency Moody's affirmed credit rating for Latvenergo AS at the Baa2 level with a stable future outlook.

On 10 March 2021 the Management Board of the Sadales tīkls AS decided to recognise the revaluation of Sadales tīkls AS electricity lines for financial reporting purposes as of 1 January 2021 and the result of the revaluation was recognised in the financial statements of 2020 as an adjusting event.

On 29 March 2021 a loan agreement was concluded between Latvenergo AS and Enerģijas publiskais tirgotājs AS in the amount till EUR 120 million with the maturity 31 March 2022.

On 17 December 2020, the Shareholders' meeting of Enerģijas publiskais tirgotājs AS accepted decision on the reorganisation of the company through transforming it into a limited liability company Enerģijas publiskais tirgotājs SIA. On 31 March 2021 the reorganisation process was completed and Enerģijas publiskais tirgotājs AS was transformed into Enerģijas publiskais tirgotājs SIA by taking over of all rights and liabilities of Enerģijas publiskais tirgotājs AS and continuing to perform them in full.

There have been no other significant events after the end of the reporting year that might have a material effect on the Latvenergo Consolidated and Latvenergo AS Annual Financial Statements for the year ending 31 December 2020.

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Independent Auditor's Report

To the shareholder of Latvenergo AS

Report on the audit of the separate and consolidated financial statements

Our opinion

In our opinion, the separate and consolidated financial statements give a true and fair view of the separate and consolidated financial position of Latvenergo AS (the Company) and its subsidiaries (together the Group) as at 31 December 2020, and of the Company's and Group's separate and consolidated financial performance and the Company's and Group's separate and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Our opinion is consistent with our additional report to the Audit Committee dated 31 March 2021.

What we have audited

The financial statements presented on pages 12 to 62 which consist of the separate financial statements of the Company and the consolidated financial statements of the Group (together "the financial statements") comprise:

- the separate and consolidated statement of profit or loss for the year ended 31 December 2020;
- the separate and consolidated statement of comprehensive income for the year ended 31 December 2020;
- the separate and consolidated statement of financial position as at 31 December 2020;
- the separate and consolidated statement of changes in equity for the year then ended;
- the separate and consolidated statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

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Basis for opinion

We conducted our audit in accordance with International Standards on Auditing adopted in the Republic of Latvia (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

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

Independence

We are independent of the Company and the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) and the ethical requirements of the Law on Audit Services that are relevant to our audit of the financial statements in the Republic of Latvia. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code and the ethical requirements of the Law on Audit Services.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Company and the Group are in accordance with the applicable law and regulations in the Republic of Latvia and that we have not provided non-audit services that are prohibited under Article 37.⁶ of Law on Audit Services of the Republic of Latvia.

The non-audit services that we have provided to the Company and the Group, in the period from 1 January 2020 to 31 December 2020, are disclosed in Note 10 to the financial statements.

Our audit approach

Overview



Materiality

- Overall Company and Group materiality: EUR 5,600 thousand.

Audit scope

- Full scope audit was conducted for all seven Group entities, five of them are in Latvia (including the Company), one in Estonia and one in Lithuania.
- The Group audit team performed the work on all five Latvian entities.
- Estonian and Lithuanian subsidiaries were audited by component audit teams located in the respective countries.

Key audit matters

- Revaluation of property, plant and equipment (Group)
- Discontinued operations/ distribution of Latvijas elektriskie tīkli AS (LET) from the Group

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.



Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Company and Group materiality separately for the separate and consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall Company and Group materiality	Overall materiality applied to the Company and the Group was EUR 5,600 thousand.
How we determined it	5% of profit before tax from continuing operations for 2020.
Rationale for the materiality benchmark applied	We chose profit before tax as the base benchmark because, in our view, it is the benchmark against which the performance of the Company and the Group is most commonly measured by users of the financial statements, and it is a generally accepted benchmark. We chose 5%, which is within the range of acceptable quantitative materiality thresholds.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above EUR 560 thousand, both with respect to the Company and the Group, as well as the misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Revaluation of property, plant and equipment

Refer to Note 14c "Property, plant and equipment revaluation"; pages 37 to 39 of the annual report.

The Group measures property, plant and equipment (PPE) at cost or revalued amount, less accumulated depreciation and accumulated impairment loss, if any. Revaluations are made with sufficient regularity to ensure that the carrying amount of PPE subject to valuation does not differ materially from fair value at the end of the reporting period.

In 2020 the Group revalued distribution system electrical equipment and electricity lines as reflected in the Note 14. The Group's management engaged an independent external valuation expert to perform the valuation. A depreciated replacement cost method was used.

The key assumptions used to determine the depreciated replacement cost relate to cost of materials, cost of labour at the time of revaluation and the estimated useful life of assets being valued. The key assumptions were based on the data of the Central Statistical Bureau, the data from the Group's similar recent purchases, the data from specialized databases of construction experts and the approved Group's assets reconstruction plan.

As a result of revaluation, in 2020 the net amount of distribution system electrical equipment and electricity lines was increased by EUR 104,924 thousand from which gain of EUR 96,264 thousand was recognized in other comprehensive income, and net gain on reversal of previously recognised impairment loss of EUR 8,660 thousand was recognised in the statement of profit or loss.

Revaluation of property, plant and equipment requires significant time and resources to audit due to its magnitude and involved judgement, therefore we have determined it as a key audit matter.

We assessed whether the Group's accounting policies in relation to measurement of PPE carried at revalued amounts are in compliance with IAS 16 Property, plant and equipment.

We involved PwC valuation experts. We evaluated the independence, professional qualifications and experience of the external valuation experts used by the Group, and evaluated the adequacy of the valuation methods used.

We evaluated the reasonableness of valuation model used and inputs into the valuation model used - cost of materials, cost of labour, estimated residual useful lives of assets being valued.

We performed our own search on year to year changes in material and labour costs for the period from 2016 (the year of the latest previous revaluation) to 2020 using available public sources. We then compared the data obtained from public sources to that used in the valuation. We also performed an analysis of the Group's internal data used in the valuation.

We have tested mathematical accuracy of the revaluation results and we have tested the journal entries resulting from the revaluation results into the accounting system.

Finally, we have assessed the revaluation related disclosures.

Discontinued operations/ distribution of LET from the Group

Refer to Note 30 "Discontinued operations"; page 61 of the annual report.

On 10 June 2020, the Company transferred the ownership interest in its subsidiary Latvijas elektriskie tīkli AS (LET) to the Ministry of Economics. The transaction was a non-cash distribution to the Company's owners, transferring all the shares of LET, stated in the separate financial statements at EUR 186,432 thousand, to the Ministry of Economics. As a result of the transaction transmission system total assets of EUR 694,290 thousand were disposed of by the Latvenergo Group.

We focused on this area because classification, measurement and presentation of discontinued operations and the profit from discontinued operations in the Group's consolidated financial statements and profit from distribution of financial investment in LET in the Company's financial statements have material impact on the Group's and the Company's financial statements as at 31 December 2020 and for the year then ended.

We assessed whether the Group's and the Company's accounting policies in relation to the discontinued operations are in compliance with IFRS 5.

We have reconciled the discontinued operations revenue and expenses to LET audited financial information for the period from 1 January 2020 to 10 June 2020 and examined the calculation of the profit from discontinued operations in the Group's financial statements as at 31 December 2020 and for the year then ended and the calculation of profit from distribution of financial investment in LET in the Company's financial statements as at 31 December 2020 and for the year then ended. We have also assessed the reasonableness of management's approach to allocation of intragroup transactions and balances between continuing and discontinued operations.

Finally, we have assessed the disclosures related to discontinued operations.





How we tailored our Group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Full scope statutory audit was performed for the Company and all its subsidiaries by us or by other PwC network firms. Where work was performed by component auditors, we determined the level of involvement we needed to have to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the consolidated financial statements as a whole. We also audited the consolidation process.

Reporting on other information including the Management Report

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

- Latvenergo Group Key Figures, Latvenergo AS Key Figures and Management Report as set out on pages 3 to 11 of the accompanying Annual Report,
- Non-financial Report included in the Management Report as set out on page 9 of the accompanying Annual Report, and
- the Corporate Governance Report, set out in separate statement prepared by the Company's management and available on the Company's website <http://www.latvenergo.lv> section Investors as at the date of this audit report,

but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information identified above.

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

With respect to the Management Report, we also performed the procedures required by Law on Audit Services. Those procedures include considering whether the Management Report is prepared in accordance with the requirements of the applicable legislation.

In addition, in accordance with the Law on Audit Services of the Republic of Latvia with respect to the Corporate Governance Report, our responsibility is to consider whether the Corporate Governance Report includes the information required by section (3) of Article 56.² of the Financial Instruments Market Law.

Based on the work undertaken in the course of our audit, in our opinion, in all material respects:

- the information given in the other information identified above for the financial year for which the financial statements are prepared is consistent with the financial statements;
- the Management Report has been prepared in accordance with the requirements of the Law on Annual Reports and Consolidated Annual Reports of the Republic of Latvia; and
- the Statement of Corporate Governance, available on the Company's website <http://www.latvenergo.lv> as at the date of this audit report, includes the information required by section (3) of Article 56.² of the Financial Instruments Market Law.

In addition, in light of the knowledge and understanding of the Company and the Group and their environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the Management Report and the other information listed above that we obtained prior to the date of this auditor's report. We have nothing to report in this respect.

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

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

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

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

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

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

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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 judgement and maintain professional scepticism throughout the audit. We also:

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

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

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

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

Report on other legal and regulatory requirements

Appointment

We were reappointed as auditors of the Company and the Group for the year ended 31 December 2020 by resolution of general meeting of shareholders dated 8 May 2020. This is our third year of uninterrupted appointment.

PricewaterhouseCoopers SIA
Certified audit company
Licence No. 5

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

Riga, Latvia
13 April 2021

Independent Practitioner's Assurance Report is signed electronically with a secure electronic signature and contains a time stamp.

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