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 20 April 2021 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 2022

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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
Mārtiņš Čakste

____
Member of the Management Board
Guntars Baļčūns

____
Member of the Management Board
Kaspars Cikmačs

____
Member of the Management Board
Dmitrijs Juskovecs

____
Member of the Management Board
Harijs Teteris

This document is signed electronically with secure electronic signatures containing time stamps.

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 that 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.

UK MIFIR PRODUCT GOVERNANCE / TARGET MARKET: The Final Terms in respect of any Notes may include a legend entitled "**UK MiFIR 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 the FCA Handbook Product Intervention and Product Governance Sourcebook (the “**UK MiFIR Product Governance Rules**”) 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 UK MiFIR Product Governance Rules, any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the UK MiFIR Product Governance Rules.

PROHIBITION OF SALES TO 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 "**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.

PROHIBITION OF SALES TO UK 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 UK. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (“**EUWA**”); or (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (“**FSMA**”) and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA. Consequently, no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law by virtue of the EUWA (the “**UK PRIIPs Regulation**”) for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs 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 2021 and as of and for the year ending 31 December 2020, 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 2021 prepared in accordance with the International Financial Reporting Standards as adopted by the E.U. (“**IFRS**”) (the “**2021 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 2020 prepared in accordance with IFRS (the “**2020 Financial Statements**”, and together with the 2021 Financial Statements, the “**Audited Financial Statements**”).

ERNST & YOUNG BALTIC SIA audited the 2021 Financial Statements and issued an unqualified auditor’s report on the aforementioned financial statements. PricewaterhouseCoopers SIA audited the 2020 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), adjusted ROE excluding distribution, adjusted funds from operations (FFO), adjusted FFO to net debt, 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				
		2017	**2018**	**2019**	**2020**	**2021**
EBITDA *	€ million	498	282	244	278	199

Adjusted funds from operations (FFO)	€ million	365	210	272	269	220
Net Debt *	€ million	497	505	564	556	698
Adjusted FFO to net debt	per-cent	71	42	51	48	35
Return on equity (ROE)	per-cent	12.2	2.9	4.1	5.3	3.4
Adjusted ROE excluding distribution	per-cent	11.5	2.6	4.8	7.7	5.5
Net debt to equity *	per-cent	17	22	25	26	33
Net debt to EBITDA *	times	1.0	1.8	2.2	2.0	3.2

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

EBITDA, adjusted FFO, net debt, adjusted FFO to net debt, return on equity (ROE), adjusted ROE excluding distribution, 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, adjusted FFO, net debt, adjusted FFO to net debt, return on equity (ROE), adjusted ROE excluding distribution, adjusted FFO to net debt, 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				
		2017	**2018**	**2019**	**2020**	**2021**
Net profit	€ million	322	76	94	116	72
Profit from discontinued operation	€ million	52	10	10	10	-
Income tax*	€ million	65	(9)	(8)	(6)	(3)
Finance costs, net*	€ million	(10)	(7)	(8)	(9)	(7)
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment*	€ million	(283)	(200)	(143)	(157)	(117)
EBITDA*	**€ million**	**498**	**282**	**244**	**278**	**199**

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

Adjusted funds from operations (FFO)

Adjusted funds from operations (FFO) is net cash flows from operating activities before working capital adjustments, which is adjusted by deducting compensation from the state for the installed capacity of CHPPs.

The following table illustrates the methodology the Group uses to determine its adjusted funds from operations (FFO):

		Year ended 31 December				
		2017	**2018**	**2019**	**2020**	**2021**
Cash flows from operating activities	€ million	338.2	302.9	315.4	291.2	131.7
Less (increase) / decrease in current assets	€ million	(42.6)	102.5	8.1	4.4	(173.9)
Less increase / (decrease) in trade and other liabilities	€ million	(123.8)	(90.3)	11.8	(6.7)	62.1
Less compensation from the state for the installed capacity of CHPPs	€ million	140.0	81.0	24.0	24.0	24.0
Adjusted funds from operations (FFO)	**€ million**	**364.6**	**209.7**	**271.6**	**269.5**	**219.5**

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. From 10 June 2020 to 20 July 2021, 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. As of 21 July 2021, net debt consists of borrowings 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				
		2017	**2018**	**2019**	**2020**	**2021**
Borrowings	€ million	826.8	814.3	882.7	743.2	795.0
Less Latvijas elektriskie tīkli AS borrowings from the Company / loans to Augstsprieguma tīkls AS*	€ million	95.6	179.7	196.3	86.6	-
Less Cash and cash equivalents	€ million	236.0	129.5	122.7	100.7	97.1
Plus Latvijas elektriskie tīkli AS Cash and cash equivalents	€ million	1.5	0.3	0.3	-	-
Net Debt *	**€ million**	**496.7**	**505.4**	**564.0**	**555.9**	**697.9**

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

Adjusted FFO to net debt

Adjusted FFO to net debt is the ratio of adjusted funds from operations (FFO) at the end of the year to the average value of net debt at the beginning and the end of the year. This indicator shows the Group's ability to repay loans using cash generated from its operating activities.

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.

Adjusted ROE excluding distribution

The level of profitability of the regulated services provided by the Group is determined by the Public Utilities Commission. The most significant share in the Group's regulated services is the distribution service. When evaluating the fulfilment of the ROE target for the year 2026, the Group's return indicator will be assessed, excluding the return on the regulated distribution service. Adjusted ROE excluding distribution is the ratio of (Group's profit minus Sadales tīkls AS profit) / average value of equity excluding Sadales tīkls AS equity ((Group's equity at the beginning of the year minus Sadales tīkls AS equity at the beginning of the year plus Group's equity at the end of the year minus Sadales tīkls AS equity at the end of the year) / 2).

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 "*Risk Factors*" 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 *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.
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, UK, the Republic of Latvia, the Republic of Lithuania and other jurisdictions, see Section "*Distribution of the Base Prospectus and Selling Restrictions*".

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 geopolitical and macroeconomic conditions

Exposure of business results to geopolitical events

On 24 February 2022, Russia launched a military assault on Ukraine. This has led to significant volatility in the global credit markets and on the global economy.

The Baltics are former members of the Soviet Union and members of NATO and the European Union. There is speculation that they may become targets of Russian military action. Latvia may be at particular risk given its large ethnic Russian minority (24.5% of the total population of Latvia as at the beginning of 2021, according to the government of Latvia's 2021 Demography Report) and its borders with Russia and Belarus.

In addition, the Russia's invasion of Ukraine could lead to disruption, instability and volatility in global markets and industries. The U.S. government and other governments across the rest of the world have imposed severe economic sanctions and export controls against Russia and Russian interests and Belarus, several of the Russia's largest banks have been removed from the SWIFT system, and additional sanctions may be imposed as the situation in Ukraine progresses. The impact of these measures, as well as potential responses to them by Russia, is unknown.

As of the date of this Base Prospectus the restrictive measures imposed have had no material impact on the Group's performance - no operations have been suspended and no significant direct losses related to the restrictive measures have been incurred. The Group has not entered into any significant agreement with companies in Russia, Belarus, or Ukraine, which could have a material negative impact on the Group's operations. As new packages of sanctions are being imposed, that could possibly lead to the inclusion of the Group's existing partners or their shareholders in the sanctions list, there is still a risk, that implementation of some contracts is suspended.

An additional impact on the Group's financial results could be caused by the general deterioration of the economic situation.

There is also a risk, that due to the rapidly changing environment other aspects related to geopolitical events may arise that are not currently identified but may affect the Group's business results.

The Group's estimate for the exposure of business results to geopolitical events is high.

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 and gas 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.

Russia's invasion of Ukraine and the Western response will certainly affect the Latvian economy. Russia is a major exporter of oil and natural gas, affecting global energy prices. For several months now, there has been a significant rise in the heating bills and fuel prices, which are to blame for soaring global energy prices. Russia's invasion of Ukraine is only exacerbating this situation. In addition, a significant fall in the fuel and gas prices is not expected in the near future. European countries, being aware of the risks posed by their dependence on Russian resources, will be forced to look for alternatives, which are generally more expensive. Energy resources are an important component in the production of many goods and services, so a sharp rise in other prices is expected as well. The government has an important role to play here, not only in ensuring a successful transition to alternative energy sources, but also in providing financial support to the most vulnerable households. It is quite difficult to estimate exactly what the economic impact of rising prices will be, as it depends on many assumptions, but it is clear that it will not be small.

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.

Coronavirus Covid-19 (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.

In 2021, the mass primary vaccination with the following booster shot against COVID-19 was organized for the population in Latvia. From 11 October 2021 to 28 February 2022, an emergency situation was declared in Latvia to limit the spread of COVID-19. During this time period 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 difficulties, the government offered a number of support solutions to entrepreneurs and workers.

The Group constantly assesses the impact of the spread of COVID-19 and implements measures for the safety of customers and employees, as well as ensures an appropriate operating regime at the strategically important facilities of the Daugava hydropower plants (the “**HPPs**”), combined heat and power plants (the “**CHPPs**”) and Sadales tīkls AS. In 2021, the spread of the virus did not have a significant impact on the provision of services provided by the Group. The Group continues to ensure the generation of electricity and heat, the continuity and availability of electricity and natural gas trading and distribution services to all customers.

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 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 power trading also in Poland, offering products already existing in the home market. In addition, the Group plans to grow significantly and diversify generation portfolio with wind and solar capacities. There is a plan in a pipeline to launch solar and wind generation capacities in the Baltics. Besides, there is an upcoming line of new products related to microgeneration, electrification and energy efficiency to be introduced in the home market – in the Baltics. As part of electromobility activities, the Group is successfully expanding electric car charging points in the Baltics. 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. The current Management Board of the Company consists of five Members of the Management Board, of which Chairman of the Management Board of the Company and two Members of the Management Board of the Company responsible for generation and commercial activities took their office on 3 January 2022. 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 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.

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.

Russia's invasion of Ukraine has led to EU sanctions on Russian-affiliated companies. As a result, any decision by the Russian authorities to lower energy supplies to gain political leverage or in response to EU sanctions would have major implications for EU energy supplies. Damage to physical infrastructure is another risk because most of the EU's gas supplies from Russia transit through pipelines running via Ukraine. Disruption to natural gas in particular would significantly but temporarily weaken the EU economy because it is a critical fuel in Europe's electricity generation and a key heating fuel for households.

The power system of the Baltic States is currently technically part of the Integrated Power System/Unified Power System (IPS/UPS) of Russia. The frequency, which is the most important parameter of a power system, is currently controlled by Russia. Taking into account the planned desynchronization of the Baltic power system by the end of 2025, Russia has finalised reinforcement of the Russian internal transmission network (incl. the Kaliningrad region), considering the scenario of the desynchronization of the Baltic power system from the IPS/UPS system. As the Baltic States are still part of the IPS/UPS system, there is a risk, that Russia may desynchronize the Baltic States power system from the IPS/UPS system before the planned time. If such scenario materialises then it could lead to additional gas consumption and costs related to the need of different operation regime by the CHPPs.

The government of Lithuania has decided to stop importing Russia's gas from April 2022 and government of Estonia by the end of 2022. Lithuania will continue receiving gas through the floating liquefied natural gas (LNG) terminal at the port of Klaipeda. Government of Estonia has announced, that it is planning to establish a facility for the storage of LNG in Paldiski with a possible operation starting date in autumn 2022. The possible construction of LNG terminal in the territory of Latvia is also being discussed. Latvia used to be wholly dependent on Russia for its imports of gas. Nevertheless, Latvia have made significant efforts to bolster their energy security in the last decade. As a result, Latvia has the highest levels of gas storage in the EU (over six months of consumption) and increase resilience in the event of disruption to Russian energy deliveries by diversify its potential sources of supply from LNG terminal at the port of Klaipeda and planned LNG terminal at the port of Paldiski. The Baltics have also established fixed power links to Finland, Sweden, Poland and natural gas pipeline connections to Poland (expected to start operations in 2022) and Finland.

As of the date of this Base Prospectus, the Group has purchased approximately 2 terawatt hours (TWh) of gas for the production supply of thermal power plants. The concluded agreements envisage the supply of LNG (from Norway, the United States and Qatar) from the Klaipeda terminal and the injection of gas into the Inčukalns underground gas storage facility in April and May 2022. The purchased natural gas has restrictions on its use set by the Government of Latvia, which must be maintained as national strategic reserves until the end of the injection season of Inčukalns underground gas storage facility (usually mid-October). On 31 March 2022, the Ministry of Economics submitted to Saeima (the Parliament) for the second reading the amendments to the Energy Law that foresee the extension of restrictions to use approximately 2 terawatt hours (TWh) of national strategic reserves owned by the Group until 1 October.2023.

The risk that required supplies might not be available, or might only be available on commercially unfavourable terms, would affect the CHPPs operation regime and 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 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. About 80 per-cent of the Group's electricity generation portfolio is used for covering the retail segment fixed price commitments. Group's generation portfolio does not fully cover the needs of the electricity supply portfolio due to deviations in production and retail consumption profiles, thus throughout the year approximately 20% of the Group's annual electricity supply to the retail sector is subject to market price risk. The Group monitors power portfolio's risk metrics and uses financial derivative contracts to partially mitigate electricity market price risk for the remaining part of its supply portfolio without generation asset coverage and for fixing of natural gas procurement costs.

In Europe, an unprecedented rise in energy prices was observed in 2021. Electricity spot prices in the Baltics were two and a half times higher than in 2020. Such a rise in prices is related to various factors: multiple increases in gas prices and CO2 emission allowances, 5 per-cent higher demand for electricity, and lower generation of wind power plants in Europe. In 2021, the Group's revenue increased by 38 per-cent as result of higher energy sales revenue due to higher electricity market prices and 5 per-cent increase in retail sales volume. Yet, the Group's profit was negatively impacted mainly by significantly higher electricity purchase prices that at the same time coincided with the seasonally reduced electricity generation at the Company's power plants. Customers' final prices are gradually adjusting to the current level of costs.

Hedging is an efficient way to protect the Group against unfavourable changes in energy market prices. Nord Pool Latvian bidding area price derivatives are primarily used to hedge price risk. However, currently the available volume of hedging instruments in the Baltic countries' markets is limited due to low liquidity in the electricity derivatives' market, and for that reason hedging costs might be high. Therefore, the Group supplements its hedging strategy with a proxy hedging where Nordic system futures contracts and Finnish area price contracts might be 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.

Currently about 70 per-cent of business customers portfolio of 3,4 TWh and about 80-85 per-cent of mass segment customers portfolio of 2,7 TWh that includes households and small business customers in terms of volume are with fixed price contracts. Contracts for most part of mass segment customers is open-ended with clause in the contract that allows to change the price not more often than twice a year notifying customer 30 days before. The Company uses generation assets and derivative financial instruments to hedge the market price risk for sales with fixed price contracts. Usually, the Group has hedged the market price risk for about 80 per-cent 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 COVID-19, is taking place.

In 2021, certain sectors of the economy of Latvia were 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. In 2021, the Group's services were not significantly impacted by the spread of the virus. The Group continued 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.

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.

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 2021) 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.

Sanction risk

The Group should comply with the Law on National Sanctions of the Republic of Latvia, as well as international sanctions (UN, EU, US). Russia's invasion of Ukraine has led to unprecedent EU and US government sanctions against Russian and Belarusian companies and individuals. As EU and US continue to impose new sanctions in response to Russia's military attack on Ukraine, it could possibly lead to the inclusion of the Group's existing partners or their shareholders in the sanctions list and subsequently some economic loss due to suspended contracts or projects. There is also a risk that something may go unnoticed due to the rapidly changing environment, as well as there is a risk that introduced additional checks performed by the banks may prolong the execution time of payments and jeopardize the concluded contractual obligations.

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.

The Group's estimate for the sanction risk is high.

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.

On 31 March 2022, the Ministry of Economics submitted to Saeima (the Parliament) for the second reading the amendments to the Energy Law which provide that, in case the incumbent supplier fails proposed obligation to fulfil the necessary winter gas consumption in underground gas storage, then the Group as second largest gas supplier in Latvia will be obliged to provide natural gas supplies to domestic household users at tariffs set by the Public Utilities Commission. The risk that required additional gas supplies to domestic household users might not be available in the market at short notice creates a risk of non-compliance with the regulatory enactments.

The Group's estimate for pertaining to changes in legislation 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 2021, approximately 50 per-cent of EBITDA of the Group was 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.

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, 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;
- overall lifetime profitability should not exceed 9 per-cent of internal rate of return.

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.

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. For example, high and volatile energy prices may have adverse effect on the Group's EBITDA, but in combination with the need to ensure large gas reserves in the inventory for prolonged time period may increase Group's net debt and therefore also a risk to breach the covenants. 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 medium.

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. The first delegated act on sustainable activities for climate change adaptation and mitigation objectives was approved in principle by the European Commission on 21 April 2021 and was formally adopted on 4 June 2021. The second delegated regulation for the remaining objectives is intended to be published in 2022. While the intention is that the Eligible Green Projects would be in alignment with the relevant objectives for the EU Sustainable Finance Taxonomy, until the projects have been examined for compliance with the technical screening criteria for climate change adaptation and mitigation objectives, as well as the technical screening criteria for remaining four 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 is not certain. As of the date of this Base Prospectus the Eligible Green Projects can be considered as EU Sustainable Finance Taxonomy eligible.

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: Vaļņu 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: Vaļņu 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 5^{th} (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 10^{th} (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 Prepayment Date (excluding the Early Prepayment 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 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 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.

PROHIBITION OF SALES TO UK 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 United Kingdom ("**UK**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 ("**EUWA**"); or (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA/UK MiFIR. Consequently, no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law by virtue of the EUWA (the "**UK PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK 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. Any person subsequently offering, selling or recommending the Notes (a "d**istributor"**) 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.

UK MiFIR Product Governance / Eligible Counterparties and Professional Investors Only Target Market

Solely for the purposes of [the/each] manufacturer'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 only eligible counterparties, as defined in the FCA Handbook Conduct of Business Sourcebook, and professional clients, as defined in Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 ("**UK MiFIR**"); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. 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 the FCA Handbook Product Intervention and Product Governance Sourcebook 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 2022 [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 Liepaja 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*).

In 2021, Elektrum Eesti OÜ acquired shares in three micronetwork service companies in Estonia – Energiaturu Võrguehitus OÜ, SNL Energia 1 OÜ and Baltic Energy System OÜ.

As of the date of this Base Prospectus, the Company is the parent company of the Group. The Group includes nine subsidiaries, eight 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 2017, 2018, 2019, 2020 and 2021. 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 2020 and 31 December 2021.

		Year ended 31 December				
		2017	**2018**	**2019**	**2020**	**2021**
Revenue *	€ million	881	839	842	773	1,065
EBITDA *	€ million	498	282	244	278	199
Operating profit *	€ million	214	82	100	121	82
Profit	€ million	322	76	94	116	72
Total assets	€ million	4,416	3,799	3,865	3,359	3,476
Total equity	€ million	2,847	2,320	2,265	2,118	2,123
Adjusted funds from operations (FFO)	€ million	365	210	272	269	220
Net Debt *	€ million	497	505	564	556	698
Adjusted FFO to net debt	per-cent	71	42	51	48	35
Capital expenditure	€ million	244	221	229	169	127
Return on equity (ROE)	per-cent	12.2	2.9	4.1	5.3	3.4
Adjusted ROE excluding distribution	per-cent	11.5	2.6	4.8	7.7	5.5
Net debt to equity *	per-cent	17	22	25	26	33

Net debt to EBITDA *	times	1.0	1.8	2.2	2.0	3.2
Net Cash-flow (the Group)						
- from operating activities	€ million	338	303	315	291	132
- from financing activities	€ million	(56)	(171)	(67)	(267)	(49)
- from investing activities	€ million	(230)	(238)	(255)	(46)	(86)
Operating Figures (the Group)						
Total electricity supply, incl.:	GWh	10,371	9,984	9,259	8,854	9,260
Retail [1)]	GWh	6,923	6,954	6,505	6,394	6,706
Wholesale [2)]	GWh	3,448	3,030	2,754	2,460	2,554
Retail natural gas	GWh	33	147	303	516	1,026
Electricity generated	GWh	5,734	5,076	4,880	4,249	4,517
Thermal energy generated	GWh	2,612	2,274	1,842	1,702	2,072

(*) 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

2021 was the last year the Group operated in line with the objectives and tasks set in its Medium-Term Operation Strategy for 2017–2022 by meeting the objectives of all three strategic goals identified:

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

The evaluation of the implementation of the Strategy 2017 - 2022 shows that it has been fulfilled - some of the goals have been achieved already well before the planned deadlines (trade, distribution), some need more ambition (generation portfolio diversification).

Dynamic processes in the external environment: European Green Deal settings for ambitious and irreversible transformation of habits of all sectors and society, growing structural deficit of electricity supply in the Baltic region, geopolitical need to reduce Latvia's dependence on external energy supplies, the ambitious activities of the Group's most important competitors justified the need to fundamentally review the Group's strategic vision and set ambitious goals well before the formal end of the Strategy 2017-2022 period.

The overall fulfilment of the objectives set in the Strategy 2017-2022 provided an opportunity to evaluate the achievements in time and to set goals and tasks for the new period of the strategy, also considering the dynamic changes in the external environment. Respectively, in 2021, the Medium-Term Operation Strategy for 2022–2026 of the Group was drafted and in March 2022 approved by the Supervisory Board of the Company, which sets new strategic operational and financial targets for the coming years.

The general strategic goal of the Company was approved by the Cabinet of Minister on 9 November 2021: to promote the competitiveness and growth of climate-neutral Latvia and increase the value of the Group in the domestic market in the Baltics and beyond through developing and providing goods and services in the energy and related business value chains in a sustainable, innovative and economically sound manner and the effective management of resources and infrastructure that are strategically important for the country's development and security.

The Group's Strategy 2022-2026 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 is to promote the climate neutrality and increase the value of the Group in the Baltic market and beyond it by the development and provision of the goods and services in the energy and related business value chains in a sustainable, innovative, and economically sound manner and by efficiently managing strategically important resources and infrastructure.

Considering the external circumstances, and the clear vision to focus on growth and moving towards climate neutrality, the need to reduce Latvia's dependence on external energy supplies dictated by geopolitical conditions, the Group has set the following strategic priorities for the period of 2022-2026:

- an ambitious growth program for growing the generation portfolio with a focus on wind and solar generation capacities across the Baltic market and abroad;
- strengthening the sales position in the Baltic market with both traditional energy products and new innovative services and products;
- geographical expansion with an integrated model;
- rapid growth in the electromobility segment of the Baltic market;
- increasing the value of existing assets and strengthening business lines;
- distribution system - secure and efficient two-way network, interoperable for processors and electrification.

The following strategic objectives have been defined to meet the objectives and strategic priorities of the overall strategic goal:

- *generation*: to expand and diversify the generation portfolio with green technologies. To make a decisive contribution to achieving the goals of the European Green Deal by expanding and diversifying its generation portfolio with green technologies, reducing Latvia's energy dependence, and moving towards climate neutrality in 2050 with the following goals: to ensure stable, efficient, and economically justified operation of CHPPs in the long run; grow the renewable energy sources (**RES**) generation portfolio by developing new capacities of 600 MW by 2026, focusing on wind and solar generation plants, in the Baltic market and beyond.

  On 22 February 2022, the Cabinet of Ministers of the Republic of Latvia conceptually supported the intention of the Company and Latvijas valsts meži AS to establish a joint venture for the development of wind farms in Latvia. For the further progress of the project, the Ministry of Economics must prepare the necessary amendments to the regulatory enactments for the development of wind farms in Latvia, as well as obtain a permit from the Cabinet of Ministers to establish a joint venture between the Company and Latvijas valsts meži AS;
- *trade*: to strengthen *Elektrum*'s position as the most valuable energy trader in the Baltics, focusing on portfolio growth in strategic customer segments, revenue diversification and development of customer-friendly, innovative and sustainable products and services in the energy and related value chain. 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;
- *electromobility*: to develop electrification of the transport sector. The purpose of electromobility is to promote sustainable and smart mobility for all by developing electrification in the transport sector. Achievable result indicator: 1200 -1500 electric charging public ports in the Baltics have been built /

acquired by 2026. The Group continues to strengthen its position in the field of electromobility. At the end of 2021, with 90 charging ports in nine Latvian cities, *Elektrum* is one of the largest electric car charging networks in Latvia. Some charging ports are installed together with partners;

- *distribution*: to ensure a sustainable and economically viable distribution service and improve the security and quality of electricity supply. Distribution objective: provision of a sustainable and economically sound service through efficient management of resources and improvement of security and quality of electricity supply, which is important for economic competitiveness and growth, while promoting climate neutrality goals with ambitious goals:

    - systematic and cost-effective improvement of electricity supply quality and security;

    - establishment of a two-way network in accordance with the balanced development trends of microgeneration;

    - digital transformation and efficiency.

  The most important achievable performance indicators: reduced system average interruption duration index (total) to 164 min per year; reduced system average interruption frequency index (total) to 1.92 times per year; the development of the network will support the establishment of 600 public connection points for charging electric cars and the development of distributed RES generation, preventing 224.7 thousand t of CO_2 emissions; limiting cost growth to at least one percentage point below the level of the labour cost index and at least one percentage point below the level of the consumer price index.

  In 2017, the Group launched the efficiency programme - the largest optimization plan in the last decade, which allows the Group to maintain and enhance its long-term value and competitiveness. Within the framework of the programme the structure of Sadales tīkls AS is reorganized, processes are centralized and the number of vehicles, maintenance depots and employees are significantly reduced;

- *sustainability*: sustainability means that in its operations, the Group develops innovative products, services and processes that contribute to the implementation of the UN Sustainable Development Goals, with a special focus on the 7th, 9th, 13th sustainability goals, including the climate, corporate social responsibility (**CSR**) and innovation sub-goals. In the field of climate neutrality, the Group plans to increase the share of RES capacity in the generation portfolio to 80 per cent. in 2030, and to achieve climate neutrality in 2050, by avoiding greenhouse gas emissions of 2.6 million t through diversification of the generation portfolio and other measures by 2026 and 17.8 million t by 2030. The focus of CSR is on voluntary activities for the development of education and science, strengthening cooperation with local communities and the environment. In the field of innovation, it is planned to introduce and practice a culture that promotes innovation throughout the Group to meet the business needs of the Group by innovating technologies, products, and processes.

The following financial objectives have been set to meet the objectives and strategic priorities of the overall strategic goal:

- *profitability*: return on equity (ROE) excluding distribution > 7 per-cent;
- *capital structure*: ratio between adjusted funds from the operation and net debt (FFO/Net Debt) > 25 per-cent;
- *dividend policy*: dividend payout ratio > 64 per-cent;
- *credit rating*: an investment-grade credit rating.

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 2020 and 31 December 2021.

	Year ended 31 December				
	2017	**2018**	**2019**	**2020**	**2021**
Key financial data divided in the operating segments:					
			(€ million)		
Revenue	**926**	**878**	**878**	**789**	**1,065**
Generation and trade	556	512	518	471	754
Distribution	321	323	320	295	303
Lease of transmission system assets (discontinued operation)	47	42	40	16	0
Other*	2	1	0	7	8
EBITDA	**542**	**322**	**281**	**294**	**199**
Generation and trade**	373	147	103	159	80
Distribution	112	120	125	106	106
Lease of transmission system assets (discontinued operation)	45	41	40	16	0
Other*	12	14	13	13	13
Assets	**4,416**	**3,799**	**3,865**	**3,359**	**3,476**
Generation and trade	1,957	1,329	1,354	1,264	1,473
Distribution	1,641	1,670	1,681	1,795	1,801
Lease of transmission system assets (discontinued operation)	501	579	642	0	0
Other*	317	221	188	300	202

** Including corporate functions, adjustments and eliminations*

*** Includes one-off compensation: EUR 140 million in 2017, EUR 81 million in 2018 and EUR 24 million in 2019, 2020 and 2021. For more detailed information please see Note 14 d (I) of the Latvenergo Group Consolidated and Latvenergo AS Annual Report 2021*

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

Generation and trade

Generation and trade was the largest business segment of the Group by revenue in 2021.

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 2021, the majority or 89 per-cent of the revenue of the segment was comprised of electricity, natural gas trade and related supply services 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 2,606 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 1,797 MW.

In 2021, due to significantly higher electricity purchase prices as well as higher natural gas and CO2 emission allowance prices EBITDA of this segment significantly decreased. In 2021, two thirds of the electricity sold to customers was generated at the Group's plants, the remaining part was bought on the market at a higher price than fixed in the agreements with customers. In 2021, the average annual electricity spot price in Latvia was more than two and a half times higher compared to the previous year. The average annual price of natural gas was almost five times higher, and the average price of CO2 emission allowances was more than two times higher.

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 2021, its market share accounted for about 23 per-cent of the Baltic electricity market.

The size of the Baltic electricity market was approximately 29 TWh in 2021. The largest market is in Lithuania, with 12 TWh, followed by the Estonian market with 9 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 54 per-cent market share in 2021. The Group's market share in Lithuania was 13 per-cent and Estonia – 12 per-cent in 2021. 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 6,706 GWh in 2021. The overall amount of retail electricity trade outside Latvia accounted for about 40 per cent of the total, reaching 2,707 GWh in 2021.

With the liberalization of the natural gas market, in 2017, the Group commenced natural gas sales to customers in the Baltics. In 2021, natural gas retail sales of the Group amounted to 1,026 GWh, which is 2 times more than in 2020. 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 2021, *Elektrum* finished solar panel park construction in Lithuania with total installed capacity of 1.5 MW. The capacity of solar panel park is fully sold to final customers within the distant net metering system, which from the Baltic States exists only in Lithuania. Several other similar projects have been started in Lithuania with a total capacity of around 20 MW, part of which is already reserved by final costumers.

In 2021, the Group had 755 thousand customers across the Baltics, including more than 90 thousand outside of Latvia. Of these, 96 per-cent were households and 4 per-cent were business customers.

In January 2022, the Saeima of the Republic of Latvia adopted a law on measures to reduce the extraordinary rise in energy prices. The aim of this law is to reduce the negative socioeconomic impact on the well-being of the population and economic growth, which is associated with an unprecedented sharp rise in energy prices. The law provides for various types of support measures to legal and natural persons to partially compensate the rising costs of energy resources for four months (from 1 January to 30 April 2022). In total, four support measures are included to reduce the costs of electricity, heat and natural gas. The necessary financing for the implementation of the support measures specified by law is EUR 250 million, which will be provided from the state budget programme “Contingency Funds”. Various state support mechanisms for reducing energy prices have been established in Estonia and Lithuania as well.

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 expenditures[1] 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 57 per-cent – from 1.751 EUR / KWh to 0.755 EUR / KWh starting from 1 January 2022. The PSO Fee reduction is mainly driven by rising energy prices in the day-ahead market, reducing the need for subsidies, and partially will be financed by a grant from the State budget.

[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 exchange

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 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.

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 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 while utilising possibilities to reduce the cost of procuring electricity necessary for customers.

Generation

As of the end of 2021, 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).

The total electrical capacity of generators installed at the Group's production facilities as of 31 December 2021 was 2,606 MW_{el}, whereas the total heat generation capacity of installed thermal generation facilities was 1,797 MW_{th}.

The Group's installed electrical capacity as of 31 December 2021:

	31 December 2021
	(MW_{el})
Daugava HPPs	1,558
Latvenergo AS CHPPs*	1,039
Liepaja plants and small plants	9
Total	**2,606**

*installed capacity in condensation mode

The Group's thermal energy capacity of installed generation facilities as of 31 December 2021:

	31 December 2021
	(MW_{th})
CHPPs	1,617
Liepaja plants	180
Total	**1,797**

Generation at the HPPs

The Group's three largest HPPs – the *Plavinas, Kegums* and *Riga* 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 2021, the HPPs on the Daugava River generated more than 2.6 TWh of electricity, which constituted almost 60 per-cent of the Group's total electricity output. The output of the HPPs was 4 per-cent higher than in 2020. The output of the HPPs was 9 per-cent lower than the long-term average value for the period 1992-2021 (2.9 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 2021 was 497 m3/s and 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 588 m3/s for the period 1992–2021. 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 2021. 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 2021, the CHPPs generated 1.9 TWh of electricity and 1.8 TWh of thermal energy.

The CHPPs receive electricity capacity payments. The support period ends in 2028. In 2021, the Company received EUR 21 million as the annual electrical capacity payments for the CHPPs. 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. 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. As the result of this, EUR 81 million were recognized as other income in the Company's statement of profit or loss in 2018 and EUR 24 million in 2019, 2020 and 2021.

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 Liepaja, a city in Latvia. The total installed thermal energy capacity of the Liepaja plants as of 31 December 2021 was 180 MW_{th}, including 42 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 newly renovated Aiviekste HPP with a capacity of 1.5 MW_{el}.

Distribution

Distribution was the largest operating segment within the Group in terms of asset value and EBITDA in 2021. Its operations involve provision of distribution services to approximately 800 thousand 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 2021 was 92,430 km, with 30,461 transformers and 28,386 transformer substations with a total installed capacity of 5,951 MVA. The total volume of distributed electricity in 2021 was 6,470 GWh, and electricity losses were 3.8 per-cent.

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.

Taking into account the extraordinary increase in energy prices in 2021, the government granted support for electricity distribution fee to all end-users (while not changing the distribution system tariffs), in the amount of 50 per-cent from 1 to 31 December 2021 and in the amount of 100 per-cent from 1 January to 30 April 2022, which is funded by the state budget.

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 2017-2021. 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 2020 and 31 December 2021.

	2017	2018	2019	2020	2021
			(€ million)		
Capital expenditure	244	221	229	169	127
incl. transmission system assets (discontinued operation)	63	87	87	29	0

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 2021

The table below provides information as of 31 December 2021 on contractually committed capital investments of the Group.

	2022	Later
	(€ million)	
Generation	33	36
incl. Daugava HPPs reconstruction	*22*	*23*
Distribution	32	0
Other	1	0
Total committed	65	36

According to the development plan of Sadales tīkls AS, large investments are made in the maintenance and development of distribution networks each year. In 2021, investments in the distribution segment comprised EUR 84.8 million or approximately two thirds 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 (67 per-cent of distribution investments in 2021). Other major areas of investment include connections of new customers (23 per-cent) and introduction of smart electricity meters (6 per-cent). Distribution investments exceeded the segment's depreciation in 2021 (EUR 83.0 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 260 million.

As of 31 December 2021, seven reconstructed hydropower units have been put into operation within the programme and work completed within the scope of the contract reached EUR 196 million. The Group is proceeding with a gradual overhaul of 4 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 150 million (which all are green bonds), representing 19 per-cent of the total debt as of 31 December 2021.

The Group's gross debt as of 31 December 2021 was EUR 795.0 million with the following debt maturity schedule:

	2022	2023	2024	2025	2026	2027-2034	Total
				(€ million)			
Debt repayment	**180.9**	**177.3**	**83.0**	**103.0**	**49.9**	**200.8**	**795.0**

The table below provides information about the Group's borrowings by lender category as of 31 December 2021.

	31 December 2021
	(€ million)
International investment banks	286.3
Commercial banks	357.6
Issued bonds	151.1
Total	**795.0**

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

As of 31 December 2021, the total amount of committed short-term credit lines available to the Group was EUR 63 million. The term of credit lines in the amount of EUR 60 million expired in January 2022, at the same time two new credit line agreements were concluded in the same month for the total amount of EUR 90 million and a maturity of 2 years.

All borrowings are denominated in euros. As of 31 December 2021, the weighted average repayment period was 3.8 years. With interest rate swaps, 37 per-cent of the Group's borrowings had a fixed interest rate with an average duration of 1.5 years. The effective weighted average interest rate (with interest rate swaps) of the Group's outstanding borrowings was 1.2 per-cent.

ORGANISATIONAL STRUCTURE

As of the date of this Base Prospectus, the Group comprises the parent company Latvenergo AS and its nine 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
Energiaturu Võrguehitus OÜ	Estonia	Construction of power grids and transmission of electricity	100 per-cent
SNL Energia 1 OÜ	Estonia	Construction of power grids and transmission of electricity	100 per-cent
Baltic Energy System OÜ	Estonia	Construction of power grids and transmission of electricity	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 Liepaja 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 instrument 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 two Management Board members of the Company and two employees, who are responsible for the relevant areas of operation at the Company. The supervisory functions at Elektrum Lietuva, UAB are ensured by five Supervisory Board members, three of whom are Management Board members of the Company and two are employees, who are 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;
- effectiveness 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.

On 16 November 2021, the Supervisory Board of the Company elected a new Chairman of the Management Board and two Members of the Management Board responsible for generation and commercial activities with a five-year term. The new Members of the Management Board took office on 3 January 2022. As of the date of this Base Prospectus the Management Board of the Company consists of five Members of the Management Board:

- **Mr. Mārtiņš Čakste** - Chairman of the Management Board and Chief Executive Officer, responsible for communication, human resource management, compliance control, security, real estate management and maintenance, international affairs and corporate social responsibility, records management, legal affairs, procurement and logistics, transport services.
- **Mr. Guntars Baļčūns** - Chief Financial Officer, responsible for business planning and controlling, energy trading, treasury, accounting, risk management and insurance. Mr. Baļčūns is also a member of the supervisory boards of the Company's subsidiaries Elektrum Eesti OÜ and Elektrum Lietuva, UAB.
- **Mr. Kaspars Cikmačs** - Chief Development Officer, responsible for IT&T, development of electric vehicle charging network, research and development, corporate strategy, wind and solar parks development. Mr. Cikmačs is also a member of the supervisory board of the Company's subsidiary Elektrum Lietuva, UAB.
- **Mr. Dmitrijs Juskovecs** – Chief Commercial Officer, responsible for sales, marketing, customer service, billing and monitoring, services technical support and regulatory affairs. Mr. Juskovecs is also a member of the supervisory boards of the Company's subsidiaries Elektrum Eesti OÜ and Elektrum Lietuva, UAB.
- **Mr. Harijs Teteris -** Chief Operating Officer, responsible for HPP, CHPP management, generation projects, technical inspection, environment and occupational health and safety.

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 2021, the Group had 3,153 employees of whom 70 per-cent were men and 30 per-cent women. The average age of the employees was 44 years. In 2021, the Group's employee turnover was 4.6 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 the end of 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 2021, the Collective Bargaining Agreement was applicable to 94 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 2020 and 2021. 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 2020 and 31 December 2021 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	
		2020	**2021**
Key Financial data (the Group)			
Revenue *	€ million	773	1,065
EBITDA *	€ million	278	199
Operating profit *	€ million	121	82
Profit	€ million	116	72
Total assets	€ million	3,359	3,476
Total equity	€ million	2,118	2,123
Adjusted funds from operations (FFO)	€ million	269	220
Net Debt *	€ million	556	698
Adjusted FFO to net debt	per-cent	48	35
Capital expenditure	€ million	169	127
Return on equity (ROE)	per-cent	5.3	3.4
Adjusted ROE excluding distribution	per-cent	7.7	5.5
Net debt to equity *	per-cent	26	33
Net debt to EBITDA *	times	2.0	3.2
Net Cash-flow (the Group)			
- from operating activities	€ million	291	132
- from financing activities	€ million	(267)	(49)
- from investing activities	€ million	(46)	(86)
Operating Figures (the Group)			
Total electricity supply, incl.:	GWh	8,854	9,260
Retail 1)	GWh	6,394	6,706
Wholesale 2)	GWh	2,460	2,554
Retail natural gas	GWh	516	1,026
Electricity generated	GWh	4,249	4,517
Thermal energy generated	GWh	1,702	2,072

(*) 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 2020 and 31 December 2021 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 2021.

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 2021.

There has been no significant change in the financial performance of the Company or the Group since the date of the audited consolidated annual financial statements of the Group for 2021.

As of the date of this Base Prospectus there is no information on any known trends, uncertainties, demands, commitments or events (except for those indicated in the Section *"Risk Factors"*) 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 790,367,859, and it is composed of 790,367,859 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

2021 marked a rebound in economic growth all over Europe, including Latvia, where the economy grew by 4.7 per cent. The COVID-19 pandemic and associated restrictions continued to weigh on economic growth at the start of 2022, with the Omicron variant causing record-high infection rates. However, pandemic risks have recently retreated since the latest virus variant causes less severe course of disease. Hence, European countries are easing the virus curbs. Looser restrictions support a recovery in consumption in Latvia. The rather positive economic outlook darkened on the 24 February 2022 as Russia invaded Ukraine, starting the bloodiest war in Europe since 1945. The subsequent individual, economic and financial sector sanctions on Russia and Belarus (e.g., sanctions on companies, commodity imports from these countries and the contemplated embargo on Russian oil and gas), as well as voluntary boycotts of products coming from these countries imposed by the Western world have exacerbated inflationary pressures and further intensified the energy crisis in Europe. The uncertainty about the future has become even greater than during the peaks of pandemic. Latvia, being also highly dependent on Russian fuel and gas imports up until now, faces a challenging task to find alternative sources of energy. Potential solutions considered by the government include Latvia's involvement in the development of a liquified natural gas (LNG) terminal in Paldiski, Estonia, construction of a new LNG terminal in Latvia, development of new wind power plants and investments in energy efficiency. In addition to the risks of rising commodity prices and supply chain disruptions, there is a risk that foreign investment will decrease as the region will be perceived as more risky given proximity to an unpredictable neighbour. At the same time, energy-related, defence-related and EU co-financed investments will pick up, supporting demand for construction. However, shortage of materials and high input prices will limit the upside.

Overall, it is still difficult to estimate the full impact of the war and sanctions on the economy of Latvia, but as of the date of writing this Base Prospectus, downside risks are more pronounced. Prolonged war and wider sanctions would inevitably lead to weaker economic activity, both from the supply and demand side, less foreign trade and higher costs of resources leading to even higher inflation. Due to the abovementioned, the Bank of Latvia has cut their real GDP growth forecast for Latvia to 1.8 per-cent in 2022.

Real GDP growth, per-cent	**2017**	**2018**	**2019**	**2020**	**2021**
Latvia	3.3	4.0	2.5	-3.8	4.7
EU (27)	2.8	2.1	1.8	-5.9	5.3

Source: Eurostat

Inflation

In March 2021, annual inflation returned to Latvian economy after a year of an almost uninterrupted bout of small deflation. Inflation shot up in the second half of 2021, fuelled mainly by external factors. Pandemic related global disruptions, poorer harvests around the world, weaker renewable power generation in the region, and other factors led to an increase in the global energy, food, and other commodity prices. As a result, the inflation rate in Latvia has been rising sharply, reaching 11.5 per-cent year-on-year in March 2022. Surge in fuel prices in March was already the first sign of additional inflationary pressure arising from the war and sanctions. This is the first time since 2008, when year-on-year inflation in Latvia has reached a double-digit number. Higher inflation is observable in almost all categories, especially fuel, gas, heating, and food. The war in Ukraine puts even more pressure on prices and negatively affects the purchasing power of Latvian consumers. Inflation will likely remain elevated in the second part of 2022 as most of the inflationary pressure arising from the war in Ukraine has yet to come through to consumer prices.

Inflation, HICP, average, per-cent	**2017**	**2018**	**2019**	**2020**	**2021**
Latvia	2.9	2.6	2.7	0.1	3.2

EU (27)	1.6	1.8	1.4	0.7	2.9

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 disruptions and associated restrictions, businesses had to lay-off non-essential workers. The rise in unemployment rate was limited by the government's financial support for downtime. The unemployment rate started decreasing in the spring of 2021 as COVID-19 restrictions were partially lifted and companies resumed hiring, especially in the services sector. As of the date of this Base Prospectus, most of the COVID-19 restrictions have been lifted in Latvia, which creates room for optimism that labour market will continue to recover. Still, downside risks remain in sectors which are more reliant on trade with Russia, Belarus, and Ukraine, e.g., transportation, wholesale, logistics, and manufacturing of pharmaceutical products.

Unemployment rate, per-cent	2017	2018	2019	2020	2021
Latvia	8.7	7.4	6.3	8.1	7.6
EU (27)	8.3	7.4	6.8	7.2	7.0

Source: Eurostat

Public Finance

Although the final data are not available as of the date of this Base Prospectus, the Ministry of Finance estimates that the budget deficit widened to 7.2% of GDP in 2021, as the government increased its support to the economy amidst pandemic disruptions. The central government budget for 2022 agreed in late 2021 accounts for 10.7 billion EUR in revenue and 12.4 billion EUR in expenditure. The government had planned a 4.8 per-cent general government budget deficit for 2022, reflecting an economy that is still recovering from COVID-19 induced crisis. The recent forecast by the Ministry of Finance suggests that the deficit will be around 6.5% of GDP in 2022, assuming unchanged policy.

General government balance, per-cent of GDP	2017	2018	2019	2020	2021
Latvia	-0.8	-0.8	-0.6	-4.5	N/A
EU (27)	-0.8	-0.4	-0.5	-6.9	N/A

Source: Eurostat; final data not available for 2021

Although the final data are not available as of the date of this Base Prospectus, it is clear that the general government gross debt of Latvia also increased in 2021, as a larger budget deficit called for increased borrowing. Still the government debt levels in Latvia are among the lowest in Europe. On 7 February 2022, the international credit rating agency S&P Global Ratings published the latest research update on the credit rating of Latvia. The report affirmed Latvia's credit rating at "A+", while maintaining a stable outlook. The report mentioned that Latvia's economy had recovered from the pandemic's shock and its growth outlook was solid. The credit rating agency also noted that fiscal and external balances had remained relatively strong throughout the pandemic, and the increase in public debt appeared to be moderate.

General government gross debt, per-cent of GDP	2017	2018	2019	2020	2021
Latvia	39.0	37.1	36.7	43.2	N/A
EU (27) average	81.3	79.3	77.2	90.1	N/A

Source: Eurostat; official data not available for 2021

Foreign Trade

In 2021, the turnover of foreign trade in goods in Latvia at current prices reached a record high EUR 35.9 billion – 26.2 per-cent more than in 2020. The goods exports value constituted EUR 16.5 billion (an increase of 24 per-cent), whereas the imports value – EUR 19.4 billion (an increase of 28.2 per-cent). The European Union continues to be the main export market for Latvian goods – 67 per-cent of the total exports were sent to the EU. In 2021 wood and its products regained its position as the dominant export product group, surpassing the 3 billion mark for the first time in history. The other Baltic States, the United Kingdom, Germany and Russia were the main export trading partners, while Estonia, Lithuania, Germany, Poland, and Russia were the largest contributors to imports. Exports of services, which in 2021 accounts for less than a quarter of total exports, grew by 10.1 per-cent in 2021 led by a rebound in transport services (except rail and sea transport) and an increase in telecommunications, computer, information, and financial services. It is expected that most of the trading with Russia and Belarus will stop over 2022-2023 and as a result, companies operating in transit business, wholesale and logistics are likely to lose part of their business, and not all of them will be able to realign to alternative markets in a short period of time. In 2021, Latvia recorded current account deficit of 2.9 per-cent of GDP as the value of imports increased more than the value of exports (demand for imports increased along with a surge in gas and oil prices in the second half of 2021) and as the income balance worsened.

Current account balance, per-cent of GDP	**2017**	**2018**	**2019**	**2020**	**2021**
Latvia	1.3	-0.2	-0.7	2.9	-2.9
Extra-EU (27)	2.9	2.7	2.3	2.4	2.4

Source: Eurostat, Bank of Latvia

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.
MWel	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 2022 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 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 were signed by Ilandra Lejiņa, holding auditor's certificate No. 168.

ERNST & YOUNG BALTIC SIA, registration number: 40003593454, legal address: Muitas iela 1A, Rīga, LV-1010, Latvia, has audited the 2021 Financial Statements included in this Base Prospectus and issued an unqualified auditors' reports on the aforementioned financial statements.

ERNST & YOUNG BALTIC SIA is included in the register of audit firms maintained by the Latvian Association of Certified Auditors and holds audit company license No.17. On behalf of ERNST & YOUNG BALTIC SIA, the auditors' reports on the 2021 Financial Statements were signed by Diāna Krišjāne holding auditor's certificate No. 124.

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 Vaļņu 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 2020, prepared in accordance with IFRS, together with the audit report in connection therewith.

The Latvenergo Group Consolidated and Latvenergo AS Annual Report 2021, prepared in accordance with IFRS, together with the audit report in connection therewith.

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)

Contents

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

Latvenergo

Latvenergo Group Key Figures

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– EBITDA[1]; EBITDA margin[6]; operating profit margin[7]; profit before tax margin[8]; profit margin[9]; return on assets (ROA)[14]; return on equity (ROE)[15]; return on capital employed (ROCE)[16];
- capital structure measures– net debt[5]; equity–to–asset ratio[10]; net debt / EBITDA[11]; net debt / equity[12]; current ratio[13];
- a dividend policy measure– dividend pay–out ratio[17].

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)	Baa2 (stable)	Baa2 (stable)	Baa2 (stable)	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

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)	Baa2 (stable)	Baa2 (stable)	Baa2 (stable)	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.

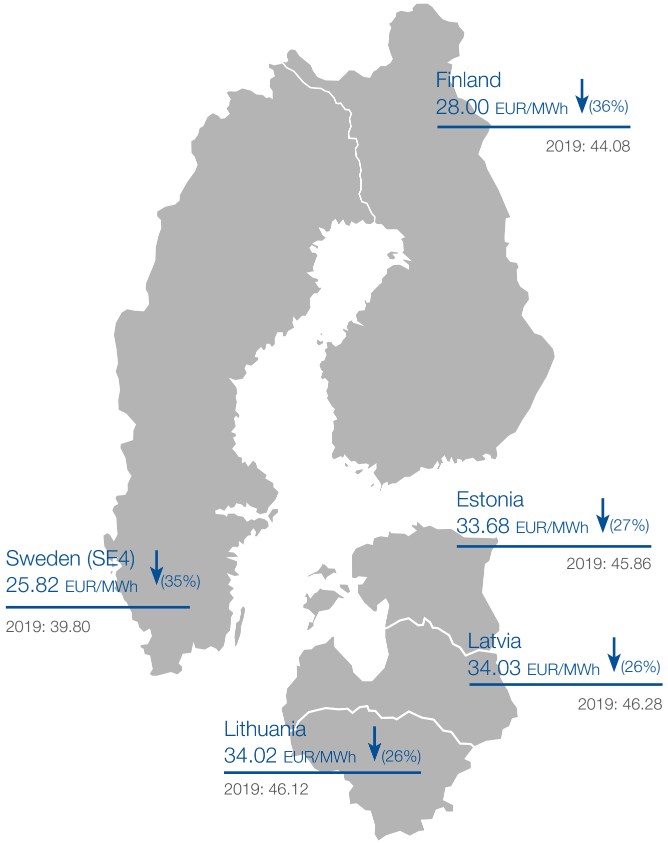
Operating Environment

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 CO_2 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 CO_2 prices, however, the decline in CO_2 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



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 m^3/s, while in 2019 it was 401 m^3/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%.

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

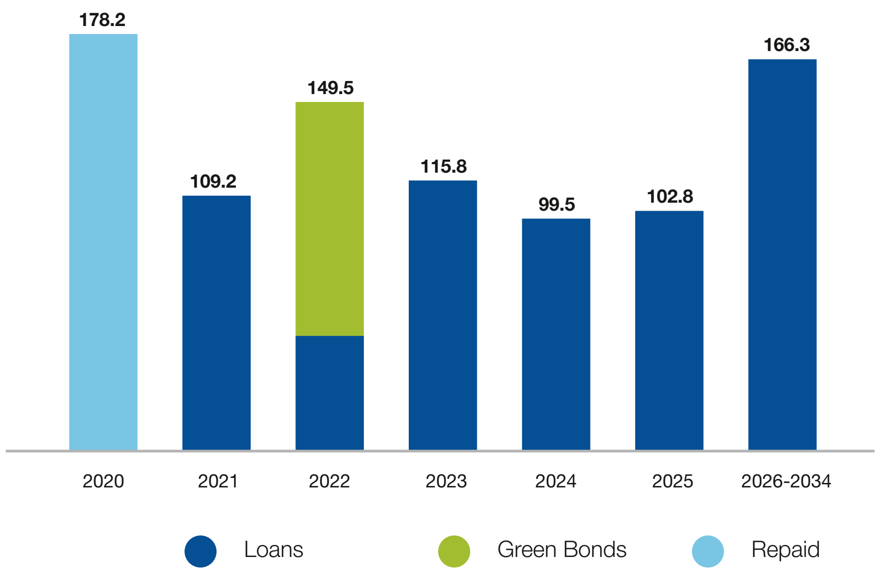
Latvenergo Group finances its investments from its own resources and external long-term borrowings, which are regularly sourced in financial and capital markets in a timely manner.

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 56[4]).

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%

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 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 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.

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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The Management Board of Latvenergo AS:

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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

Financial Statements

Statement of Profit or Loss

EUR'000

	Notes	Group 2020	Group 2019	Parent Company 2020	Parent Company 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

Statement of Comprehensive Income

EUR'000

	Notes	Group 2020	Group 2019	Parent Company 2020	Parent Company 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	–	–

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Member of the Management Board

Liāna Ķeldere
Accounting director of Latvenergo AS

13 April 2021

Latvenergo

Statement of Financial Position

EUR'000

	Notes	Group 31/12/2020	Group 31/12/2019	Parent Company 31/12/2020	Parent Company 31/12/2019
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**

Statement of Financial Position (continued)

EUR'000

	Notes	Group 31/12/2020	Group 31/12/2019	Parent Company 31/12/2020	Parent Company 31/12/2019
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**

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Accounting director of Latvenergo AS

13 April 2021

Latvenergo

Statement of Changes in Equity

EUR'000

		Group							Parent Company			
		Attributable to equity holder of the Parent Company										
	Notes	Share capital	Reserves	Retained earnings	Reserves classified as held for distribution	Total	Non-controlling interests	TOTAL	Share capital	Reserves	Retained earnings	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**

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13 April 2021

Latvenergo

Statement of Cash Flows

EUR'000

	Notes	Group 2020	Group 2019	Parent Company 2020	Parent Company 2019
Cash flows from operating activities					
Profit before tax		112,699	92,072	154,848	101,227
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	67,543
- Loss from disposal of non–current assets		22,284	26,980	17,007	21,965
- Interest expense	11	10,355	9,346	10,963	11,590
- Interest income	11	(2,137)	(1,034)	(12,780)	(12,842)
- Fair value (income) / loss on derivative financial instruments	8	(1,242)	293	(1,242)	293
- Dividends from subsidiaries	16	–	–	(41,743)	(54,858)
- Decrease in provisions	27	(1,434)	(3,691)	(531)	(1,283)
- Unrealised loss / (income) on currency translation differences	11	105	(54)	105	(54)
- 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**	**133,581**
Decrease / (increase) in inventories		36,205	(32,990)	39,061	(31,112)
(Increase) / decrease in receivables from contracts with customers and other receivables		(31,821)	41,083	69,643	45,110
(Decrease) / increase in trade and other liabilities		(6,659)	11,757	(28,311)	(38,789)
Impact of non-cash offsetting of operating receivables and liabilities from subsidiaries, net		–	–	200,140	270,009
Cash generated from operating activities		**311,446**	**324,347**	**457,173**	**378,799**
Interest paid		(11,517)	(9,483)	(12,195)	(11,741)
Interest paid on leases	15	(87)	(54)	(8)	–
Interest received		2,118	1,084	1,192	1,084
Paid corporate income tax		(10,766)	(461)	–	10,000
Net cash flows from operating activities		**291,194**	**315,433**	**446,162**	**378,142**

Statement of Cash Flows (continued)

EUR'000

	Notes	Group 2020	Group 2019	Parent Company 2020	Parent Company 2019
Cash flows from investing activities					
Loans issued to subsidiaries, net	29 e	–	–	(286,688)	(272,401)
Repayment of loans to related parties	29 e	138,560	–	138,560	–
Purchase of intangible assets and PPE		(184,748)	(254,947)	(68,937)	(70,981)
Dividends received from subsidiaries	16	–	–	12,426	21,115
Proceeds from redemption of other financial investments		50	49	50	49
Net cash flows used in investing activities		**(46,138)**	**(254,898)**	**(204,589)**	**(322,218)**
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	180,000
Repayment of borrowings	23	(143,176)	(112,102)	(138,692)	(109,513)
Received financing from European Union		1,515	579	1,351	250
Lease payments	15	(1,024)	(821)	(161)	(18)
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)	(132,936)
Net cash flows used in financing activities		**(267,075)**	**(67,268)**	**(264,573)**	**(62,217)**
Net decrease in cash and cash equivalents		**(22,019)**	**(6,733)**	**(23,000)**	**(6,293)**
Cash and cash equivalents at the beginning of the year	19	122,722	129,455	121,261	127,554
Cash and cash equivalents at the end of the year	**19**	**100,703**	**122,722**	**98,261**	**121,261**

The notes on pages 16 to 62 are an integral part of these Financial Statements

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

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 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.
- 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).

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: Financial assets at amortised cost	Group: Derivatives used for hedging	Group: Financial instruments at fair value through profit or loss	Parent Company: Financial assets at amortised cost	Parent Company: Derivatives used for hedging	Parent Company: 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 I	–	503	1,054	–	503	1,054
Other financial investments	22	16,836	–	–	16,836	–	–
Cash and cash equivalents	19	100,703	–	–	98,261	–	–
		397,201	**503**	**1,054**	**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 I	–	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	–	–
		327,728	**4,684**	**2,033**	**1,028,596**	**4,684**	**2,033**

EUR'000

	Notes	Group: Financial liabilities at amortised cost	Group: Derivatives used for hedging	Group: Financial instruments at fair value through profit or loss	Parent Company: Financial liabilities at amortised cost	Parent Company: Derivatives used for hedging	Parent Company: 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 I	–	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 I	–	10,912	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**

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.

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

EUR'000

		Group		Parent Company	
	Notes	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).

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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**	**826,567**
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**	**993,482**

* 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

EUR'000

	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)

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)

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 2020	Group 2019	Parent Company 2020	Parent Company 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 31/12/2020	Group 31/12/2019	Parent Company 31/12/2020	Parent Company 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 31/12/2020	Group 31/12/2019	Parent Company 31/12/2020	Parent Company 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.

EUR'000

	IFRS applied	Group		Parent Company	
		2020	2019	2020	2019
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.

EUR'000

	Group		Parent Company	
	2020	2019	2020	2019
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

EUR'000

	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**

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

EUR'000

	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**

Movement in deferred connection fees – from contracts with customers for the Group (non–current and current part)

EUR'000

	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**

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7. Other income

EUR'000

	Notes	Group 2020	Group 2019	Parent Company 2020	Parent Company 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

EUR'000

	Notes	Group 2020	Group 2019	Parent Company 2020	Parent Company 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 2020	Group 2019	Parent Company 2020	Parent Company 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 2020	Group 2019	Parent Company 2020	Parent Company 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

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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

a) Finance income

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**

b) Finance costs

EUR'000

		Group		Parent Company	
	Notes	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).

EUR'000

	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 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

Latvenergo

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

EUR'000

	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**	**–**

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		Parent Company					
	Investment property held for capital appreciation		Investment properties for lease*		Investment property held for capital appreciation		TOTAL Investment property	
	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.

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:

EUR'000

	Group			
	Revalued property, plant and equipment groups			
	Assets of Hydropower plants (the Parent Company)	**Distribution system electricity lines and electrical equipment**	**Transmission system electricity lines and electrical equipment**	**TOTAL revalued PPE**
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:

EUR'000

	Date of revaluation	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	77	30-35
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 has 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

EUR'000

	Notes	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	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**

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Lease liabilities

EUR'000

	Notes	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	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

EUR'000

	Notes	Group		Parent Company	
		2020	**2019**	**2020**	**2019**
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)

EUR'000

	Group		Parent Company	
	2020	**2019**	**2020**	**2019**
< 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 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**

Summarised financial information for subsidiaries

EUR'000

Subsidiaries	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

EUR'000

Non-controlling interest of subsidiaries	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

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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:
a) Energy and related services sales, including distribution system services,
b) Heating sales,
c) Other sales (IT & telecommunication services, connection service fees and other services),
d) Receivables from subsidiaries,
e) Other financial receivables.

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

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

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

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

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

EUR'000

	Group		Parent Company	
	31/12/2020	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 31/12/2020	Group 31/12/2019	Parent Company 31/12/2020	Parent Company 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 counterparty model basis

EUR'000

	Notes	Group 31/12/2020	Group 31/12/2019	Parent Company 31/12/2020	Parent Company 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.

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

EUR'000

Late payment delay in days	ECL rate	Group 31/12/2020 Receivables	Group 31/12/2020 Allowances for ECL	Group 31/12/2020 Net	Group 31/12/2019 Receivables	Group 31/12/2019 Allowances for ECL	Group 31/12/2019 Net	Parent Company 31/12/2020 Receivables	Parent Company 31/12/2020 Allowances for ECL	Parent Company 31/12/2020 Net	Parent Company 31/12/2019 Receivables	Parent Company 31/12/2019 Allowances for ECL	Parent Company 31/12/2019 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.

Movements in loss allowances for impaired receivables from contracts with customers

EUR'000

	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**

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

EUR'000

	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	–	–
Receivables for lease	Stage 1	32	76	26	71
	Stage 3	16	–	7	–
Other current financial receivables	Stage 1	6,641	1,236	5,054	300
	Stage 3	1,728	1,877	1,331	1,234
Other accrued income	Stage 1	874	872	874	872
Allowances for expected credit loss	Stage 1	(164)	(231)	(116)	(134)
	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**

* 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.

EUR'000

	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**

* 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 j)

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

EUR'000

	Notes	Group							Parent Company			
		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**

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

EUR'000

	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

EUR'000

	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**

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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).

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24. Derivative financial instruments

Accounting policy

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

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

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

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

The fair value of the derivative instruments is presented as current or non-current based on settlement date. Derivative instruments that have maturity of more than twelve months and have been expected to be hold for more than twelve months after the end of the reporting year are classified as non-current assets or liabilities. 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

EUR'000

		Group				Parent Company			
		31/12/2020		31/12/2019		31/12/2020		31/12/2019	
	Notes	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)**

EUR'000

	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

EUR'000

		Group		Parent Company	
	Notes	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

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	**–**	**(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)**

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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

EUR'000

		Group				Parent Company			
		2020		2019		2020		2019	
	Notes	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

EUR'000

		Group				Parent Company			
		2020		2019		2020		2019	
	Notes	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.

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

EUR'000

Type of assets	Notes	Group: Fair value measurement using: Quoted prices in active markets (Level 1)	Group: Significant observable inputs (Level 2)	Group: Significant unobservable inputs (Level 3)	Group: TOTAL	Parent Company: Fair value measurement using: Quoted prices in active markets (Level 1)	Parent Company: Significant observable inputs (Level 2)	Parent Company: Significant unobservable inputs (Level 3)	Parent Company: TOTAL
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**
Derivative financial instruments, including:									
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**
Derivative financial instruments, including:									
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.

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

EUR'000

Type of liability	Notes	Group: Quoted prices in active markets (Level 1)	Group: Significant observable inputs (Level 2)	Group: Significant unobservable inputs (Level 3)	Group: TOTAL	Parent Company: Quoted prices in active markets (Level 1)	Parent Company: Significant observable inputs (Level 2)	Parent Company: Significant unobservable inputs (Level 3)	Parent Company: TOTAL
As of 31 December 2020									
Liabilities measured at fair value									
Derivative financial instruments, including:									
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									
Derivative financial instruments, including:									
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:

EUR'000

	Group: Carrying amount 31/12/2020	Group: Carrying amount 31/12/2019	Group: Fair value 31/12/2020	Group: Fair value 31/12/2019	Parent Company: Carrying amount 31/12/2020	Parent Company: Carrying amount 31/12/2019	Parent Company: Fair value 31/12/2020	Parent Company: Fair value 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								
Interest–bearing liabilities, including:								
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.

EUR'000

	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):

EUR'000

	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

		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
	31/12/2020	2,059	2,281	11,358	**15,698**	1,508	1,054	4,671	**7,233**
Defined benefit obligation	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**

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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 EUROSWAP 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 EUROSWAP 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:

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	31/12/2020	(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)

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.

	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**

EUR'000

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

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

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

EUR'000

	Notes	Group		Parent Company	
		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

EUR'000

	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**
including gross expenses from transactions with subsidiaries recognised in net amount through profit or loss:						
- 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	18 a, b	–	–	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	18 a, b	–	–	(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	18 a, b	–	–	1,115	1,842
- for interest received from subsidiaries	18 a, b	–	–	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.

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

All current loans to related parties as of 31 December 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**
incl. loan movement through bank account				
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**

l) Non–current loans, including current portion

Concluded non–current loan agreements with Sadales tīkls AS

EUR'000

	Agreement conclusion date	Principal amount of the loan	Outstanding loan amount		Interest rate	Maturity date
			31/12/2020	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**		

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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

EUR'000

	Agreement conclusion date	Principal amount of the loan	Outstanding loan amount 31/12/2020	Outstanding loan amount 31/12/2019	Interest rate	Maturity date
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

EUR'000

	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).

EUR'000

	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	Group 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	Group 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	Group 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)**	**–**

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.

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.

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

Arnis Kurgs
Member of the Management Board

Uldis Mucinieks
Member of the Management Board

Liāna Ķeldere
Accounting director of Latvenergo AS

13 April 2021

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.

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

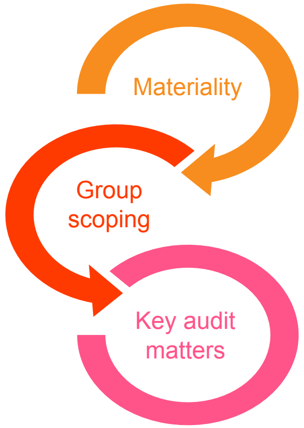
We are independent of the Company and the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) and the ethical requirements of the Law on 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.

Key audit matters	How our audit addressed the key audit matter
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.

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.

Latvenergo Group Consolidated and Latvenergo AS Annual Report

2021

Latvenergo Group Consolidated and Latvenergo AS Annual Report

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

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

Contents

FINANCIAL CALENDAR

Interim Condensed Financial Statements:

For the 3 months of 2022 (unaudited) – 31.05.2022

For the 6 months of 2022 (unaudited) – 31.08.2022

For the 9 months of 2022 (unaudited) – 30.11.2022

Key figures

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

Latvenergo Group

Operational figures		2021	2020	2019	2018	2017
Total electricity supply, incl.:	GWh	9,260	8,854	9,259	9,984	10,371
- Retail*	GWh	6,706	6,394	6,505	6,954	6,923
- Wholesale**	GWh	2,554	2,460	2,754	3,030	3,448
Retail natural gas	GWh	1,026	516	303	147	33
Electricity generated	GWh	4,517	4,249	4,880	5,076	5,734
Thermal energy generated	GWh	2,072	1,702	1,842	2,274	2,612
Number of employees		3,153	3,295	3,423	3,508	3,908
Moody's credit rating		Baa2 (stable)	Baa2 (stable)	Baa2 (stable)	Baa2 (stable)	Baa2 (stable)

EUR'000

Financial figures	2021	2020	2019	2018	2017
Revenue***	1,065,219	773,391	841,636	838,805	881,212
EBITDA***	198,813	277,894	243,526	281,947	497,731
Operating profit	81,890	121,350	100,365	81,983	214,462
Profit before tax	74,930	112,699	92,072	74,734	224,114
Profit for the year	71,623	116,309	94,359	75,955	322,021
Dividends paid to equity holder of the Parent Company	98,246	127,071	132,936	156,418	90,142
Assets	3,475,890	3,358,835	3,864,941	3,798,819	4,415,725
Non–current assets	2,894,502	2,976,192	2,798,712	3,364,534	3,343,404
Equity	2,123,448	2,118,242	2,265,487	2,320,065	2,846,891
Borrowings	795,029	743,199	882,671	814,343	826,757
Net debt***1)	697,950	555,876	563,959	505,419	496,730
Net cash flows generated from operating activities	131,749	291,194	315,433	302,869	338,209
Adjusted funds from operations (FFO)2)	219,534	269,479	271,593	209,732	364,632
Capital expenditure	126,728	168,855	229,427	220,607	243,811

Based on the most commonly used financial figures and ratios in the industry, the Latvenergo Group Strategy for 2017-2022 and 2022-2026 (see also the Management Report – section Further development, and Sustainability Report), as well as the binding financial covenants set in the Group's loan agreements, Latvenergo Group has set here and therefore uses the following financial figures and ratios:

- profitability measures – EBITDA; EBITDA margin; operating profit margin; profit before tax margin; profit margin; return on assets (ROA); return on equity (ROE); adjusted ROE excluding distribution; return on capital employed (ROCE)
- capital structure measures – net debt1); adjusted FFO2)/net debt; equity–to–asset ratio; net debt / EBITDA; net debt / equity; current ratio
- a dividend policy measure – dividend pay–out ratio

Starting from this year report, the financial figures and ratios have supplemented by the following: adjusted FFO / net debt and adjusted ROE excluding distribution business. These ratios are included in the Latvenergo Group Strategy for 2022-2026.

* Including operating consumption

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

*** Figures and ratios for 2017 - 10 June 2020 are presented by excluding discontinuing operations (unbundling transmission system asset ownership), see Note 30 of the Financial Statements

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

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

Financial ratios	2021	2020	2019	2018	2017	Formulas
EBITDA margin	19%	36%	29%	34%	56%	EBITDA / revenue
Operating profit margin	7.7%	15.7%	11.9%	9.8%	24.3%	Operating profit / revenue
Profit before tax margin	7.0%	14.6%	10.9%	8.9%	25.4%	Profit before tax / revenue
Profit margin	6.7%	15.0%	11.2%	9.1%	36.5%	Profit for the year / revenue
Adjusted FFO / net debt	35%	48%	51%	42%	71%	Adjusted FFO / ((net debt at the beginning of the reporting year + net debt at the end of the reporting year) /2)
Equity–to–asset ratio	61%	63%	59%	61%	64%	Equity at the end of the reporting year / assets at the end of the reporting year
Net debt / EBITDA	3.2	2.0	2.2	1.8	1.0	(Net debt at the beginning of the reporting year + net debt at the end of the reporting year) / 2 / EBITDA
Net debt / equity	0.33	0.26	0.25	0.22	0.17	Net debt at the end of the reporting year / equity at the end of the reporting year
Current ratio	1.4	1.5	1.2	1.5	3.2	Current assets at the end of the reporting year / current liabilities at the end of the reporting year
Return on assets (ROA)	2.1%	3.2%	2.5%	1.8%	7.7%	Profit for the year / ((assets at the beginning of the reporting year + assets at the end of the reporting year) / 2)
Return on equity (ROE)	3.4%	5.3%	4.1%	2.9%	12.2%	Profit for the year / ((equity at the beginning of the reporting year + equity at the end of the reporting year) / 2)
Adjusted ROE excluding distribution	5.5%	7.7%	4.8%	2.6%	11.5%	(Group's profit for the year – Sadales tīkls AS profit for the year) / ((Group's equity at the beginning of the reporting year – Sadales tīkls AS equity at the beginning of the reporting year + Group's equity at the end of the reporting year – Sadales tīkls AS equity at the end of the reporting year) / 2)
Return on capital employed (ROCE)***	2.9%	4.2%	3.4%	2.5%	6.4%	Operating profit / ((equity at the beginning of the reporting year + equity at the end of the reporting year) / 2) + (borrowings at the beginning of the reporting year + borrowings at the end of the reporting year) / 2)
Dividend pay–out ratio	63%	126%	62%	104%	66%	Dividends paid to equity holder of the Parent Company / profit of the Parent Company in the previous year

Latvenergo AS

Operational figures		2021	2020	2019	2018	2017
Total electricity supply, incl.:	GWh	5,304	5,318	5,502	5,826	6,265
- Retail*	GWh	3,999	4,235	4,211	4,406	4,619
- Wholesale**	GWh	1,305	1,083	1,290	1,419	1,645
Retail natural gas	GWh	804	453	294	145	33
Electricity generated	GWh	4,495	4,215	4,832	5,028	5,687
Thermal energy generated	GWh	1,800	1,475	1,603	2,007	2,354
Number of employees at the end of the reporting year		1,269	1,267	1,328	1,355	1,431
Moody's credit rating		Baa2 (stable)	Baa2 (stable)	Baa2 (stable)	Baa2 (stable)	Baa2 (stable)

EUR'000

Financial figures	2021	2020	2019	2018	2017
Revenue***	592,785	385,612	437,529	435,199	498,580
EBITDA***	85,275	197,889	112,651	160,927	387,100
Operating profit	52,367	111,630	45,108	33,803	177,416
Profit before tax	79,520	154,848	101,227	212,760	185,906
Profit for the year	79,520	154,848	101,227	212,733	150,891
Dividends paid to equity holder of the Parent Company	98,246	127,071	132,936	156,418	90,142
Assets	2,915,587	2,760,155	3,136,958	3,141,109	3,649,200
Non–current assets	2,215,793	2,307,985	2,615,113	2,661,307	2,546,014
Equity	1,761,070	1,746,436	1,949,287	1,993,823	2,382,638
Borrowings	782,322	733,392	872,899	802,268	814,772
Net debt***1)	689,904	548,511	555,348	494,944	486,393
Net cash flows generated from operating activities	355,549	446,162	378,142	394,395	449,352
Capital expenditure	29,545	50,999	48,269	41,350	89,278

* Including operating consumption

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

*** Figures and ratios for 2017 - 10 June 2020 are presented by excluding discontinuing operations (unbundling transmission system asset ownership), see Note 30 of the Financial Statements

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

Financial ratios	2021	2020	2019	2018	2017	Formulas
EBITDA margin	14.4%	51.3%	25.7%	37.0%	77.6%	EBITDA / revenue
Operating profit margin	8.8%	28.9%	10.3%	7.8%	35.6%	Operating profit / revenue
Profit before tax margin	13.4%	40.2%	23.1%	48.9%	37.3%	Profit before tax / revenue
Profit margin	13.4%	40.2%	23.1%	48.9%	30.3%	Profit for the year / revenue
Equity–to–asset ratio	60%	63%	62%	63%	65%	Equity at the end of the reporting year / assets at the end of the reporting year
Net debt / equity	0.39	0.31	0.29	0.25	0.24	Net debt at the end of the reporting year / equity at the end of the reporting year
Current ratio	1.8	2.3	1.8	2.0	4.3	Current assets at the end of the reporting year / current liabilities at the end of the reporting year
Return on assets (ROA)	2.8%	5.3%	3.2%	6.3%	4.4%	Profit for the year / ((assets at the beginning of the reporting year + assets at the end of the reporting year) / 2)
Return on equity (ROE)	4.5%	8.4%	5.1%	9.7%	6.6%	Profit for the year / ((equity at the beginning of the reporting year + equity at the end of the reporting year) / 2)
Return on capital employed (ROCE)***	2.1%	4.4%	1.7%	1.2%	5.9%	Operating profit / ((equity at the beginning of the reporting year + equity at the end of the reporting year) / 2) + (borrowings at the beginning of the reporting year + borrowings at the end of the reporting year) / 2)
Dividend pay–out ratio	63%	126%	62%	104%	66%	Dividends paid to equity holder of the Parent Company / profit of the Parent Company in the previous year

Management Report

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

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

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

Operating Environment

In Europe, 2021 will go down in the history of the electricity market with the largest price records. In 2021, the Nord Pool system price was almost six times higher than in 2020 (+472%), reaching 62.3 EUR/MWh. Electricity spot prices in the Baltics were more than two and a half times higher than in 2020.

Record-high electricity and energy resource prices

Average Nordpool electricity market price, EUR/MWh

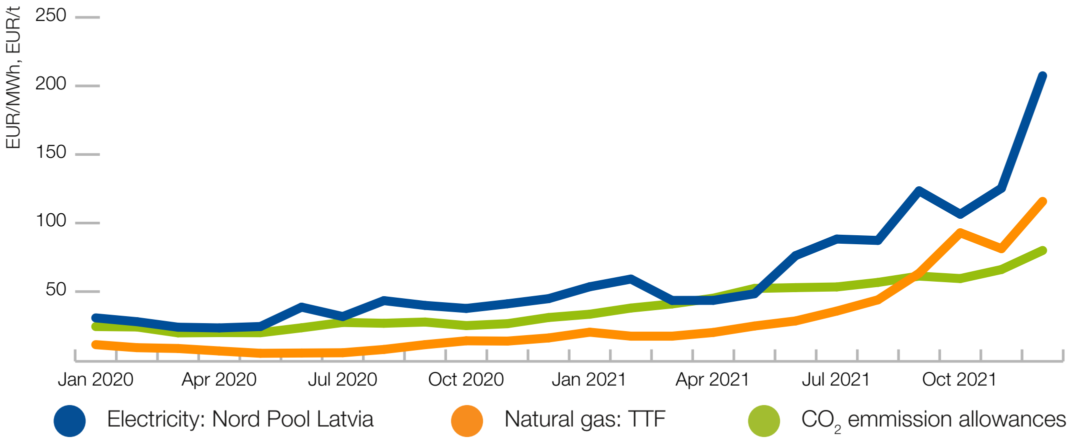
	2021	2020	Δ, %
Latvia	88.8	34.0	161%
Estonia	86.7	33.7	157%
Lithuania	90.5	34.0	166%
Poland	86.7	40.8	113%
Sweden	57.9	19.0	205%
Finland	72.3	28.0	158%
Denmark	88.0	26.7	230%
Norway	56.9	9.3	512%
Germany	96.9	30.5	218%
France	109.2	32.2	239%
Great Britain	137.1	39.6	246%

The rapid rise in electricity prices in the Nord Pool region was affected by various factors: multiple increases in gas prices and CO_2 emission allowances, 5% higher demand for electricity, and lower generation of wind power plants in Europe. The price of natural gas at TTF (virtual trading point for natural gas), which often determines the price of electricity in the Baltics during the peak hours, reached 115.8 EUR/MWh in December 2021 (in December 2020 it was 16.2 EUR/MWh). Meanwhile, the price of CO_2 emission allowances hit 80 EUR/t in December 2021, which is 2.6 times higher than in 2020. In 2021, the monthly increase in electricity prices in Latvia marked new historical records for the average monthly price, reaching 207.4 EUR/MWh in December

In 2021, the price of natural gas in Europe was mainly impacted by higher consumption, lower supply volumes and higher prices of other energy products. At the end of the reporting year, the natural gas reserve fill rate in Europe's gas storage facilities reached 54%, which is 20% lower than in the previous year, and 26% below the 10–year average. In the reporting year, the price of natural gas at the TTF (Front Month) reached 46.9 EUR/ MWh, which is almost five times higher than in 2020, when the average price was 9.6 EUR/ MWh.

The average price of CO_2 emission allowances (EUA DEC.21) in 2021 was more than two times higher than in the previous year, reaching 53.3 EUR / t. The rise in allowance prices was impacted by rising raw material prices, a lower amount of emission allowances allocated to the market, and the reforms adopted by the European Commission to reduce greenhouse gas emissions by 2030.

Energy resource prices



Significant Events

Unbundling transmission system asset ownership

According to the Cabinet of Ministers of the Republic of Latvia (CM) decision on 8 October 2019, transmission system assets in the amount of EUR 694.3 million were separated from Latvenergo Group on 10 June 2020. The separation of the transmission system assets was carried out by reducing the share capital of Latvenergo AS by EUR 222.7 million, which was the value of Latvijas elektriskie tīkli AS (LET) shares. Along with the unbundling of LET, all LET liabilities were transferred to Augstsprieguma tīkls AS, including the Latvenergo AS loan to LET in the amount of EUR 225 million. For more details, please see the Group's annual report for 2020. Along with the unbundling of transmission system assets, the investment financing required by the Group decreased.

Changes in the Management Board of Latvenergo AS

On 16 November 2021, the Supervisory Board of Latvenergo AS elected a new Chairman of the Management Board and members of the Management Board with a five–year term. Mārtiņš Čakste has been appointed as the Chairman of the Management Board of Latvenergo AS, while Dmitrijs Juskovecs and Harijs Teteris have been appointed as members of the Management Board. The new members of the Management Board took office on 3 January 2022. Current board members Guntars Baļčūns and Kaspars Cikmačs continue their work in the Management Board.

Impact of COVID–19 on Latvenergo Group operations

From 11 October 2021 to 28 February 2022, the Latvian government declared a state of emergency in order to limit the spread of COVID–19. 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 Combined Heat and Power Plants (CHPPs) and the facilities of Sadales tīkls AS.

In the reporting year, Latvenergo Group's services were not significantly impacted by the spread of the virus. The Group continued 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.

State aid for the reduction of energy prices

Considering the extraordinary increase in energy prices in 2021, in accordance with CM Regulation No. 895 on 21 December 2021, all end users of electricity from 1 December to 31 December 2021 were granted state aid for the reduction of the electricity distribution system service fee by 50%, which was compensated from the state budget. Meanwhile, after the end of the reporting year, in January 2022, the Saeima of the Republic of Latvia adopted a law on measures to reduce the extraordinary rise in energy prices. The aim of this law is to reduce the negative socioeconomic impact on the well–being of the population and economic growth, which is associated with an unprecedented sharp rise in energy prices. The law provides for various types of support measures to legal and natural persons to partially compensate the rising costs of energy resources for four months (from 1 January to 30 April 2022). In total, four support measures are included to reduce the costs of electricity, heat, and natural gas. The necessary financing for the implementation of the support measures specified by law is EUR 250 million, which will be provided from the state budget programme "Contingency Funds". Various state support mechanisms for reducing energy prices have been established in Estonia and Lithuania, too.

The CM supports the intention to establish a joint venture for the development of wind farms in Latvia

After the reporting year, on 22 February 2022, the CM conceptually approved the proposal of the Ministry of Economics, which urgently addresses the targets of the National Energy and Climate Plan for 2021–2030 and strengthens the state's energy independence. The state plans to build new wind farms of strategic importance on state–owned land by entrusting the implementation of this project to a joint venture established by Latvenergo AS and Latvijas valsts meži AS. For further progress of the project, the Ministry of Economics must prepare the necessary amendments to regulatory enactments, to promote the development of wind farms in Latvia, as well as obtain a permit from the CM for the establishment of a joint venture between Latvenergo AS and Latvijas valsts meži AS for the development of wind farm projects.

Russia's invasion of Ukraine

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

Until the date of authorisation of these financial statements, the restrictive measures imposed had no significant impact on the Group's performance, no operations had been suspended and no significant direct losses related to the restrictive measures had been incurred at the date of the financial statements. Latvenergo Group has not entered into any significant direct agreements with companies in Russia, Belarus, or Ukraine, which could have a material negative impact on the Group's operations in the current situation.

Assessing the possible risks related to the Russia's invasion of Ukraine and in accordance with the task given by the government on 24 February 2022 to replenish gas reserves for national security purposes, Latvenergo AS has swiftly procured approximately 2 terawatt hours (TWh) of gas for the security of supply of production of the combined heat and power plants of Latvenergo AS. The concluded agreements envisage liquefied natural gas supply to Klaipeda Terminal and injection of gas into Inčukalns underground gas storage in April and May 2022. Natural gas will be supplied from Norway, the USA and Qatar. The purchased amount of gas will ensure the production of electricity and heat at the planned production regime of the combined heat and power plants of Latvenergo AS in 2022, at the same time envisaging gas reserves in the event of a possible energy crisis.

Operating Results

Generation

Latvenergo Group is the largest green electricity producer in the Baltics. Latvenergo Group produced 29% of the total electricity generated in the Baltics. The total amount generated by Latvenergo Group's power plants comprised 4,517 GWh of electricity and 2,072 GWh of thermal energy.

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

In 2021, the amount of power generated at the Daugava HPPs increased by 4% compared to the previous year, reaching 2,636 GWh. The share of electricity generated from renewable energy sources at Latvenergo Group was 59% (2020: 60%).

The amount generated at the Latvenergo AS CHPPs increased by 10%, reaching 1,854 GWh. The relatively larger amount of power generated at the CHPPs was impacted by lower output in 2020, when there were warm weather conditions and lower electricity prices. The operation of the CHPPs is adjusted to the conditions of the electricity market and heat demand.

The total amount of thermal energy generated by Latvenergo Group increased by 22% due to colder weather conditions in the heating season. Data from the Central Statistical Bureau show that the average air temperature in Riga in the reporting year was +1.8 C°, whereas in 2020 it was +5.1 C°.

Trade

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

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

In 2021, total electricity consumption in the Baltics increased by 4% compared to the previous year, reaching 28.7 TWh. Electricity consumption increased by 3% in Latvia and Lithuania and by 6% in Estonia. The increase in consumption in the Baltic region was affected by colder weather at the beginning and the end of the reporting year, a hotter summer, and economic recovery after COVID–19 restrictions.

In 2021, the Group supplied 6.7 TWh of electricity to its customers in the Baltics, which is 5% more than in the previous year. The increase in electricity sales was impacted by the increased sales in markets outside Latvia, especially in the segments of large business customers and households in Lithuania as well as the purchase of the Estonian customer portfolio from the electricity company *Imatra Elekter*. The overall amount of retail electricity trade outside Latvia accounted for about 40% of the total. The electricity trade volume in Latvia was 4.0 TWh, while in Lithuania it was 1.6 TWh and in Estonia it was 1.1 TWh.

The total number of electricity customers comprised about 755 thousand, including more than 90 thousand foreign customers.

In August 2021, the Group's company *Elektrum Eesti* acquired shares in three micro–network service companies in Estonia and took over almost 20,000 customers in Estonia from the Finnish company *Imatra Elekter*, thus significantly increasing Latvenergo Group's competitiveness in the Estonian electricity and related products and services market.

Latvenergo Group's natural gas sales to retail customers almost doubled, exceeding 1 TWh.

In the reporting year, we continued to develop retail activities of other products and services related to electricity consumption and energy efficiency. The number of contracts for the installation of solar panels and trade of solar park components in the Baltics increased more than two times compared to 2020, exceeding 1,300. The total installed solar panel capacity provided to Latvenergo Group's retail customers in the Baltics reached almost 11 MW; thus, Latvenergo Group is one of the leading providers of this service in the Baltics. 3/4 of panels' capacity are installed for customers outside Latvia.

Steady growth in the number of *Elektrum Insured* customers in the Baltics continued, reaching more than 104 thousand. We expanded the e-shop assortment and functionalities. The total number of purchases reached more than 2,700 transactions in 2021. The most purchased products are Smart House Solutions, Security and Lighting.

At the end of 2021, the *Elektrum* electric car charging network reached 90 charging ports. The number of charges made at public charging stations by customers of the mobile application *Elektrum* increased by 50% compared to 2020, reaching more than 8,500 and comprising 160 MWh.

Distribution

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

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. As of 31 December 2021, the number of employees at Sadales tīkls AS has been reduced by almost 870. The amount of smart electricity meters installed by the company comprised more than 970 thousand, which is about 90% of the total number of electricity meters of customers of Sadales tīkls AS.

In 2021, the amount of electricity distributed was 6,470 GWh, which is 3% more than in 2020. It was affected by economic recovery after Covid–19 restrictions.

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) indicators. In 2021, SAIFI was 2.3 times, but SAIDI was 208 minutes. Over the last five years, excluding mass damage situations, SAIFI has decreased by 17% and SAIDI has decreased by 21%.

The operating strategy of Sadales tīkls AS for 2022-2027 has been approved

In October 2021, the Supervisory Board of Sadales tīkls AS approved the operating strategy of Sadales tīkls AS for 2022-2027. The strategy of the Company is integrated into the overall medium-term strategy of Latvenergo Group.

The general long–term target of Sadales tīkls AS is to ensure a sustainable and economically viable distribution service by managing the power grid efficiently and improving the security and quality of electricity supply, which are important for the competitiveness and growth of the economy, while contributing to the targets of climate neutrality. To achieve this, four targets have been set for the next strategic period, 2022-2027: improvement of the quality and security of electricity supply; digital transformation of the company; continuous improvement of the company and increase in its value; ensuring sustainable development and climate neutrality.

Financial Results

In 2021, Latvenergo Group's revenue reached EUR 1,065.2 million, which was EUR 291.8 million or 38% more than in the previous year. This was mainly impacted by:

- EUR 252.4 million higher energy sales revenues mainly due to higher electricity market prices and a 5% increase in retail sales volume
- EUR 30.8 million higher heat sales with 22% greater output due to colder weather conditions during the heating season as well as the increase in the average sales price, which was impacted by the higher market price of natural gas.

Group's revenue increased by 38%

Latvenergo Group's EBITDA decreased by EUR 79.1 million or 28% compared to 2020, reaching EUR 198.8 million. This was negatively impacted mainly by significantly higher electricity purchase prices as well as higher natural gas and CO_2 emission allowance prices. The Group produces less electricity at its plants than it is sold to the Group's customers – the amount of electricity generated in the reporting year corresponds to 67% of the electricity sold to retail customers. The missing part was bought on the market at a higher price than fixed in our customer agreements, which had a negative impact on the EBITDA. In 2021, the electricity spot price in Latvia was more than two and a half times higher compared to the previous year. The price of natural gas was almost five times higher, and the average price of CO_2 emission allowances was more than two times higher.

The Group's profit for the reporting year reached EUR 71.6 million, which was EUR 44.7 million less than in the previous year.

Lower profit affected the Group's ROE, which reaches 3.4% in 2021. For information on financial objectives, see the Sustainability Report section "Group Strategy".

Investments

In 2021, the total amount of investment comprised EUR 126.7 million, which was EUR 42.1 million or 25% less than in the previous year. The decrease in the amount of investment was impacted mainly by the unbundling of transmission system assets on 10 June 2020. In 2020, until the unbundling of transmission system assets, the investment made in transmission assets comprised EUR 28.9 million.

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

To ensure high–quality power network service, technical parameters and operational safety, a significant amount is invested in the modernisation of the power distribution network. In the reporting year, the amount invested in power distribution network assets represented 67% of total investment.

Daugava HPPs reconstruction

Contributing to environmentally friendly projects, in 2021, EUR 11.7 million was invested in the Daugava HPPs' hydropower unit reconstruction and by the end of the reporting year, work completed within the scope of the contract reached EUR 196.2 million. The hydropower unit reconstruction programme for the Daugava HPPs provides for the reconstruction of 11 hydropower units in order to ensure environmentally safe, sustainable, and competitive operations and efficient water resource management. As of 31 December 2021, seven reconstructed hydropower units have been put into operation within the programme. Latvenergo Group is proceeding with a gradual overhaul of four Daugava HPPs' hydropower units. The total reconstruction costs will exceed EUR 260 million. Reconstruction will ensure functionality of the hydropower units for more than 40 years.

Daugava HPP reconstruction

MEUR

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.

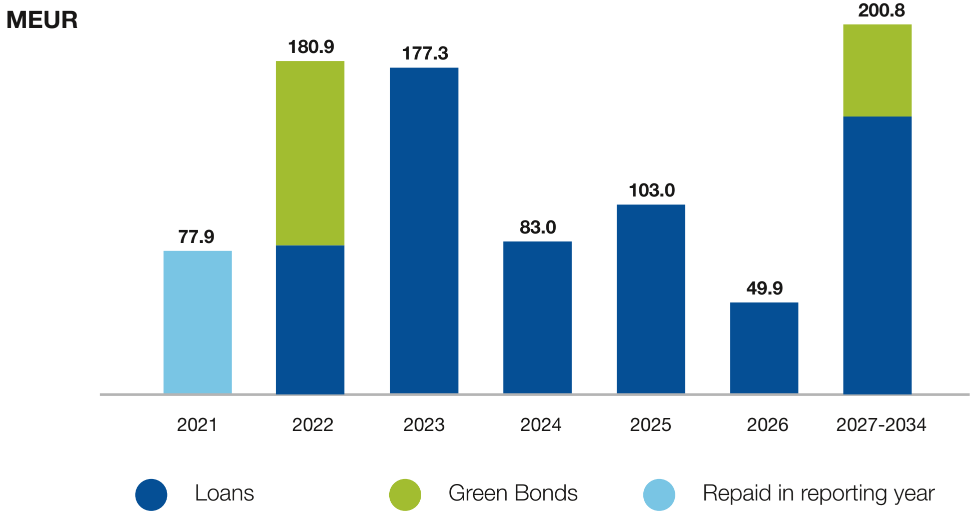
On 17 May 2021, Latvenergo AS issued seven–year green bonds with a total nominal value of EUR 50 million, a maturity date of 17 May 2028 and a fixed annual interest rate (coupon) of 0.5% (yield: 0.543%). The bonds were issued under the third Latvenergo AS EUR 200 million programme, and they are listed on Nasdaq Riga AS on 18 May 2021. The bonds were issued in the format of green bonds, according to the Green Bond Framework of Latvenergo AS. The independent research centre CICERO Shades of Green has rated the updated Latvenergo AS Green Bond Framework as Dark Green (the highest category), indicating the compliance of the planned projects with long–term environmental protection and climate change mitigation objectives, as well as good governance and transparency.

Moody's reaffirmed the credit rating for Latvenergo AS: Baa2 (stable)

As of 31 December 2021, the Group's borrowings amount to EUR 795.0 million (31 December 2020: EUR 743.2 million), including long–term borrowings from financial institutions as well as issued debt securities (green bonds) in the amount of EUR 150 million.

Latvenergo Group's debt repayment schedule

Long-term borrowings as of 31 December 2021: 795.0 MEUR



External funding sources are purposefully diversified in the long run, thus creating a balance between lender categories in the total loan portfolio.

On 6 December 2021, *Moody's* published the ESG score of Latvenergo AS, which is considered when determining the credit rating of the company. The ESG score is neutral–to–low, or CIS–2, indicating that the environmental, social and governance aspects of the company do not have a material effect on the credit rating. The indicator reflects moderate environmental, social and governance risks.

After the reporting year, on 24 January 2022, *Moody's* published an updated Credit Opinion of Latvenergo AS. The rating of Latvenergo AS remains unchanged: Baa2 with a stable outlook. The credit rating Baa2 for Latvenergo AS has been stable for seven 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 2021 is published. It is based on the Corporate Governance Code, which was published in 2020 by the Corporate Governance Advisory Board established by the Ministry of Justice. Evaluating both the governance system of the capital company and its compliance with the principles in 2021, the Management Board considers that Latvenergo AS complies in all material aspects with all the principles set out in the Code, except for the criterion of gender representation on the company's Supervisory Board. For detailed information see the Sustainability Report 2021.

Non-financial Report

Latvenergo Group has prepared a non–financial report in accordance with the Law on the Financial Instruments Market (Article 56[4]).

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

For detailed information on 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 2021 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

In 2021, Latvenergo Group operated in accordance with the targets and objectives set in the medium-term operational strategy for 2017-2022, which have been fulfilled. The fulfilment of the targets set in the strategy provided an opportunity to evaluate the achievements in time and to set precise targets and objectives for the new strategy period, also taking into consideration the dynamic changes in the external environment. Accordingly, in 2021, Latvenergo Group's medium-term strategy for 2022-2026, with new strategic operational and financial targets, was developed, and approved by the Supervisory Board of Latvenergo in March 2022. New strategic objectives comprise:

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

The new Group's strategy takes into account current climate and energy policy settings

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

The financial targets are set to ensure:

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

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

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

More information on the 2021 targets and the new strategy can be found in the Sustainability Report 2021.

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 for hedging electricity generation price risk, uses electricity and natural gas financial derivatives, and enter into fixed price contracts for natural gas supply. The impact of price risk on generation is hedged gradually – price has been fixed for 55%–60% of projected electricity output prior to the upcoming year. Further hedging of risk is limited by the seasonal generation pattern of the Daugava HPPs.

II) Interest rate risk

Latvenergo Group's and Latvenergo AS interest rate risk mainly arises from non–current borrowings at variable interest rates. They expose the Group and the Parent Company to the risk that finance costs might increase significantly when the reference rate surges. The borrowings from financial institutions have a variable interest rate, comprising 6–month EURIBOR and a margin. The Group's Financial Risk Management Policy stipulates maintaining more than 35% of its borrowings as fixed interest rate borrowings (considering the effect of interest rate swaps and issued bonds) with a duration of 1–4 years. Considering the effect of interest rate swaps and bonds with a fixed interest rate, 37% of the Group's and 38% of the Parent Company's borrowings had a fixed interest rate with an average duration of 1,5 years both for the Group and the parent Company as of 31 December 2021.

III) Currency risk

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

As of 31 December 2021, 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 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 2021, Latvenergo Group's liquid assets (cash and cash equivalents – short–term deposits up to 3 months) reached EUR 97.1 million (31 December 2020: EUR 100.7 million), while the Latvenergo AS liquid assets reached EUR 92.4 million (31 December 2020: EUR 98.3 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

After the reporting year, on 22 February 2022, the CM conceptually approved the proposal of the Ministry of Economics, which urgently addresses the targets of the National Energy and Climate Plan for 2021-2030 and strengthens the state's energy independence. The state plans to build new wind farms of strategic importance on state–owned land by entrusting the implementation of this project to a joint venture established by Latvenergo AS and Latvijas valsts meži AS. For further progress of the project, the Ministry of Economics must prepare the necessary amendments to regulatory enactments, to promote the development of wind farms in Latvia, as well as obtain a permit from the CM for the establishment of a joint venture between Latvenergo AS and Latvijas valsts meži AS for the development of wind farm projects.

All other significant events that would materially affect the financial position of the Latvenergo Group and Latvenergo AS after the reporting year are disclosed in Note 33 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 2021, 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 Law "On the medium–term budgetary framework for 2022, 2023 and 2024" the expected amount of dividends to be paid by Latvenergo AS for the use of state capital in 2022 (for the reporting year 2021) amounts to 64% of profit for the reporting year and is not less than EUR 70,2 million. The distribution of net profit and amount of dividends payable is subject to a resolution of the Latvenergo AS Shareholders Meeting.

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The Management Board of Latvenergo AS:

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

12 April 2022

Financial Statements

Statement of Profit or Loss

EUR'000

	Notes	Group 2021	Group 2020	Parent Company 2021	Parent Company 2020
Revenue	6	1,065,219	773,391	592,785	385,612
Other income	7	29,428	28,732	27,746	63,177
Raw materials and consumables	8	(740,127)	(369,261)	(458,470)	(173,884)
Personnel expenses	9	(105,623)	(105,971)	(45,413)	(45,657)
Other operating expenses	10	(50,084)	(48,997)	(31,373)	(31,359)
EBITDA*		**198,813**	**277,894**	**85,275**	**197,889**
Depreciation, amortisation and impairment of intangible assets, property, plant and equipment (PPE) and right-of-use assets	13 a,14 a, 15	(116,923)	(156,544)	(32,908)	(86,259)
Operating profit		**81,890**	**121,350**	**52,367**	**111,630**
Finance income	11	2,110	2,125	11,391	12,768
Finance costs	11	(9,070)	(10,776)	(9,216)	(11,293)
Dividends from subsidiaries	16	–	–	24,978	41,743
Profit before tax		**74,930**	**112,699**	**79,520**	**154,848**
Income tax	12	(3,307)	(6,234)	–	–
Profit for the year from continuing operations		**71,623**	**106,465**	**79,520**	**154,848**
Profit for the year from discontinued operations	30	–	9,844	–	–
Profit for the year		**71,623**	**116,309**	**79,520**	**154,848**
Profit attributable to:					
- Equity holder of the Parent Company	21 c	70,675	114,513	79,520	154,848
- Non-controlling interests	21 c	948	1,796	–	–
Basic earnings per share (in euros)	21 c	0.089	0.144	0.101	0.195
Diluted earnings per share (in euros)	21 c	0.089	0.144	0.101	0.195

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

The notes on pages 16 to 64 are an integral part of these Financial Statements

Statement of Comprehensive Income

EUR'000

	Notes	Group 2021	Group 2020	Parent Company 2021	Parent Company 2020
Profit for the year		**71,623**	**116,309**	**79,520**	**154,848**
Other comprehensive income / (loss) to be reclassified to profit or loss in subsequent periods:					
- gains / (losses) from change in hedge reserve	21 a, 24	33,219	(7,774)	33,219	(7,774)
Net other comprehensive income / (loss) to be reclassified to profit or loss in subsequent periods		**33,219**	**(7,774)**	**33,219**	**(7,774)**
Other comprehensive income / (loss) not to be reclassified to profit or loss in subsequent periods:					
- gains on revaluation of non–current assets	14 a, 21 a	–	96,264	–	–
- gains/(losses) as a result of re–measurement on defined post–employment benefit plan	21 a, 27	1,098	(476)	121	(176)
Net other comprehensive income / (loss) not to be reclassified to profit or loss in subsequent periods		**1,098**	**95,788**	**121**	**(176)**
Other comprehensive income / (loss) for the year		**34,317**	**88,014**	**33,340**	**(7,950)**
TOTAL comprehensive income for the year		**105,940**	**204,323**	**112,860**	**146,898**
Attributable to:					
- Equity holder of the Parent Company		104,992	202,527	112,860	146,898
- Non–controlling interests		948	1,796	–	–

The notes on pages 16 to 64 are an integral part of these Financial Statements

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Member of the Management Board

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Member of the Management Board

Kaspars Cikmačs
Member of the Management Board

Harijs Teteris
Member of the Management Board

Liāna Ķeldere
Accounting director of Latvenergo AS

12 April 2022

Latvenergo

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Statement of Financial Position

EUR'000

	Notes	Group 31/12/2021	Group 31/12/2020	Parent Company 31/12/2021	Parent Company 31/12/2020
ASSETS					
Non-current assets					
Intangible assets	13 a	53,557	50,028	17,406	16,193
Property, plant, and equipment	14 a	2,826,654	2,827,326	1,066,973	1,071,570
Right–of–use assets	15	8,312	8,253	5,143	4,486
Investment property	14 b	3,316	512	3,602	3,334
Non-current financial investments	16	40	40	645,218	645,218
Non–current loans to related parties	29 e	–	86,620	477,010	563,783
Other non-current receivables	18 c	2,544	429	441	417
Deferred income tax assets		79	–	–	–
Derivative financial instruments	24	–	291	–	291
Other financial investments	22	–	2,693	–	2,693
Total non-current assets		**2,894,502**	**2,976,192**	**2,215,793**	**2,307,985**
Current assets					
Inventories	17	192,132	68,754	171,287	50,471
Current intangible assets	13 b	24,266	3,157	24,266	3,157
Receivables from contracts with customers	18 a	181,136	108,178	110,638	75,856
Other current receivables	18 b, c	59,740	85,316	45,402	29,610
Deferred expenses		1,235	1,083	949	960
Current loans to related parties	29 e	–	–	229,368	178,446
Prepayment for income tax		65	43	–	–
Derivative financial instruments	24	25,735	1,266	25,466	1,266
Other financial investments	22	–	14,143	–	14,143
Cash and cash equivalents	19	97,079	100,703	92,418	98,261
Total current assets		**581,388**	**382,643**	**699,794**	**452,170**
TOTAL ASSETS		**3,475,890**	**3,358,835**	**2,915,587**	**2,760,155**

EUR'000

	Notes	Group 31/12/2021	Group 31/12/2020	Parent Company 31/12/2021	Parent Company 31/12/2020
EQUITY AND LIABILITIES					
EQUITY					
Share capital	20	790,368	790,348	790,368	790,348
Reserves	21 a	1,175,355	1,154,367	795,731	766,115
Retained earnings		151,430	165,672	174,971	189,973
Equity attributable to equity holder of the Parent Company		**2,117,153**	**2,110,387**	**1,761,070**	**1,746,436**
Non-controlling interests		6,295	7,855	–	–
Total equity		**2,123,448**	**2,118,242**	**1,761,070**	**1,746,436**
LIABILITIES					
Non-current liabilities					
Borrowings	23	614,075	634,077	603,728	626,408
Lease liabilities	15	6,540	6,783	4,085	3,734
Deferred income tax liabilities		2,955	6,401	–	–
Provisions	27	15,421	17,317	7,407	8,402
Derivative financial instruments	24	2,332	9,672	2,332	9,672
Deferred income from contracts with customers	28 I) a	137,019	139,613	802	863
Other deferred income	28 I) b, c	146,115	170,413	139,958	163,480
Total non-current liabilities		**924,457**	**984,276**	**758,312**	**812,559**
Current liabilities					
Borrowings	23	180,954	109,122	178,594	106,984
Lease liabilities	15	1,888	1,561	1,141	806
Trade and other payables	26	189,018	100,912	176,061	63,704
Deferred income from contracts with customers	28 II) a	15,031	15,091	67	813
Other deferred income	28 II) b, c	24,906	24,799	24,154	24,021
Derivative financial instruments	24	16,188	4,832	16,188	4,832
Total current liabilities		**427,985**	**256,317**	**396,205**	**201,160**
Total liabilities		**1,352,442**	**1,240,593**	**1,154,517**	**1,013,719**
TOTAL EQUITY AND LIABILITIES		**3,475,890**	**3,358,835**	**2,915,587**	**2,760,155**

The notes on pages 16 to 64 are an integral part of these Financial Statements

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The Management Board of Latvenergo AS:

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Kaspars Cikmačs
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Harijs Teteris
Member of the Management Board

Liāna Ķeldere
Accounting director of Latvenergo AS

12 April 2022

Latvenergo

Statement of Changes in Equity

EUR'000

		Group							Parent Company			
		Attributable to equity holder of the Parent Company										
	Notes	Share capital	Reserves	Retained earnings	Reserves classified as held for distribution	Total	Non-controlling interests	TOTAL	Share capital	Reserves	Retained earnings	TOTAL
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 operation	21 a, 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 / (loss) 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**
Increase of share capital	20	20	–	–	–	**20**	–	**20**	20	–	–	**20**
Dividends for 2020	21 b	–	–	(98,246)	–	**(98,246)**	(2,508)	**(100,754)**	–	–	(98,246)	**(98,246)**
Disposal of non–current assets revaluation reserve	21 a	–	(13,329)	13,329	–	**–**	–	**–**	–	(3,724)	3,724	**–**
Total transactions with owners and other changes in equity		**20**	**(13,329)**	**(84,917)**	**–**	**(98,226)**	**(2,508)**	**(100,734)**	**20**	**(3,724)**	**(94,522)**	**(98,226)**
Profit for the year		–	–	70,675	–	**70,675**	948	**71,623**	–	–	79,520	**79,520**
Other comprehensive income for the year	21 a	–	34,317	–	–	**34,317**	–	**34,317**	–	33,340	–	**33,340**
Total comprehensive income for the year		**–**	**34,317**	**70,675**	**–**	**104,992**	**948**	**105,940**	**–**	**33,340**	**79,520**	**112,860**
As of 31 December 2021		**790,368**	**1,175,355**	**151,430**	**–**	**2,117,153**	**6,295**	**2,123,448**	**790,368**	**795,731**	**174,971**	**1,761,070**

The notes on pages 16 to 64 are an integral part of these Financial Statements

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The Management Board of Latvenergo AS:

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Kaspars Cikmačs
Member of the Management Board

Harijs Teteris
Member of the Management Board

Liāna Ķeldere
Accounting director of Latvenergo AS

12 April 2022

Statement of Cash Flows

EUR'000

	Notes	Group 2021	Group 2020	Parent Company 2021	Parent Company 2020
Cash flows from operating activities					
Profit before tax		74,930	112,699	79,520	154,848
Profit before tax from discontinued operation	30	–	9,946	–	–
Profit before tax, total		**74,930**	**122,645**	**79,520**	**154,848**
Adjustments:					
- Depreciation, amortisation and impairment of intangible assets, property, plant, and equipment (PPE) and right-of-use assets	13 a, 14 a, 15	116,923	168,146	32,908	86,259
- Loss from disposal of non–current assets		47,637	22,284	42,650	17,007
- Interest expense	11	8,877	10,355	9,033	10,963
- Interest income	11	(1,558)	(2,137)	(10,840)	(12,780)
- Fair value loss / (income) on derivative financial instruments	8	13,057	(1,242)	13,325	(1,242)
- Dividends from subsidiaries	16	–	–	(24,978)	(41,743)
- Decrease in provisions	27	(2,334)	(1,434)	(991)	(531)
- Unrealised (income) / loss on currency translation differences	11	(30)	105	(31)	105
- Gain from distribution of assets / non-current financial investment of Parent Company		–	(5,001)	–	(36,246)
Cash flows from operations before changes in working capital		**257,502**	**313,721**	**140,596**	**176,640**
(Increase) / decrease in inventories		(123,375)	36,205	(120,807)	39,061
(Increase) / decrease in receivables from contracts with customers and other receivables		(50,545)	(31,821)	(20,030)	69,643
Increase / (decrease) in trade and other liabilities		62,145	(6,659)	86,289	(28,311)
Impact of non-cash offsetting of operating receivables and liabilities from subsidiaries, net	29 e	–	–	276,415	200,140
Cash generated from operating activities		**145,727**	**311,446**	**362,463**	**457,173**
Interest paid		(9,462)	(11,517)	(9,331)	(12,195)
Interest paid on leases	15	(81)	(87)	(15)	(8)
Interest received		2,432	2,118	2,432	1,192
Paid corporate income tax		(6,867)	(10,766)	–	–
Net cash flows generated from operating activities		**131,749**	**291,194**	**355,549**	**446,162**

EUR'000

	Notes	Group 2021	Group 2020	Parent Company 2021	Parent Company 2020
Cash flows from investing activities					
Loans issued to subsidiaries, net	29 e	–	–	(327,164)	(286,688)
Repayment of loans to related parties	29 e	86,672	138,560	86,672	138,560
Purchase of intangible assets and PPE		(189,749)	(184,748)	(92,055)	(68,937)
Dividends received from subsidiaries	16	–	–	2,927	12,426
Proceeds from redemption of other financial investments		16,836	50	16,836	50
Net cash flows used in investing activities		**(86,241)**	**(46,138)**	**(312,784)**	**(204,589)**
Cash flows from financing activities					
Repayment of issued debt securities (bonds)	23	–	(35,000)	–	(35,000)
Proceeds on issued debt securities (bonds)	23	50,000	–	50,000	–
Proceeds on borrowings from financial institutions	23	79,997	39,500	75,000	35,000
Repayment of borrowings from financial institutions	23	(77,928)	(143,176)	(75,830)	(138,692)
Received financing from European Union		748	1,515	748	1,351
Lease payments	15	(1,195)	(1,024)	(280)	(161)
Dividends paid to non-controlling interests	21 b	(2,508)	(1,819)	–	–
Dividends paid to equity holder of the Parent Company	21 b	(98,246)	(127,071)	(98,246)	(127,071)
Net cash flows used in financing activities		**(49,132)**	**(267,075)**	**(48,608)**	**(264,573)**
Net decrease in cash and cash equivalents		**(3,624)**	**(22,019)**	**(5,843)**	**(23,000)**
Cash and cash equivalents at the beginning of the year	19	100,703	122,722	98,261	121,261
Cash and cash equivalents at the end of the year	19	**97,079**	**100,703**	**92,418**	**98,261**

The notes on pages 16 to 64 are an integral part of these Financial Statements

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Liāna Ķeldere
Accounting director of Latvenergo AS

12 April 2022

Notes to the Financial Statements

1. Corporate information

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

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

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

- Sadales tīkls AS (since 18 September 2006) with 100% interest held,
- Elektrum Eesti OÜ (since 27 June 2007) and its subsidiaries Elektrum Latvija SIA (since 18 September 2012), Energiaturu Võrguehitus OÜ (since 25 August 2021), Baltic Energy System OÜ (since 25 August 2021) and SNL Energia 1 OÜ (since 25 August 2021) all 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 SIA are also shareholders with 48.15% interest held in company Pirmais Slēgtais Pensiju Fonds AS (Latvenergo AS holds 46.30% of interest) that manages a defined–contribution corporate pension plan in Latvia.

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

The Management Board of Latvenergo AS:

- Since 6 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,
- On 29 January 2021, Uldis Mucinieks was elected as Member of the Management Board and since 1 February 2021 the Management Board of Latvenergo AS was comprised of the following members: Guntars Baļčūns (Chairman of the Board), Kaspars Cikmačs, Arnis Kurgs and Uldis Mucinieks,
- Since 3 January 2022 the Management Board of Latvenergo AS was comprised of the following members: Mārtiņš Čakste (Chairman of the Board), Dmitrijs Juskovecs, Guntars Baļčūns, Kaspars Cikmačs, Harijs Teteris.

The Supervisory Board of Latvenergo AS:

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

The Supervisory body – Audit Committee:

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

The Management Board of Latvenergo AS has approved the Latvenergo Group and Latvenergo AS Financial statements 2021 on 12 April 2022. 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 2021 include the financial information in respect of the Latvenergo Group and Latvenergo AS for the year ended 31 December 2021 and comparative information for 2020. Where it has been necessary, comparatives for 2020 are reclassified using the same principles applied for preparation of the Financial Statements for 2021.

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

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

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

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

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

- **Interest Rate Benchmark Reform – Phase 2 – IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (Amendments)**

In August 2020, the IASB published Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, completing its work in response to IBOR reform. The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). In particular, the amendments provide for a practical expedient when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, to require the effective interest rate to be adjusted, equivalent to a movement in a market rate of interest. Also, the amendments introduce reliefs from discontinuing hedge relationships including a temporary relief from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component. There are also amendments to IFRS 7 Financial Instruments: Disclosures to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. While application is retrospective, an entity is not required to restate prior periods. The amendments had no impact on the financial statements of the Group and the Company.

- **IFRS 16 Leases – Covid–19 Related Rent Concessions (Amendment)**

The amendment applies, retrospectively, to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted, including in financial statements not yet authorized for issue on 28 May 2020. IASB amended the standard to provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The amendment provides a practical expedient for the lessee to account for any change in lease payments resulting from the covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change was not a lease modification, only if all of the following conditions are met:

- The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change.
- Any reduction in lease payments affects only payments originally due on or before 30 June 2021.
- There is no substantive change to other terms and conditions of the lease.

The Group and the Company as a lessee have not used such reliefs and amendments had no impact on the financial statements of the Group and the Company.

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

- **IFRS 17: Insurance Contracts**

The standard is effective for annual periods beginning on or after 1 January 2021 with earlier application permitted if both IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have also been applied. In its March 2020 meeting the Board decided to defer the effective date to 2023. IFRS 17 Insurance Contracts establishes principles for the recognition, measurement, presentation, and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that contracts within the scope of IFRS 17 have on the financial position, financial performance, and cash flows of an entity. The Group and the Company will assess the impact of this standard on their financial statements to determine whether it may have a material effect on the Group's and the Company's financial statements and additional information disclosures.

- **IFRS 17: Insurance Contracts (Amendments)**

The amendments to IFRS 17 are effective, retrospectively, for annual periods beginning on or after 1 January 2023, with earlier application permitted. The amendments aim at helping companies implement the Standard. In particular, the amendments are designed to reduce costs by simplifying some requirements in the Standard, make financial performance easier to explain and ease transition by deferring the effective date of the Standard to 2023 and by providing additional relief to reduce the effort required when applying IFRS 17 for the first time. The Group and the 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 Company's financial statements and additional information disclosures.

- **IFRS 17: Insurance contracts – Initial Application of IFRS 17 and IFRS 9 – Comparative Information (Amendments)**

The amendment is effective for annual reporting periods beginning on or after 1 January 2023, with early application permitted respectively with IFRS 17. For entities that first apply IFRS 17 and IFRS 9 at the same time, the amendment adds a transition option for a "classification overlay", relating to comparative information of financial assets. An entity applying the classification overlay to a financial asset shall present comparative information as if the classification and measurement requirements of IFRS 9 had been applied to that financial asset. Also, in applying the classification overlay to a financial asset, an entity is not required to apply the impairment requirements of IFRS 9. The amendment is aimed at helping entities to avoid temporary accounting mismatches between financial assets and insurance contract liabilities, and therefore improve the usefulness of comparative information for users of financial statements. These amendments have not yet been endorsed by the EU. The Group and the 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 Company's financial statements and additional information disclosures.

- **Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU. The Group and the 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 Company's financial statements and additional information disclosures.

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

The amendments were initially effective for annual reporting periods beginning on or after 1 January 2022 with earlier application permitted. However, in response to the Covid–19 pandemic, the Board has deferred the effective date by one year, i.e. 1 January 2023, to provide companies with more time to implement any classification changes resulting from the amendments. The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current or non-current. The amendments affect the presentation of liabilities in the statement of financial position and do not change existing requirements around measurement or timing of recognition of any asset, liability, income, or expenses, nor the information that entities disclose about those items. Also, the amendments clarify the classification requirements for debt which may be settled by the company issuing own equity instruments.

In November 2021, the Board issued an exposure draft (ED), which clarifies how to treat liabilities that are subject to covenants to be complied with, at a date subsequent to the reporting period. In particular, the Board proposes narrow scope amendments to IAS 1 which effectively reverse the 2020 amendments requiring entities to classify as current, liabilities subject to covenants that must only be complied with within the next twelve months after the reporting period if those covenants are not met at the end of the reporting period. Instead, the proposals would require entities to present separately all non-current liabilities subject to covenants to be complied with only within twelve months after the reporting period. Furthermore, if entities do not comply with such future covenants at the end of the reporting period, additional disclosures will be required. The proposals will become effective for annual reporting periods beginning on or after 1 January 2024 and will need be applied retrospectively in accordance with IAS 8, while early adoption is permitted. The Board has also proposed to delay the effective date of the 2020 amendments accordingly, such that entities will not be required to change current practice before the proposed amendments come into effect. These Amendments, including ED proposals, have not yet been endorsed by the EU. The Group and the Company will assess the impact of these amendments on their liabilities and financial statements to determine whether they may have a material effect on the Group's and the Company's financial position.

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

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

- IFRS 3 Business Combinations (Amendments) update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.
- IAS 16 Property, Plant and Equipment (Amendments) prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss.
- IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendments) specify which costs a company includes in determining the cost of fulfilling a contract for the purpose of assessing whether a contract is onerous.
- Annual Improvements 2018–2020 make minor amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and the Illustrative Examples accompanying IFRS 16 Leases

The Group and the 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 Company's financial statements and information disclosures.

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

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

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

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

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

The amendments become effective for annual reporting periods beginning on or after 1 January 2023 with earlier application permitted and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. The amendments introduce a new definition of accounting estimates, defined as monetary amounts in financial statements that are subject to measurement uncertainty. Also, the amendments clarify what changes in accounting estimates are and how these differ from changes in accounting policies and corrections of errors. The Group and the 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 Company's financial statements and information disclosures.

- **IAS 12 Income taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments)**

The amendments are effective for annual periods beginning on or after 1 January 2023 with earlier application permitted. In May 2021, the Board issued amendments to IAS 12, which narrow the scope of the initial recognition exception under IAS 12 and specify how companies should account for deferred tax on transactions such as leases and decommissioning obligations. Under the amendments, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. It only applies if the recognition of a lease asset and lease liability (or decommissioning liability and decommissioning asset component) give rise to taxable and deductible temporary differences that are not equal. The Amendments have not yet been endorsed by the EU. The Group and the 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 Company's financial statements and information 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 other comprehensive income (OCI), there is no subsequent reclassification of fair value gains and losses to profit or loss following the de–recognition of the investment. Dividends from such investments continue to be recognised in profit or loss when the Group's and the Parent Company's right to receive payments is established.

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

Financial Liabilities

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

De-recognition

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

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

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

Impairment

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

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

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

		Group			Parent Company		
	Notes	**Financial assets at amortised cost**	**Derivatives used for hedging**	**Financial instruments at fair value through profit or loss**	**Financial assets at amortised cost**	**Derivatives used for hedging**	**Financial instruments at fair value through profit or loss**
Financial assets as of 31 December 2021							
Receivables from contracts with customers	18 a	181,136	–	–	110,638	–	–
Other current financial receivables	18 b	57,498	–	–	43,212	–	–
Loans to related parties	29 e	–	–	–	706,378	–	–
Derivative financial instruments	24 I	–	25,735	–	–	25,466	–
Other financial investments	22	–	–	–	–	–	–
Cash and cash equivalents	19	97,079	–	–	92,418	–	–
		335,713	**25,735**	**–**	**952,646**	**25,466**	**–**
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 I	–	503	1,054	–	503	1,054
Other financial investments	22	16,836	–	–	16,836	–	–
Cash and cash equivalents	19	100,703	–	–	98,261	–	–
		397,201	**503**	**1,054**	**962,510**	**503**	**1,054**

EUR'000

		Group			Parent Company		
	Notes	**Financial liabilities at amortised cost**	**Derivatives used for hedging**	**Financial instruments at fair value through profit or loss**	**Financial liabilities at amortised cost**	**Derivatives used for hedging**	**Financial instruments at fair value through profit or loss**
Financial liabilities as of 31 December 2021							
Borrowings	23	795,029	–	–	782,322	–	–
Derivative financial instruments	24 I	–	18,520	–	–	18,520	–
Lease liabilities	15	8,428	–	–	5,226	–	–
Trade and other financial current payables	26	163,950	–	–	166,517	–	–
		967,407	**18,520**	**–**	**954,065**	**18,520**	**–**
Financial liabilities as of 31 December 2020							
Borrowings	23	743,199	–	–	733,392	–	–
Derivative financial instruments	24 I	–	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**	**–**

a) Market risk

I) Foreign currencies exchange risk

As of 31 December 2021 and 31 December 2020 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 2021 and 2020 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.

During 2021 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 750 thousand higher (2020: EUR 488 thousand) and the Parent Company's income from the cash reserves held at bank for the year would have been EUR 739 thousand higher (2020: EUR 476 thousand).

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

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

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

To hedge cash flow interest rate risk, the Group and the Parent Company have entered into interest rate swap agreements with total notional amount of EUR 169 million (2020: EUR 193.8 million) (Note 24 II). 37% of the total Group's and 38% the Parent Company's borrowings as of 31 December 2021 (31/12/2020: 38% and 39% respectively) had fixed interest rate (considering the effect of the interest rate swaps) and average fixed rate duration was 1.5 years for the Group and the Parent Company (2020: 1.6 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 633 thousand lower (over the next 12 months period after 31/12/2020: EUR 661 thousand), the Parent Company's profit for the year would have been EUR 631 thousand lower (over the next 12 months period after 31/12/2020: EUR 654 thousand).

As of 31 December 2021, if short–term and long–term euro interest rates had been 50 basis points higher with all other variables held constant fair value of interest rate swaps would have been EUR 2,688 thousand higher (31/12/2020: EUR 3,698 thousand higher), which would have been attributable to the Statement of Comprehensive Income as hedge accounting item. However, if short–term and long–term euro interest rates had been 50 basis points lower with all other variables held constant fair value of interest rate swaps would have been EUR 2,778 thousand lower (31/12/2020: EUR 3,832 thousand lower), which would have been attributable to the Statement of Comprehensive Income as hedge accounting item and an ineffective portion recognised in the Statement of Profit or Loss.

III) Price risk

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

The most significant price risk is related to purchase of electricity and natural gas. To hedge the risk related to changes in the price of electricity and natural gas the Parent Company during 2021 and 2020 has purchased electricity forward and future contracts and natural gas forward contracts (Note 24 III, IV).

b) Credit risk

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

The maximum credit risk exposure related to financial assets (see table below) comprises of carrying amounts of cash and cash equivalents (Note 19), receivables from contracts with customers and other receivables (Note 18), derivative financial instruments (Note 24), other financial investments (Note 22) and loans to related parties (Note 29 e).

Assessment of maximum possible exposure to credit risk

EUR'000

	Notes	Group		Parent Company	
		31/12/2021	31/12/2020	31/12/2021	31/12/2020
Receivables from contracts with customers	18 a	181,136	108,178	110,638	75,856
Other current financial receivables	18 b	57,498	84,864	43,212	29,328
Loans to related parties	29 e	–	86,620	706,378	742,229
Cash and cash equivalents	19	97,079	100,703	92,418	98,261
Derivative financial instruments	24	25,735	1,557	25,466	1,557
Other financial investments	22	–	16,836	–	16,836
		361,448	**398,758**	**978,112**	**964,067**

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

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

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

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

EUR'000

	Group		Parent Company	
	31/12/2021	31/12/2020	31/12/2021	31/12/2020
Investment level credit rating*	97,079	100,703	92,418	98,261
	97,079	**100,703**	**92,418**	**98,261**

* 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 belonging to financial groups with investment level credit rating and financial assets are considered to have good credit worthiness.

EUR'000

	Group		Parent Company	
	31/12/2021	31/12/2020	31/12/2021	31/12/2020
Aa2	–	22,289	–	20,882
Aa3	47,149	33,836	44,111	33,049
Baa1	37,085	35,106	36,030	34,860
Baa2	12,361	373	12,277	373
Baa3	484	9,099	–	9,097
	97,079	**100,703**	**92,418**	**98,261**

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 considering the actual interest rates at the end of the reporting period.

Liquidity analysis (contractual undiscounted gross cash flows)

EUR'000

	Notes	Group					Parent Company				
		Less than 1 year	From 1 to 2 years	From 3 to 5 years	Over 5 years	TOTAL	Less than 1 year	From 1 to 2 years	From 3 to 5 years	Over 5 years	TOTAL
As of 31 December 2021											
Borrowings from financial institutions		82,164	179,927	241,707	154,564	**658,362**	79,723	175,468	238,351	151,638	**645,180**
Issued debt securities (bonds)		102,205	250	750	50,366	**153,571**	102,205	250	750	50,366	**153,571**
Derivative financial instruments		17,604	1,451	1,681	421	**21,157**	17,604	1,451	1,681	421	**21,157**
Lease liabilities*		2,085	1,635	3,765	1,237	**8,722**	1,214	972	2,457	813	**5,456**
Trade and other current financial payables	26	163,950	–	–	–	**163,950**	166,517	–	–	–	**166,517**
		368,008	**183,263**	**247,903**	**206,588**	**1,005,762**	**367,263**	**178,141**	**243,239**	**203,238**	**991,881**
As of 31 December 2020											
Borrowings from financial institutions		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**	**826,567**

* The carrying amount of the lease (discounted) for the Group is EUR 8,428 thousand and for the Parent Company EUR 5,226 thousand (31 December 2020: Group – EUR 8,344 thousand, Parent Company – EUR 4,540 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 2021 nor 2020), which are linked to capital structure and are stipulated in the majority of loan agreements.

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

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

The capital ratio figures were as follows

EUR'000

	Group		Parent Company	
	31/12/2021	31/12/2020	31/12/2021	31/12/2020
Total equity	2,123,448	2,118,242	1,761,070	1,746,436
Total assets	3,475,890	3,358,835	2,915,587	2,760,155
Capital Ratio	**61%**	**63%**	**60%**	**63%**

4. Critical accounting estimates and judgements

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

The Management of the Group and the Parent Company has assessed the situation at the end of the reporting period and has determined that the spread of Covid–19 and 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, the Group and the Parent Company continued 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.

The Group's and the Parent Company's operations were not significantly disrupted during Covid–19 in 2021, and the Management of the Group and the Parent Company does 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. For the assets that are planned to be reconstructed, the remaining useful life is determined to be till the date of reconstruction. Previous experience has shown that the actual useful lives have sometimes been longer than the estimates. Values of fully depreciated property, plant and equipment are disclosed in Note 14 a. Quantifying an impact of potential changes in the useful lives is deemed impracticable therefore sensitivity analysis is not disclosed.

II) Recoverable amount of property, plant and equipment

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

III) Revaluation

Revaluation for part of the Group's and the Parent Company's property, plant and equipment are performed by independent, external and certified valuation experts by applying the depreciated replacement cost model or income method. Valuation has been performed according to international standards on property valuation, based on current use of property, plant and equipment that is estimated as the most effective and best use of these assets. As a result of valuation, depreciated replacement cost was determined for each asset. Depreciated replacement cost is the difference between the cost of replacement or renewal of similar asset at the time of revaluation and the accumulated loss of an asset's value that encompasses physical deterioration, functional (technological) obsolescence and economic (external) obsolescence. Physical depreciation was determined proportionally to the age of the property, plant and equipment item. In assessment of property, plant and equipment items for which a reconstruction is planned in the near future additional functional depreciation was determined. Remaining useful lives of property, plant and equipment items after revaluation were revised according to estimated total depreciation. Income method is based on the identification and analysis of generation capacity, forecasting of electricity trade prices, analysis of historical generation and operating expenses and forecast of future costs, capital expenditure, net cash flows, as well calculation of discount and capitalisation rates, based on market data.

PPE are revalued regularly but not less frequently than every five years. Revaluation may be performed more frequently if there is a significant and sustained increase in the civil engineering construction costs. The revaluation process is initiated if the increase in the civil engineering construction costs exceeds 10% for two consecutive quarters since the previous revaluation, according to data of the Central Statistical Bureau, and is expected long lasting increase in the costs.

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, also considering fact that almost all of cash and cash equivalents are held in financial institutions with the credit rating grade of the institution or its parent bank at investment grade credit rating (mostly 'A level' credit rating) (Stage 1).

c) Estimates concerning revenue recognition from contracts with customers

I) Recognition of mandatory procurement PSO fees

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

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

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

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

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

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

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

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

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

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

d) Recognition and reassessment of provisions

As of 31 December 2021, the Group had set up provisions for post–employment benefits and termination benefits totalling EUR 15.7 million (31/12/2020: EUR 19.2 million) and the Parent Company in amount of EUR 7.5 million (31/12/2020: EUR 8.7 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) 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.

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

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

h) 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.

i) 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 2021 the management of the Parent Company revised its judgements (estimates) and considering 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 (Note 18).

j) Fair values

The fair value of the financial assets and liabilities is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair values are estimated based on market prices and discounted cash flow models as appropriate. The fair value of financial instruments traded in active markets is based on quoted market prices at the end of reporting period. The quoted market prices used for financial assets held by the Group and the Parent Company are the actual closing prices. The fair value of financial instruments that are not traded in active market is determined by using valuation techniques. The Group and the Parent Company use a variety of methods and make assumptions that are based on market conditions existing at end of reporting period. Estimated discounted cash flows are used to determine fair value for the remaining financial instruments.

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

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

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

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

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

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

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

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

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

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

h) The fair value of investment properties is determined using the income method, by discounting expected future cash flows. In 2021, the nominal pre–tax discount rate used to determine the fair value of investments is 4,37% (2020: 4.40%) as included in the electricity distribution and transmission system service tariff calculation methodology (Level 3).

5. Operating segment information

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

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

The Group divides its operations into 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 comprise the Group's electricity and thermal energy generation operations, which are organised into the legal entities: Latvenergo AS and Liepājas enerģija SIA; electricity and natural gas trade (including electricity and natural gas wholesale) in the Baltics carried out by Latvenergo AS, Elektrum Eesti OÜ (including its subsidiaries – Energiaturu Võrguehitus OÜ, Baltic Energy System OÜ and SNL Energia 1 OÜ) and Elektrum Lietuva, UAB, as well as administration of the mandatory procurement process provided by Enerģijas publiskais tirgotājs SIA.

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

The operations of the lease of transmission system (till 10 June 2020) assets operating segment are 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).

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

* 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**
2021										
Revenue from contracts with customers recognised over time:										
Trade of energy and related supply services	666,966	3,228	–	–	**670,194**	**670,194**	490,614	–	**490,614**	**490,614**
Distribution system services	1	282,949	–	–	**282,950**	**282,950**	–	–	**–**	**–**
Heat sales	84,123	91	–	10	**84,224**	**84,224**	71,215	10	**71,225**	**71,225**
Other revenue	3,267	16,949	–	5,636	**25,852**	**25,852**	936	26,600	**27,536**	**27,536**
Total revenue from contracts with customers	**754,357**	**303,217**	**–**	**5,646**	**1,063,220**	**1,063,220**	**562,765**	**26,610**	**589,375**	**589,375**
Other revenue:										
Other revenue	–	72	–	1,927	**1,999**	**1,999**	–	3,410	**3,410**	**3,410**
Total other revenue	**–**	**72**	**–**	**1,927**	**1,999**	**1,999**	**–**	**3,410**	**3,410**	**3,410**
TOTAL revenue, including	**754,357**	**303,289**	**–**	**7,573**	**1,065,219**	**1,065,219**	**562,765**	**30,020**	**592,785**	**592,785**
Latvia	416,545	303,288	–	7,289	**727,122**	**727,122**	399,513	28,392	**427,905**	**427,905**
Outside Latvia	337,812	1	–	284	**338,097**	**338,097**	163,252	1,628	**164,880**	**164,880**
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	–	–	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**

* In the financial statements operating segment of lease of transmission system assets is classified as discontinued operation (Note 30)

Latvenergo

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	
		2021	2020	2021	2020
EBITDA		**198,813**	**294,448**	**85,275**	**197,889**
Depreciation, amortisation and impairment of intangible assets, PPE and right-of-use assets		(116,923)	(168,146)	(32,908)	(86,259)
Segment profit before tax		**81,890**	**126,302**	**52,367**	**111,630**
Finance income	11	2,110	2,125	11,391	12,768
Finance costs	11	(9,070)	(10,783)	(9,216)	(11,293)
Dividends received from subsidiaries	16	–	–	24,978	41,743
Profit before tax		**74,930**	**117,644**	**79,520**	**154,848**

Reconciliation of assets

EUR'000

	Notes	Group		Parent Company	
		31/12/2021	31/12/2020	31/12/2021	31/12/2020
Segment operating assets		**3,378,627**	**3,154,592**	**1,471,573**	**1,257,611**
Non-current financial investments	16	40	40	645,218	645,218
Loans to related parties	29 e	–	86,620	706,378	742,229
Other financial investments	22	–	16,836	–	16,836
Prepayment for income and other taxes		144	44	–	–
Cash and cash equivalents	19	97,079	100,703	92,418	98,261
Total assets		**3,475,890**	**3,358,835**	**2,915,587**	**2,760,155**

Reconciliation of liabilities

EUR'000

	Notes	Group		Parent Company	
		31/12/2021	31/12/2020	31/12/2021	31/12/2020
Segment operating liabilities		**509,282**	**437,490**	**349,577**	**249,083**
Deferred income tax liabilities		2,955	6,401	–	–
Borrowings	23	795,029	743,199	782,322	733,392
Derivative financial instruments	24	4,312	9,504	4,312	9,504
Provisions and other payables		40,864	43,999	18,306	21,740
Total liabilities		**1,352,442**	**1,240,593**	**1,154,517**	**1,013,719**

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 2021 for the Group amounted to EUR 71,406 thousand and for the Parent Company EUR 71,388 thousand (2020: EUR 51,089 thousand and EUR 50,857 thousand) arising from sales by the generation and trade segment.

6. Revenue

Accounting policy

Revenue from contracts with customers (IFRS 15)

Revenue from contracts with customers in scope for IFRS 15 encompasses sold goods or services provided as output of the entity's ordinary activities. The Group and Parent Company use the following criteria to identify contracts with customers:

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

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

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

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

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

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

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

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

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

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

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

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

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

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.

From 1 December till 31 December 2021, in accordance with Regulations of the Cabinet of Ministers of the Republic of Latvia No. 50 'Regulations regarding the trade and use of electricity', the government granted support for electricity distribution fee to all end-users in the amount of 50%, which is reimbursed from the state budget. The compensation mechanism for electricity end-users provides for a reduction of the electricity distribution system service fee by 50% of the service fee to the end-user, while not changing the distribution system tariffs.

Regulations of Cabinet of Ministers of the Republic of Latvia No. 50 'Regulations regarding the trade and use of electricity' do not change agreement on the scope of provided services and do not change the approved distribution system tariffs, respectively does not change the Company's revenue recognition principles, but the reception of the transaction fee and the payer for the services. The Company has the right to invoice for the full fee for the provided services: from customer at a reduced price within the specified period of time and the payment for the reduction in price has been received from the state.

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.

EUR'000

	IFRS applied	Group		Parent Company	
		2021	2020	2021	2020
Revenue from contracts with customers recognised over time:					
Trade of energy and related supply services	IFRS 15	670,194	417,781	490,614	310,853
Distribution system services	IFRS 15	282,950	275,587	–	–
Heat sales	IFRS 15	84,224	53,428	71,225	42,635
Other revenue	IFRS 15	25,852	24,956	27,536	28,203
TOTAL revenue from contracts with customers		**1,063,220**	**771,752**	**589,375**	**381,691**
Other revenue:					
Lease of other assets	IFRS 16	1,999	1,639	3,410	3,921
TOTAL other revenue		**1,999**	**1,639**	**3.410**	**3,921**
TOTAL revenue		**1,065,219**	**773,391**	**592,785**	**385,612**

From 1 December till 31 December 2021, in accordance with Regulations of the Cabinet of Ministers of the Republic of Latvia No. 50 'Regulations regarding the trade and use of electricity', the government granted support for electricity distribution fee to all end-users in the amount of 50% or EUR 13,008 thousand, which is reimbursed from the state budget and recognised as revenue from distribution system services (Note 2.9.). The compensation mechanism for electricity end-users provides for a reduction of the electricity distribution system service fee by 50% of the service fee to the end-user, while not changing the distribution system tariffs.

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

EUR'000

	Group		Parent Company	
	2021	2020	2021	2020
Latvia	725,123	619,746	424,553	328,870
Outside Latvia	338,097	152,006	164,822	52,821
TOTAL revenue from contracts with customers	**1,063,220**	**771,752**	**589,375**	**381,691**

Accounting policy

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

Mandatory procurement PSO fees

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

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

Distribution system and transmission system services (Parent Company)

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

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

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

EUR'000

	Group		Parent Company	
	2021	2020	2021	2020
Mandatory procurement PSO fees	62,603	84,665	64,537	88,177
Distribution system services	23,478	12,641	171,200	184,915
Transmission system services	1,744	1,654	1,758	1,686
Insurance intermediation	579	–	578	–
TOTAL revenue recognised applying agent accounting principle	**88,404**	**98,960**	**238,073**	**274,778**

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

Accounting policy

Revenue from contracts with customers

Connection fees to distribution system (the Group)

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

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

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 f).

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

EUR'000

		Group		Parent Company	
	Notes	31/12/2021	31/12/2020	31/12/2021	31/12/2020
Non–current deferred income from connection fees	28 I, a	136,217	138,750	–	–
Current deferred income from connection fees	28 II, a	14,794	14,167	–	–
Non-current other deferred income	28 I, a	802	863	802	863
Current other deferred income	28 II, a	237	924	67	813
TOTAL liabilities		**152,050**	**154,704**	**869**	**1,676**

Movement in deferred connection fees – from contracts with customers for the Group (non–current and current part)

EUR'000

		Group		Parent Company	
	Notes	2021	2020	2021	2020
At the beginning of the year		**154,704**	**157,094**	**1,676**	**940**
Received connection fees for connection to distribution system	28	12,556	10,749	–	–
Received advance payments for contracts with customers	28	–	808	–	808
Credited to the Statement of Profit or Loss		(15,210)	(13,947)	(807)	(72)
At the end of the year		**152,050**	**154,704**	**869**	**1,676**

7. Other income

EUR'000

	Notes	Group 2021	Group 2020	Parent Company 2021	Parent Company 2020
Compensation from the state on state support for the installed capacity of CHPPs	4 g	23,990	23,990	23,990	23,990
Profit from distribution of non–current financial investments	16	–	–	–	36,246
Fines and penalties		2,536	2,060	1,803	1,483
Net gain on sale of assets held for sale and property, plant and equipment		1,167	1,123	1,321	1,026
Compensations and insurance claims		779	535	503	238
Other operating income		956	1,024	129	194
TOTAL other income		**29,428**	**28,732**	**27,746**	**63,177**

8. Raw materials and consumables

EUR'000

	Notes	Group 2021	Group 2020	Parent Company 2021	Parent Company 2020
Energy costs:					
Electricity and costs of related supply services		369,388	154,667	180,864	50,433
Electricity transmission services costs	29 a	73,747	71,054	3,053	957
Natural gas and other energy resources costs		259,160	117,185	248,699	111,151
Losses / (gains) on fair value changes on energy futures, forwards, and swaps	24 l	13,373	(1,242)	13,642	(1,242)
		715,668	**341,664**	**446,258**	**161,299**
Raw materials, spare parts and maintenance costs		24,459	27,597	12,212	12,585
TOTAL raw materials and consumables used		**740,127**	**369,261**	**458,470**	**173,884**

Significant increase impacted mainly by significantly higher electricity purchase prices as well as higher natural gas and CO_2 emission allowance prices. The Group and the Parent Company produce less electricity at its plants than it is sold to the Group's and the Parent Company's customers. The missing part was bought on the market at a higher price than fixed in our customer agreements, which had a negative impact on the energy costs. In 2021, the electricity spot price in Latvia was more than two and a half times higher compared to the previous year. The price of natural gas was almost five times higher, and the average price of CO_2 emission allowances was more than two times higher.

9. Personnel expenses

EUR'000

	Group 2021	Group 2020	Parent Company 2021	Parent Company 2020
Wages and salaries	78,564	79,457	34,359	34,603
State social insurance contributions	17,918	18,733	7,952	8,182
Expenditure of employment termination	3,719	1,783	392	275
Pension costs – defined contribution plan	4,739	3,612	2,014	1,571
Other benefits defined in the Collective Agreement	1,121	1,040	462	370
Life insurance costs	553	1,613	234	656
Capitalised personnel expenses	(991)	(267)	–	–
TOTAL personnel expenses, including remuneration to the management of continuing operations	**105,623**	**105,971**	**45,413**	**45,657**
Remuneration to the management including discontinued operation:				
Wages and salaries	2,347	2,153	855	861
State social insurance contributions	547	516	201	208
Expenditure of employment termination	5	90	–	90
Pension costs– defined contribution plan	18	25	10	13
Life insurance costs	14	17	–	1
TOTAL remuneration to the management*	**2,931**	**2,801**	**1,066**	**1,173**

* 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 (including remuneration to management of discontinued operation in 2020 in the amount of EUR 160 thousand). 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 2021	Group 2020	Parent Company 2021	Parent Company 2020
Number of employees at the end of the year	3,153	3,295	1,269	1,267
Average number of employees during the year	3,233	3,362	1,273	1,281

10. Other operating expenses

EUR'000

	Group		Parent Company	
	2021	2020	2021	2020
Selling expenses and customer services	35,649	7,526	31,267	5,444
Information technology maintenance	5,693	5,667	5,359	5,338
Transportation expenses	5,308	5,022	1,710	1,643
Environment protection and work safety	8,424	9,394	7,284	8,223
Real estate maintenance and utilities expenses	5,368	4,967	3,887	4,143
Lease of real estate and fixed assets	84	201	54	137
Telecommunications services	2,592	2,289	2,221	2,284
Real estate tax	980	979	699	964
Public utilities regulation fee	1,714	1,710	781	761
Audit fee	93	93	46	45
Changes in impairment losses on financial assets	(27,382)	(2,796)	(27,129)	(2,502)
Net losses from sale of assets held for sale and PPE	2,951	4,503	(349)	379
Other expenses	8,610	9,442	5,543	4,500
TOTAL other operating expenses	**50,084**	**48,997**	**31,373**	**31,359**

In addition to audit services, in 2021 auditors did not provide any other services (2020: for the Group in the amount of EUR 3 thousand, Parent Company EUR 2 thousand, the costs of which are included in the position 'Other expenses').

11. Finance income and costs

a) Finance income

EUR'000

	Notes	Group		Parent Company	
		2021	2020	2021	2020
Interest income		564	2,032	564	1,097
Interest income on loans to related parties		994	–	10,276	11,578
Gains on fair value changes on interest rate swaps	24	316	–	316	–
Net gain on issued debt securities (bonds)		111	93	111	93
Net gain on redemption of other financial investments		94	–	94	–
Net gain on currency exchange rate fluctuations		31	–	30	–
TOTAL finance income		**2,110**	**2,125**	**11,391**	**12,768**

b) Finance costs

EUR'000

	Notes	Group		Parent Company	
		2021	2020	2021	2020
Interest expense on borrowings from financial institutions		7,029	8,421	7,247	9,031
Interest expense on issued debt securities (bonds)		2,041	2,273	2,041	2,273
Interest expense on assets lease		138	131	83	69
Capitalised borrowing costs	14 a	(331)	(479)	(331)	(479)
Net losses on redemption of other financial investments		–	50	–	50
Net losses on currency exchange rate fluctuations		–	105	–	105
Other finance costs		193	275	176	244
TOTAL finance costs		**9,070**	**10,776**	**9,216**	**11,293**

12. Income tax

Accounting policy

Corporate income tax

Latvia

Corporate income tax is paid on distributed profits which has been generated as of 1 January 2018 and not previously taxed (less dividends received from subsidiaries) and deemed profit distributions. Both distributed profits and deemed profit distributions are subject to the tax rate of 20% of their gross amount, or 20/80 of net expense. Corporate income tax on dividends is recognised in the statement of profit or loss as expense in the reporting period when respective dividends are declared, while as regards other deemed profit distribution items, at the time when expense is incurred in the reporting year.

Lithuania

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

Estonia

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

Deferred income tax

Latvia and Estonia

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

Lithuania

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

EUR'000

	Group		Parent Company	
	2021	2020	2021	2020
Current income tax for the year	6,832	8,160	–	–
Deferred income tax on foreseeable profit distributions of subsidiaries	(3,446)	(1,926)	–	–
Deferred income tax relating to temporary differences	(79)	–	–	–
TOTAL income tax	**3,307**	**6,234**	**–**	**–**

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13. Intangible assets

a) Intangible assets

Accounting policy

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

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

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

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

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

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

EUR'000

	Group						Parent Company				
	Goodwill	Usage rights and licences	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 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 2021	**–**	**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**
Year ended 31 December 2021											
Additions	2,546	–	–	–	6,907	**9,453**	–	–	–	4,321	**4,321**
Transfers	–	2,444	–	4,095	(6,539)	**–**	17	–	4,002	(4,019)	**–**
Disposals	–	–	–	(81)	–	**(81)**	–	–	(81)	–	**(81)**
Impairment charge	–	–	–	81	–	**81**	–	–	81	–	**81**
Amortisation charge	–	(3,000)	–	(2,924)	–	**(5,924)**	(459)	–	(2,649)	–	**(3,108)**
Closing net book amount as of 31 December 2021	**2,546**	**36,634**	**–**	**13,694**	**683**	**53,557**	**4,424**	**–**	**12,482**	**500**	**17,406**
As of 31 December 2021											
Cost	2,546	60,617	–	56,449	683	**120,295**	10,817	–	53,370	500	**64,687**
Accumulated amortisation	–	(23,983)	–	(42,755)	–	**(66,738)**	(6,393)	–	(40,888)	–	**(47,281)**
Net book amount	**2,546**	**36,634**	**–**	**13,694**	**683**	**53,557**	**4,424**	**–**	**12,482**	**500**	**17,406**

* 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) Current intangible assets (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	
	2021	2020	2021	2020
	Number of allowances	Number of allowances	Number of allowances	Number of allowances
At the beginning of the year	**977,325**	**1,784,364**	**958,122**	**1,688,912**
Allowances allocated free of charge*	8,664	125,103	–	112,769
Purchased allowances	1,105,000	375,000	1,105,000	375,000
Written off verified allowances	(837,120)	(1,227,142)	(831,270)	(1,218,559)
Sold allowances	(5,000)	(80,000)	–	–
At the end of the year	**1,248,869**	**977,325**	**1,231,852**	**958,122**
including estimated allowances used during the reporting year (unverified)	(834,267)	(812,710)	(834,267)	(812,710)
Allowances available at the end of the year	**414,602**	**164,615**	**397,585**	**145,412**

* 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 2021 was nil (31/12/2020: nil).

Current intangible assets

EUR'000

	Group		Parent Company	
	2021	2020	2021	2020
Net book amount at the beginning of the year	**3,157**	**–**	**3,157**	**–**
Additions	64,500	–	64,500	–
Disposals	(43,391)	–	(43,391)	–
Reclassified from non-current intangible assets	–	3,157	–	3,157
Closing net book amount at the end of the year	**24,266**	**3,157**	**24,266**	**3,157**

14. Property, plant and equipment

a) Property, plant and equipment

Accounting policy

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

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

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

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

Type of property, plant and equipment (PPE)	Estimated useful life, years
Buildings and facilities	15 – 100
Assets of Hydropower plants:	
- hydropower plants' buildings and facilities,	25 – 100
- hydropower plants' technology equipment and machinery	10 – 40
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. Borrowing costs are capitalised to fixed assets proportionally to the part of the cost of PPE under construction over the period of construction. Assets under construction are not depreciated until the relevant assets are completed and ready for intended use, impairment test is performed when there is indication for impairment, either individually or at the cash-generating unit level. The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the recoverable amount that is higher of the asset's the fair value less costs to sell and value in use.

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

Transfers are made from (or to) property, plant, and equipment to (or from) investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Group and the Parent Company accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

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 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 (Note 16)	–	–	–	–	–	–	–	**–**	(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 (Note 14 d I)	(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**
Year ended 31 December 2021														
Additions	–	–	–	–	4,969	–	112,286	**117,255**	–	–	–	–	25,203	**25,203**
Invested in share capital	20	–	–	–	–	–	–	**20**	20	–	–	–	–	**20**
Transfers	10,457	23,096	83,272	–	7,285	14,320	(138,430)	**–**	7,442	23,096	7,205	5,553	(43,296)	**–**
Reclassified (to) / from investment property, net	(3,182)	–	–	–	–	–	–	**(3,182)**	(692)	–	–	–	–	**(692)**
Reclassified to non–current assets for sale	(27)	–	–	–	–	(78)	–	**(105)**	(20)	–	–	–	–	**(20)**
Disposals	(34)	(69)	(5,197)	–	(43)	(74)	(39)	**(5,456)**	(84)	(69)	(42)	(136)	(20)	**(351)**
Reversed impairment charge (Note 14 d I)	9,187	–	–	–	27,537	–	4,699	**41,423**	9,187	–	27,537	–	4,669	**41,393**
Depreciation	(13,120)	(25,157)	(70,241)	–	(30,913)	(11,196)	–	**(150,627)**	(9,587)	(25,157)	(29,655)	(5,751)	–	**(70,150)**
Closing net book amount as of 31 December 2021	**194,383**	**776,350**	**1,631,423**	**–**	**104,882**	**56,566**	**63,050**	**2,826,654**	**135,116**	**776,350**	**89,341**	**18,091**	**48,075**	**1,066,973**
As of 31 December 2021														
Cost or revalued amount	427,180	2,044,719	3,031,424	–	661,828	168,431	63,334	**6,396,916**	346,175	2,044,719	630,116	101,775	48,075	**3,170,860**
Accumulated depreciation and impairment	(232,797)	(1,268,369)	(1,400,001)	–	(556,946)	(111,865)	(284)	**(3,570,262)**	(211,059)	(1,268,369)	(540,775)	(83,684)	–	**(2,103,887)**
Net book amount	**194,383**	**776,350**	**1,631,423**	**–**	**104,882**	**56,566**	**63,050**	**2,826,654**	**135,116**	**776,350**	**89,341**	**18,091**	**48,075**	**1,066,973**

* 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, PPE and right-of-use assets'.

As of 31 December 2021, cost of fully depreciated PPE which are still in use for the Group amounted to EUR 305,295 thousand (31/12/2020: EUR 354,967 thousand) and for the Parent Company amounted to EUR 277,392 thousand (31/12/2020: EUR 270,456 thousand).

In 2021 the Group and the Parent Company have capitalised borrowing costs in the amount of EUR 331 thousand (2020: EUR 479 thousand) (see Note 11). Rate of capitalised borrowing costs was of 1.45% (2020: 1.58%).

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 property held for capital appreciation		Parent Company: Investment properties for lease*	
	2021	2020	2021	2020
Cost at the beginning of the year	1,455	910	4,005	64,377
Accumulated depreciation and impairment at the beginning of the year	(943)	(609)	(1,155)	(25,209)
Net book amount at the beginning of the year	**512**	**301**	**2,850**	**39,168**
Reclassified to investment property held for capital appreciation	3,182	477	(766)	(2,904)
Disposal	(18)	(6)	–	(24)
Investment in the share capital of other company	–	–	–	(32,333)
Sold	(348)	(260)	–	(840)
Depreciation	(12)	–	(58)	(217)
Cost at the end of the year	3,807	1,455	2,700	4,005
Accumulated depreciation and impairment at the end of the year	(491)	(943)	(674)	(1,155)
Net book amount at the end of the year	**3,316**	**512**	**2,026**	**2,850**

	Parent Company: Investment property held for capital appreciation		Parent Company: TOTAL Investment property	
	2021	2020	2021	2020
Cost at the beginning of the year	1,427	876	5,432	65,253
Accumulated depreciation and impairment at the beginning of the year	(943)	(609)	(2,098)	(25,818)
Net book amount at the beginning of the year	**484**	**267**	**3,334**	**39,435**
Reclassified to investment property held for capital appreciation	1,458	477	692	(2,427)
Disposal	(18)	(6)	(18)	(30)
Investment in the share capital of other company	–	–	–	(32,333)
Sold	(348)	(254)	(348)	(1,094)
Depreciation	–	–	(58)	(217)
Cost at the end of the year	1,861	1,427	4,561	5,432
Accumulated depreciation and impairment at the end of the year	(285)	(943)	(959)	(2,098)
Net book amount at the end of the year	**1,576**	**484**	**3,602**	**3,334**

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

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

c) Property, plant and equipment revaluation

Accounting policy

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

The following hydropower plants, 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.

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.

Latvenergo

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 electricity lines and electrical equipment	TOTAL revalued PPE
At revalued amounts			
As of 31 December 2021			
Revalued	2,044,719	3,031,424	5,076,143
Accumulated depreciation	(1,268,369)	(1,400,001)	(2,668,370)
Revalued net book amount	**776,350**	**1,631,423**	**2,407,773**
As of 31 December 2020			
Revalued	2,045,830	3,006,885	5,052,715
Accumulated depreciation	(1,267,350)	(1,383,296)	(2,650,646)
Revalued net book amount	**778,480**	**1,623,589**	**2,402,069**
At amounts stated on historical cost basis			
As of 31 December 2021			
Cost	453,213	1,531,323	1,984,536
Accumulated depreciation	(191,691)	(518,820)	(710,511)
Net book amount	**261,522**	**1,012,503**	**1,274,025**
As of 31 December 2020			
Cost	432,117	1,518,927	1,951,044
Accumulated depreciation	(182,739)	(512,629)	(695,368)
Net book amount	**249,378**	**1,006,298**	**1,255,676**

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 (Nord Pool Spot) forecasts of electricity prices, analysis of historical generation and operating expenses, forecast of expenses based on publicly available state statistics, forecast of capital expenditure, forecast of net cash flows, as well as discount and capitalisation rate calculation 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 was 7.5%. If the pre-tax rate would have been increased by 0.1% then the value of the revalued assets of hydropower plants would have been decreased by EUR 17,686 thousand (2020: by EUR 45,938 thousand). If the pre–tax rate would have been decreased by 0.1%, the value of the revalued assets of hydropower plants would have been increased by EUR 18,279 thousand (2020: by EUR 48,308 thousand). If electricity price would have been increased by 1%, the value of assets would have been increased by EUR 22,406 (2020: by EUR 27,665), if the prices would have been by 1% less, the value of assets would have been decrease by EUR 22,406 (2020: by EUR 27,665).

Considering the situation at the end of the year when the increase in civil engineering construction costs exceeded the 10% for at least 2 consecutive quarters since the previous revaluation, and anticipating that the increase in the civil engineering construction costs is likely to remain significant and sustainable, which could result in significantly higher value for hydropower plants, and accordingly in 2022 has passed a cycle of 5 years, in February 2022 has been started the valuation process for hydropower plants. Given that the revaluation process is complex and complicated, independent, external, certified valuation experts has been involved in revaluation.

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.

Distribution system electricity lines were revalued as of 1 January 2021 and the revaluation result has been recognised in the Financial statements of 2020 as an adjusting event. As a result, the carrying amount of assets was increased by EUR 74,185 thousand, of which EUR 65,394 thousand was recognised in non–current assets 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. During the reporting year, the management has changed the estimates of the remaining useful life for those distribution system electricity lines that are planned to be reconstructed, based on more recent and objective information on the dates and volumes of reconstruction. As a result of change in estimates, depreciation expense for year 2021 decreased by EUR 7,107 thousand. Management believes that change in estimates has no significant effect on the revalued value of the distribution system electricity lines.

A quantitative sensitivity analysis of significant assumptions used in calculation of revalued amounts as of the date of revaluation is indicated below:

EUR'000

	Date of revaluation	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	77	30-35
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 g). 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 2021 (2020: EUR 23,990 thousand) (Note 7). Consequently, EUR 161,440 thousand remained recognised as deferred income as of 31 December 2021 (31 December 2020: EUR 185,340 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 2021, the future discounted cash flows generated by the operation of Latvenergo AS CHPPs are evaluated in the amount of EUR 26 527 thousand (31 December 2020: nil). More detailed information is given below. Consequently, the value of Latvenergo CHPPs assets is estimated equal to the sum of deferred income and future discounted cash flows as of 31 December 2021– EUR 187,967 thousand (31 December 2020: EUR 185,430 thousand).

As a result of the above transactions, in 2021 reversal of impairment in the amount of EUR 36,724 thousand for Latvenergo AS CHPPs (2020: additional impairment EUR 7,502 thousand). The recognised reversal of impairment is included in the Statement of Profit or Loss position 'Depreciation, amortisation and impairment of intangible assets, PPE and right-of-use assets. The accumulated impairment as of 31 December 2021 amounted to EUR 205 411 thousand (31/12/2020: EUR 242,136 thousand).

To ensure the carrying value is in line with recognised impairment, the future cash flows expected to be derived from the operation of Latvenergo AS CHPPs were evaluated. Forecasted period is 2022-2028 and the terminal value appraisal as of end of 2028, evaluated as a sum of land value, backup fuel reserves of diesel, and the future value of heat water boilers, is included. Revenue stream forecast includes the income from electricity and heat generation, as well as the remaining intensity of electrical capacity payments and the support period for CHPP-2 till September 23, 2028, as it is set out in regulations by Cabinet of Ministers of the Republic of Latvia No. 561, dated 2 September 2020. The market prices of electricity, natural gas and emission allowances were forecasted by relying on the most recent third-party expert's estimates. The forecast of expenses is based on historical data, the budget approved by the management for 2022, the service maintenance agreements and assumed long-term inflation forecasted at 2%. Nominal pre–tax discount rate used to determine value in use of cash–generating unit by discounting cash flows is 7.5% (2020: 7.5%). As a result of calculation, the future discounted cash flows generated by Latvenergo AS CHPPs are evaluated as EUR 26 527 thousand (2020: nil). The rise in the assets of Latvenergo AS CHPPs is mainly attributable to including the profit from the electricity generation in the future cash flows. The operation of Latvenergo AS CHPPs plants can be flexibly adjusted to the electricity market conditions and guarantees a significant baseload electricity capacity for Latvia. CHPPs can cover Latvian electricity consumption almost completely in circumstances where, due to certain factors, electricity imports from foreign countries are limited.

As of 31 December 2021, the Group and the Parent Company has performed a sensitivity analysis of the fair value test of Latvenergo AS CHPPs to changes in inputs:

EUR'000

	Discount rate		Electricity price*		Natural gas price*		Inflation rate	
	1% increase	1% decrease	10% increase	10% decrease	10% increase	10% decrease	1% increase	1% decrease
Possible changes of CHPPs assets value	(1,800)	2,000	37,200	(38,800)	(23,700)	23,200	(4,900)	4,800

*Natural gas and electricity commodity costs are historically closely correlated

II) Sadales tīkls AS distribution system assets

Impairment review performed for electricity distribution system assets in accordance with IFRS and based on value in use calculations and there is no additional impairment loss recognised in 2021 (2020: no impairment loss recognised). The cash–generating unit is defined as the distribution system assets. Nominal pre–tax discount rate used to determine value in use of cash–generating units by discounting pre-tax cash flows is 4.37% (2020: 4.40%) as included in the electricity distribution system service tariff calculation methodology. Performance of impairment review also considered pricing forecast for major revenue streams, which are contingent on regulatory pre–approvals, and assumptions related to capital investment plans. The model applies an average revenue growth rate 1.8% per year (2020: 1.6%).

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

Latvenergo

Right–of–use assets

EUR'000

	Group	Parent Company
As of 31 December 2019		
Cost	6,745	3,873
Accumulated amortisation	(1,223)	(397)
Net book amount	**5,522**	**3,476**
Year ended 31 December 2020		
Recognised changes in lease agreements	4,178	1,746
Depreciation	(1,447)	(736)
Closing net book amount as of 31 December 2020	**8,253**	**4,486**
As of 31 December 2020		
Cost	10,970	5,619
Accumulated amortisation	(2,717)	(1,133)
Net book amount	**8,253**	**4,486**
Year ended 31 December 2021		
Recognised changes in lease agreements	1,925	1,723
Depreciation	(1,866)	(1,066)
Closing net book amount as of 31 December 2021	**8,312**	**5,143**
As of 31 December 2021		
Cost	12,871	7,342
Accumulated amortisation	(4,559)	(2,199)
Net book amount	**8,312**	**5,143**

Lease liabilities

EUR'000

	Notes	Group	Parent Company
As of 31 December 2019		**5,565**	**3,502**
Of which are:			
- Non–current		4,349	3,126
- Current		1,216	376
Year ended 31 December 2020			
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
Year ended 31 December 2021			
Recognised changes in lease agreements		1,906	1,725
Decrease of lease liabilities		(1,960)	(1,122)
Recognised interest liabilities		138	83
As of 31 December 2021		**8,428**	**5,226**
Of which are			
- Non–current		6,540	4,085
- Current		1,888	1,141

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	
	2021	2020	2021	2020
Depreciation for the right-of-use assets (land buildings and facilities)	1,866	1,447	1,066	736
Interest expense on lease liabilities (included in finance costs)	138	131	83	69
Short–term lease expenses	84	201	54	137
TOTAL expenses from leases	**2,088**	**1,779**	**1,203**	**942**

In the Statement of Cash Flows for the year ended 31 December 2021, lease payments of the Group in amount of EUR 400 thousand (the Parent Company: EUR 525 thousand) have been made by non–cash offsetting and included in cash flows from operating activities in working capital adjustments (2020: the Group in amount of EUR 400 thousand and the Parent Company in amount of EUR 632 thousand). Other lease payments of the Group in amount of EUR 1,276 thousand (the Parent Company: EUR 295 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) (2020: the Group EUR 1,111 thousand and the Parent Company EUR 169 thousand).

c) Income from leases

EUR'000

	Notes	Group		Parent Company	
		2021	2020	2021	2020
Income from leases (the Group and the Parent Company is the lessor)	6	1,999	1,639	3,410	3,921

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	
	2021	2020	2021	2020
< 1 year	1,973	1,271	3,410	3,921
1–5 years	2,203	3,920	2,402	4,379
> 5 years	1,602	1,602	1,602	1,602
TOTAL rental income	**5,778**	**6,793**	**7,414**	**9,902**

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	31/12/2021 Interest held, %	31/12/2021 EUR'000	31/12/2020 Interest held, %	31/12/2020 EUR'000
Investments in subsidiaries:						
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**		**645,179**
Other non–current financial investments:						
Pirmais Slēgtais Pensiju Fonds AS	Latvia	Management of pension plans	46.30%	36	46.30%	36
Rīgas siltums AS	Latvia	Thermal energy generation and trade, electricity generation	0.0051%	3	0.0051%	3
TOTAL				**39**		**39**

The Group's non–current financial investments

Name of the company	Country of incorporation	Business activity held	31/12/2021 Interest held, %	31/12/2021 EUR'000	31/12/2020 Interest held, %	31/12/2020 EUR'000
Other non–current financial investments						
Pirmais Slēgtais Pensiju Fonds AS	Latvia	Management of pension plans	48.15%	37	48.15%	37
Rīgas siltums AS	Latvia	Thermal energy generation and trade, electricity generation	0.0051%	3	0.0051%	3
TOTAL				**40**		**40**

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

Since 31 December 2020 Enerģijas publiskais tirgotājs SIA and Sadales tīkls AS jointly own one share of Pirmais Slēgtais Pensiju Fonds AS with nominal value in the amount of EUR 1,422 (1.85% interest held in share capital) and consequently, each entity owns 1/2 of the notional shares in the amount of EUR 711 per share.

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 system in the amount of EUR 35,300 thousand and its related liabilities (borrowings) in the amount of EUR 35,000 thousand.

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 2021	Group 2020	Parent Company 2021	Parent Company 2020
At the beginning of the year	**40**	**39**	**645,218**	**831,350**
Invested in share capital	–	–	–	300
Disposal of investment in Latvijas elektriskie tīkli AS	–	–	–	(186,432)
Discontinued operation	–	1	–	–
At the end of the year	**40**	**40**	**645,218**	**645,218**

Summarised financial information for subsidiaries

EUR'000

Subsidiaries	Equity 31/12/2021	Equity 31/12/2020	Net profit / (loss) for the year 2021	Net profit / (loss) for the year 2020	Dividends from subsidiaries* 2021	Dividends from subsidiaries* 2020	Carrying amount of interest from investment 31/12/2021	Carrying amount of interest from investment 31/12/2020
Latvijas elektriskie tīkli AS	–	–	–	2,249	–	9,742	–	–
Sadales tīkls AS	1,001,041	1,011,688	10,429	22,050	22,050	29,317	641,450	641,450
Enerģijas publiskais tirgotājs AS	40	40	–	–	–	–	40	40
Elektrum Eesti OÜ	828	911	156	239	239	288	35	35
Elektrum Lietuva, UAB	(202)	455	(580)	77	77	504	98	98
Liepājas enerģija SIA	13,193	16,918	1,393	3,555	2,612	1,892	3,556	3,556
	1,014,900	**1,030,012**	**11,398**	**28,170**	**24,978**	**41,743**	**645,179**	**645,179**

* in 2021 dividends from subsidiaries received in cash in the amount of EUR 2,928 thousand and with non–cash offset in the amount of EUR 22,050 thousand (2020: EUR 12,426 thousand received in cash and with non–cash offset in the amount of EUR 29,317 thousand)

Summarised financial information for non-controlling interests

EUR'000

Non-controlling interest of subsidiaries	Non-current assets 31/12/2021	Non-current assets 31/12/2020	Current assets 31/12/2021	Current assets 31/12/2020	Non-current liabilities 31/12/2021	Non-current liabilities 31/12/2020	Current liabilities 31/12/2021	Current liabilities 31/12/2020
Liepājas enerģija SIA (49%)	14,904	15,568	2,963	2,084	8,061	7,118	3,342	2,244

The Parent Company's subsidiary's Elektrum Eesti OÜ participating interest in subsidiaries

As of 31 December 2021, subsidiary Elektrum Eesti OÜ had investments with the 100% interest held in the subsidiaries Energiaturu Võrguehitus OÜ, SNL Energia 1 OÜ, Baltic Energy System OÜ and Elektrum Latvija SIA in the amount of EUR 4,754 thousand (31/12/2020: EUR 3 thousand).

Business combinations and acquisition of ownership interests

On 26 August 2021 the Parent Company's subsidiary Elektrum Eesti OÜ acquired 90% of ownership interest in Energiaturu Võrguehitus OÜ (10% shares of Energiaturu Võrguehitus OÜ are held by SNL Energia 1 OÜ, therefore total participation interest by the Group is 100%), 100% in SNL Energia 1 OÜ and 100% in Baltic Energy System OÜ. All of acquired companies specialised in provision of microgrid electricity services in Estonia, thus significantly increased Latvenergo Group's competitiveness in the Estonian electricity and related products and services market. Business combinations are accounted for by applying the acquisition method.

Summarised financial information for Elektrum Eesti OÜ interests

EUR'000

	Assets 31/12/2021	Assets 31/12/2020	Equity 31/12/2021	Equity 31/12/2020	Net profit (Consolidated result after acquisition) 2021	Net profit (Consolidated result after acquisition) 2020
Total Elektrum Eesti OÜ interests	7,510	2	2,408	2	188	–

17. Inventories

Accounting policy

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

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

Existence of inventories as of the end of reporting period is verified during stock–taking.

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

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

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

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

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

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EUR'000

	Group		Parent Company	
	31/12/2021	31/12/2020	31/12/2021	31/12/2020
Raw materials and materials	17,978	17,224	847	824
Natural gas	115,462	41,621	115,461	41,620
Goods for sale	3,896	2,508	754	549
Other inventories	8,121	8,203	8,059	8,060
Prepayments for natural gas and other inventories	47,786	189	46,901	25
Allowance for raw materials and other inventories	(1,110)	(991)	(735)	(607)
TOTAL inventories	**192,132**	**68,754**	**171,287**	**50,471**

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	
	2021	2020	2021	2020
At the beginning of the year	**991**	**1,287**	**607**	**674**
Charged / (credited) to the Statement of Profit or Loss	119	(296)	128	(67)
At the end of the year	**1,110**	**991**	**735**	**607**

18. Receivables from contracts with customers and other receivables

Accounting policy

Receivables from contracts with customers and other receivables are classified in groups:
a) Energy (electricity and natural gas) and related services sales, including distribution system services,
b) Heating sales,
c) Other sales (IT & telecommunication services, connection service fees and other services),
d) Receivables from subsidiaries,
e) Other financial receivables

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

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

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

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

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

EUR'000

	Group		Parent Company	
	31/12/2021	31/12/2020	31/12/2021	31/12/2020
Individually assessed receivables with lifetime ECL assessment (counterparty model)	37,995	2,775	16,837	6,257
Receivables with lifetime ECL assessment by simplified approach (portfolio model)	143,141	105,403	93,801	69,599
TOTAL receivables from contracts with customers	**181,136**	**108,178**	**110,638**	**75,856**

a) Receivables from contracts with customers, net

EUR'000

	Group		Parent Company	
	31/12/2021	31/12/2020	31/12/2021	31/12/2020
Receivables from contracts with customers:				
- Electricity, natural gas trade and related services customers (portfolio model)	133,497	136,647	87,828	102,120
- Electricity and related services customers (counterparty model)	22,493	–	–	–
- Heating customers (portfolio model)	21,233	9,463	18,807	7,386
- Other receivables from contracts with customers (portfolio model)	5,384	3,557	1,150	1,093
- Other receivables from contracts with customers (counterparty model)	15,557	2,780	12,792	1,480
- Subsidiaries (counterparty model)	–	–	4,070	4,782
	198,164	**152,447**	**124,647**	**116,861**
Allowances for expected credit loss from contracts with customers:				
- Electricity, natural gas trade and related services customers (portfolio model)	(14,748)	(41,761)	(13,621)	(40,672)
- Electricity and related services customers (counterparty model)	(28)	–	–	–
- Heating customers (portfolio model)	(361)	(328)	(343)	(315)
- Other receivables from contracts with customers (portfolio model)	(1,864)	(2,175)	(20)	(13)
- Other receivables from contracts with customers (counterparty model)	(27)	(5)	(22)	(2)
- Subsidiaries (counterparty model)	–	–	(3)	(3)
	(17,028)	**(44,269)**	**(14,009)**	**(41,005)**
Receivables from contracts with customers, net:				
- Electricity, natural gas trade and related services customers (portfolio model)	118,749	94,886	74,207	61,448
- Electricity and related services customers (counterparty model)	22,465	–	–	–
- Heating customers (portfolio model)	20,872	9,135	18,464	7,071
- Other receivables from contracts with customers (portfolio model)	3,520	1,382	1,130	1,080
- Other receivables from contracts with customers (counterparty model)	15,530	2,775	12,770	1,478
- Subsidiaries (counterparty model)	–	–	4,067	4,779
	181,136	**108,178**	**110,638**	**75,856**

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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

		Group						Parent Company					
		31/12/2021			31/12/2020			31/12/2021			31/12/2020		
Late payment delay in days	ECL rate	Receivables	Allowances for ECL	Net	Receivables	Allowances for ECL	Net	Receivables	Allowances for ECL	Net	Receivables	Allowances for ECL	Net
On time	0.20%	139,516	(301)	**139,215**	102,220	(220)	**102,000**	91,096	(209)	**90,887**	67,146	(148)	**66,998**
Less than 30 days	3%	2,530	(76)	**2,454**	1,923	(58)	**1,865**	1,759	(53)	**1,706**	1,251	(38)	**1,213**
Past due 30 - 59 days	20%	901	(179)	**722**	1,070	(214)	**856**	711	(142)	**569**	990	(198)	**792**
Past due 60 - 89 days	50%	281	(138)	**143**	422	(211)	**211**	240	(120)	**120**	391	(195)	**196**
Past due 90 - 179 days	60%	428	(252)	**176**	572	(343)	**229**	296	(177)	**119**	508	(305)	**203**
Past due 180 - 359 days	75%	721	(541)	**180**	970	(728)	**242**	597	(448)	**149**	789	(592)	**197**
Past due more than 360 days	100%	11,758	(11,758)	**–**	15,997	(15,997)	**–**	9,530	(9,530)	**–**	13,480	(13,480)	**–**
Individually assessed	90%	2,508	(2,257)	**251**	–	–	**–**	2,508	(2,257)	**251**	–	–	**–**
Insolvent debtors*	100%	1,471	(1,471)	**–**	26,493	(26,493)	**–**	1,048	(1,048)	**–**	26,044	(26,044)	**–**
TOTAL		**160,114**	**(16,973)**	**143,141**	**149,667**	**(44,264)**	**105,403**	**107,785**	**(13,984)**	**93,801**	**110,599**	**(41,000)**	**69,599**

* 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

		Group		Parent Company	
	Notes	31/12/2021	31/12/2020	31/12/2021	31/12/2020
Receivables of electricity and related services customers		22,493	–	–	–
Allowances for expected credit loss on receivables of electricity and related services customers		(28)	–	–	–
Other receivables from contracts with customers		15,557	2,780	12,792	1,480
Allowances for expected credit loss on other receivables from contracts with customers		(27)	(5)	(22)	(2)
Receivables from subsidiaries	29 b	–	–	3,787	4,170
Accrued income from subsidiaries	29 c	–	–	283	612
Allowances for expected credit loss on subsidiaries receivables	29 b	–	–	(3)	(3)
TOTAL		**37,995**	**2,775**	**16,837**	**6,257**

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 2021 amounted to EUR 18,455 thousand (31/12/2020: EUR 7,077 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	
	2021	2020	2021	2020
At the beginning of the year	**44,269**	**46,737**	**41,005**	**43,521**
Receivables written off during the year as uncollectible	(30,094)	(3,681)	(29,679)	(3,252)
Allowances for expected credit losses	2,853	1,213	2,683	736
At the end of the year	**17,028**	**44,269**	**14,009**	**41,005**

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

EUR'000

		Group		Parent Company	
	Level of SICR	31/12/2021	31/12/2020	31/12/2021	31/12/2020
Current financial receivables:					
Unsettled revenue on mandatory procurement PSO fee recognised as assets*	Stage 1	36,588	77,273	–	–
Receivables for lease	Stage 1	16	32	14	26
	Stage 3	2	16	1	7
Other current financial receivables	Stage 1	20,448	6,641	20,124	5,054
	Stage 3	2,027	1,728	1,583	1,331
Other accrued income	Stage 1	–	874	–	874
Allowances for expected credit loss	Stage 1	(140)	(164)	(114)	(116)
	Stage 3	(1,443)	(1,536)	(1,133)	(1,215)
Receivables for lease from subsidiaries (Note 29 b)	Stage 1	–	–	21	73
Other financial receivables from subsidiaries (Note 29 b)	Stage 1	–	–	21,196	21,460
Other accrued income from subsidiaries (Note 29 c)	Stage 1	–	–	1,534	1,850
Allowances for expected credit loss on subsidiaries receivables (Note 29 b)	Stage 1	–	–	(14)	(16)
TOTAL current financial receivables		**57,498**	**84,864**	**43,212**	**29,328**
TOTAL other financial receivables		**57,498**	**84,864**	**43,212**	**29,328**

* 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

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As of 31 December 2021 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 2021 amounted to EUR 20,047 thousand (31/12/2020: EUR 2,348 thousand) and the Group's receivable from State of guaranteed fee for the installed electrical capacity of cogeneration power plants and unsettled revenue on mandatory procurement PSO fee recognised as assets – EUR 36,588 thousand (31/12/2020: EUR 77,273 thousand). Loss allowance for other financial receivables assessed individually and based on counterparty's model (Note 4).

c) Other non-financial receivables

EUR'000

	Group		Parent Company	
	31/12/2021	31/12/2020	31/12/2021	31/12/2020
Non–current non–financial receivables	2,544	429	441	417
Current non–financial receivables	2,242	226	2,190	212
TOTAL non–financial receivables	**4,786**	**881**	**2,631**	**699**

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

19. Cash and cash equivalents

Accounting policy

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

EUR'000

	Group		Parent Company	
	31/12/2021	31/12/2020	31/12/2021	31/12/2020
Cash at bank	97,079	100,703	92,418	98,261
TOTAL cash and cash equivalents	**97,079**	**100,703**	**92,418**	**98,261**

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

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

20. Share capital

As of 31 December 2021, the registered share capital of the Latvenergo AS is EUR 790,368 thousand (31/12/2020: EUR 790,348 thousand) and consists of 790,368 thousand ordinary shares (31/12/2020: 790,348 thousand) with the nominal value of EUR 1 per share (31/12/2020: EUR 1 per share). All shares have been fully paid.

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

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.

21. Reserves, dividends and earnings per share

a) Reserves

EUR'000

		Group							Parent Company			
	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 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**
Disposal of non–current assets revaluation reserve	14 a	(13,329)	–	–	–	(13,329)	–	**(13,329)**	(3,724)	–	–	**(3,724)**
Gains on re–measurement of defined post–employment benefit plan	27 a, 30	–	–	1,098	–	1,098	–	**1,098**	–	–	121	**121**
Gains from fair value changes of derivative financial instruments	24	–	33,219	–	–	33,219	–	**33,219**	–	33,219	–	**33,219**
As of 31 December 2021		**1,157,825**	**19,218**	**(1,798)**	**110**	**1,175,355**	**–**	**1,175,355**	**778,049**	**19,218**	**(1,536)**	**795,731**

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 2021 the dividends declared and paid to equity holders of the Parent Company for 2020 were EUR 98,246 thousand or EUR 0.12431 per share (in 2020 for 2019: EUR 127,071 thousand or EUR 0.16003 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	
	2021	**2020**	**2021**	**2020**
Profit attributable to the equity holder of the Parent Company (in thousand EUR)	70,675	114,513	79,520	154,848
Weighted average number of shares (thousand)	790,360	794,059	790,360	794,059
Basic earnings per share (in euros)	0.089	0.144	0.101	0.195
Diluted earnings per share (in euros)	0.089	0.144	0.101	0.195

22. Other financial investments

Carrying (amortised cost) amount of other financial investments

EUR'000

	Group		Parent Company	
	31/12/2021	31/12/2020	31/12/2021	31/12/2020
Financial investments in Latvian State Treasury bonds:				
- non–current	–	2,693	–	2,693
- current	–	14,143	–	14,143
TOTAL other financial investments	**–**	**16,836**	**–**	**16,836**

As at the reporting date not the Group nor the Parent Company have any other financial investments.

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 2021 in connection with the amortisation of other financial investments net losses amounted to nil (2020: EUR 50 thousand) (Note 11) are recognised from changes in the value of the purchased bonds.

23. Borrowings

EUR'000

	Group		Parent Company	
	31/12/2021	31/12/2020	31/12/2021	31/12/2020
Non-current portion of non-current borrowings from financial institutions	564,209	533,898	553,862	526,229
Non-current portion of issued debt securities (bonds)	49,866	100,179	49,866	100,179
Total non-current borrowings	**614,075**	**634,077**	**603,728**	**626,408**
Current portion of non-current borrowings from financial institutions	79,186	107,428	76,866	105,330
Current portion of issued debt securities (bonds)	100,055	–	100,055	–
Accrued interest on non-current borrowings from financial institutions	495	617	455	577
Accrued coupon interest on issued debt securities (bonds)	1,218	1,077	1,218	1,077
Total current borrowings	**180,954**	**109,122**	**178,594**	**106,984**
TOTAL borrowings	**795,029**	**743,199**	**782,322**	**733,392**

Movement in borrowings

EUR'000

	Group		Parent Company	
	2021	2020	2021	2020
At the beginning of the year	**743,199**	**882,671**	**733,392**	**872,899**
Received borrowings from financial institutions	79,997	39,500	75,000	35,000
Repaid borrowings from financial institutions	(77,928)	(143,176)	(75,830)	(138,692)
Proceeds from issued debt securities (bonds)	50,000	–	50,000	–
Repayment of issued debt securities (bonds)	–	(35,000)	–	(35,000)
Change in accrued interest on borrowings from financial institutions	19	(703)	20	(722)
Changes in outstanding value of issued debt securities (bonds)	(258)	(93)	(258)	(93)
At the end of the year	**795,029**	**743,199**	**782,322**	**733,392**

Borrowings by categories of lenders

EUR'000

	Group		Parent Company	
	31/12/2021	31/12/2020	31/12/2021	31/12/2020
International Financial Institutions	286,304	334,506	286,304	334,506
Commercial banks	357,586	307,437	344,879	297,630
Issued debt securities (bonds)	151,139	101,256	151,139	101,256
TOTAL borrowings	**795,029**	**743,199**	**782,322**	**733,392**

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

EUR'000

	Group		Parent Company	
	31/12/2021	31/12/2020	31/12/2021	31/12/2020
Fixed rate non–current and current borrowings:				
- < 1 year (current portion of non–current borrowings)	101,273	1,077	101,273	1,077
- 1–5 years	–	100,179	–	100,179
- > 5 years	49,866	–	49,866	–
Total fixed rate borrowings	**151,139**	**101,256**	**151,139**	**101,256**
Floating rate non–current and current borrowings:				
- < 1 year (current borrowings)	–	–	–	–
- < 1 year (current portion of non–current borrowings)	79,660	108,169	77,300	106,031
- 1–5 years	413,279	367,474	405,750	362,162
- > 5 years	150,951	166,300	148,133	163,943
Total floating rate borrowings	**643,891**	**641,943**	**631,183**	**632,136**
TOTAL borrowings	**795,029**	**743,199**	**782,322**	**733,392**

Borrowings by repricing of interest, including the impact of derivative instruments

EUR'000

	Group		Parent Company	
	31/12/2021	31/12/2020	31/12/2021	31/12/2020
- < 1 year	600,401	461,003	587,695	451,196
- 1–5 years	69,762	182,196	69,762	182,196
- > 5 years	124,866	100,000	124,865	100,000
TOTAL borrowings	**795,029**	**743,199**	**782,322**	**733,392**

As of 31 December 2021 and as of 31 December 2020 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 2021 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 (31/12/2020: EUR 29 million) to secure its current and non–current borrowings. As of the end of the reporting year there has been pledged the property, plant and equipment in the net book amount of EUR 26 million and the claims on the receivable's accounts in the amount of EUR 3 million (31/12/2020: EUR 23 million and EUR 3 million, respectively).

II) Un–drawn borrowing facilities

As of 31 December 2021, the un–drawn committed non–current credit facilities amount to EUR 35 million (31/12/2000: EUR 35 million).

As of 31 December 2021, the Group had entered into two overdraft agreements with total notional amount of EUR 63 million (31/12/2020: five overdraft agreements of EUR 128 million) of which one overdraft agreements were entered by the Parent Company with total notional amount of EUR 60 million (31/12/2020: four overdraft agreements of EUR 125 million). In respect of all the overdraft agreements all conditions precedent have been met. At the end of the reporting year EUR 2,997 thousand of credit lines were used; no credit line was used by the Parent Company.

III) Weighted average effective interest rate

During the reporting year the weighted average effective interest rate (including interest rate swaps) on non–current borrowings was 1.18% (2020: 1.38%), weighted average effective interest rate for current borrowings was 0.67% (2020: 0.77%). As of 31 December 2021 interest rates for non–current borrowings in euros were 6 months EURIBOR + 0.72% (31/12/2020: + 0.94%) for the Group and 6 months EURIBOR+ 0.72% (31/12/2020: + 0.93%) for Latvenergo AS. As of 31 December 2021, the total notional amount of interest rate swap agreements concluded by the Group amounted to EUR 169.0 million (31/12/2020: EUR 193.8 million) and the interest rate was fixed for the initial periods from 7 to 10 years.

IV) Issued and outstanding debt securities (bonds)

In 2015 and in 2016 the Parent Company (Latvenergo AS) issued green bonds in the total amount of EUR 100 million with the maturity date 10 June 2022 (ISIN code – LV0000801777) with the annual coupon rate of 1.9%. In 2021 Latvenergo AS issued green bonds in the total amount of EUR 50 million with the maturity date 17 May 2028 (ISIN code – LV0000802460) with the annual coupon rate of 0.5%. The total nominal amount of outstanding bonds as of 31 December 2021 was EUR 150 million (31/12/2020: EUR 100 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 2021, the fair value of issued debt securities (bonds) exceeds their carrying amount by EUR 545 thousand (31/12/2020: EUR 2.5 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 hold 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, is recognised immediately in the Statement of Profit or Loss.

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

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

I) Outstanding fair values of derivatives and their classification

EUR'000

		Group				Parent Company			
		31/12/2021		31/12/2020		31/12/2021		31/12/2020	
	Notes	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Interest rate swaps	24 II	–	(4,312)	–	(9,504)	–	(4,312)	–	(9,504)
Energy forwards, futures, and swaps	24 III	25,735	(14,208)	1,557	(4,993)	25,466	(14,208)	1,557	(4,993)
Currency exchange forwards	24 IV	–	–	–	(7)	–	–	–	(7)
Total outstanding fair values of derivatives		**25,735**	**(18,520)**	**1,557**	**(14,504)**	**25,466**	**(18,520)**	**1,557**	**(14,504)**

EUR'000

	Group				Parent Company			
	31/12/2021		31/12/2020		31/12/2021		31/12/2020	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Non–current	–	(2,332)	291	(9,672)	–	(2,332)	291	(9,672)
Current	25,735	(16,188)	1,266	(4,832)	25,466	(16,188)	1,266	(4,832)
TOTAL fair values of derivative financial instruments	**25,735**	**(18,520)**	**1,557**	**(14,504)**	**25,466**	**(18,520)**	**1,557**	**(14,504)**

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

EUR'000

		Group		Parent Company	
	Notes	2021	2020	2021	2020
Included in the Statement of Profit or Loss	**8**				
Interest rate swaps	9	316	–	316	–
Energy forwards, futures, and swaps	8	(13,373)	1,242	(13,642)	1,242
		(13,057)	**1,242**	**(13,326)**	**1,242**
Included in the other comprehensive income	**21 a**				
Interest rate swaps	24 II	4,876	(288)	4,876	(288)
Energy forwards, futures, and swaps	24 III	28,336	(7,479)	28,336	(7,479)
Currency exchange forwards	24 IV	7	(7)	7	(7)
		33,219	**(7,774)**	**33,219**	**(7,774)**
Total loss on fair value changes		**20,162**	**(6,532)**	**19,893**	**(6,532)**

II) Interest rate swaps

As of 31 December 2021, the Group and the Parent Company had interest rate swap agreements with total notional amount of EUR 169 million (31/12/2020: EUR 193.8 million). Interest rate swaps are concluded with 7–to–10–year initial maturities and hedged floating rates are 6 months EURIBOR. As of 31 December 2021, fixed interest rates vary from 0.087% to 1.979% (31/12/2020: from 0.087% to 2.41%).

As at the end of the year all the outstanding interest rate swap agreements with total notional amount of EUR 169 million were eligible for hedge accounting and were assessed prospectively and retrospectively to test whether they are effective within the hedging period (31/12/2020: 100% with notional amount of EUR 193.8 million). All contracts are designed as cash flow hedges. During the prospective and retrospective testing, an ineffective portion of some transactions has been identified and recognised in the Statement of Profit or Loss.

Fair value changes of interest rate swaps

EUR'000

	Group				Parent Company			
	2021		2020		2021		2020	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Outstanding fair value at the beginning of the year	**–**	**(9,504)**	**–**	**(9,216)**	**–**	**(9,504)**	**–**	**(9,216)**
Included in Statement of Profit or Loss	–	316	–	–	–	316	–	–
Included in other comprehensive Income	–	4,876	–	(288)	–	4,876	–	(288)
Outstanding fair value at the end of the year	**–**	**(4,312)**	**–**	**(9,504)**	**–**	**(4,312)**	**–**	**(9,504)**

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 2021, 37% (31/12/2020: 38%) of the Group's and 38% (31/12/2020: 39%) of the Parent Company's borrowings had fixed interest rates (considering the effect from the interest rate swaps), and average remaining time to interest re–pricing was 1.5 years (2020: 1.6 years) for the Group and the Parent Company.

III) Energy forwards, futures, and swaps

As of 31 December 2021, the Group have entered into 44 electricity forward and future contracts (31/12/2020: 101 contracts) with total outstanding electricity purchase volume of 899,324 MWh (31/12/2020: 358,873 MWh) and notional value of EUR 63 million (31/12/2020: EUR 8 million). As of 31 December 2021, the Parent Company have entered into 38 electricity forward and future contracts (31/12/2020: 101 contracts) with total outstanding electricity purchase volume of 894,708 MWh (31/12/2020: 358,873 MWh) and notional value of EUR 63 million (31/12/2020: EUR 8 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 2022 to 31 December 2023. As of 31 December 2021 the Group and the Parent Company have entered into 37 natural gas price swap contracts (31/12/2020: 30 contracts) with total outstanding natural gas purchase volume of 3,067,000 MWh (31/12/2020: 3,390,000 MWh) and notional value of EUR 121 million (31/12/2020: EUR 57 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 2022 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. 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.

Electricity forward and future contracts with total outstanding volume of 288,212 MWh as of 31 December 2021 (31/12/2020: 283,578 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. 23 natural gas swap contracts with total outstanding volume of 1,387,000 MWh as of 31 December 2021 are designated to comply with hedge accounting treatment (31/12/2020: 16 contracts of 2,370,000 MWh) and were reassessed prospectively and retrospectively to test whether they are effective within the hedging period.

Fair value changes of electricity forward and future contracts

EUR'000

		Group				Parent Company			
		2021		2020		2021		2020	
	Notes	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Outstanding fair value at the beginning of the year		**1,557**	**(4,993)**	**6,717**	**(3,916)**	**1,557**	**(4,993)**	**6,717**	**(3,916)**
Included in the Statement of Profit or Loss	8	(785)	(12,588)	(978)	2,220	(1,054)	(12,588)	(978)	2,220
Included in other comprehensive income		24,963	3,373	(4,182)	(3,297)	24,963	3,373	(4,182)	(3,297)
Outstanding fair value at the end of the year		**25,735**	**(14,208)**	**1,557**	**(4,993)**	**25,466**	**(14,208)**	**1,557**	**(4,993)**

IV) Currency exchange forwards

As of 31 December 2021 the Group and the Parent Company have not entered in any currency exchange forwards. The (31/12/2020: two EUR/USD currency exchange forward contract with notional principal amount of the outstanding USD 0.932 million).

Fair value changes of forward currencies exchange contracts

EUR'000

	Group				Parent Company			
	2021		2020		2021		2020	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Outstanding fair value at the beginning of the year	**–**	**(7)**	**–**	**–**	**–**	**(7)**	**–**	**–**
Included in other comprehensive income	–	7	–	(7)	–	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.

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

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

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

EUR'000

		Group				Parent Company			
		Fair value measurement using				Fair value measurement using			
Type of assets	Notes	**Quoted prices in active markets (Level 1)**	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**TOTAL**	**Quoted prices in active markets (Level 1)**	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**TOTAL**
As of 31 December 2021									
Assets measured at fair value									
Revalued property, plant and equipment	14 c	–	–	2,407,773	**2,407,773**	–	–	776,350	**776,350**
Non-current financial investments	16	–	–	40	**40**	–	–	39	**39**
Derivative financial instruments, including:									
Energy forwards, futures, and swaps	24	–	25,735	–	**25,735**	–	25,466	–	**25,466**
Assets for which fair values are disclosed									
Investment properties	14 b	–	–	3,316	**3,316**	–	–	3,602	**3,602**
Loans to related parties:									
- Floating rate loans	29 e	–	–	–	**–**	–	172,313	–	**172,313**
- Fixed rate loans	29 e	–	–	–	**–**	–	534,065	–	**534,065**
Current financial receivables	18 a, b	–	–	238,634	**238,634**	–	–	153,850	**153,850**
Cash and cash equivalents	19	–	97,079	–	**97,079**	–	92,418	–	**92,418**
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**
Derivative financial instruments, including:									
Energy forwards, futures and swaps	24	–	1,557	–	**1,557**	–	1,557	–	**1,557**
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**
Loans to related parties:									
- Floating rate loans	29 e	–	–	–	**–**	–	131,133	–	**131,133**
- Fixed rate loans	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**

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

		Group				Parent Company			
		Fair value measurement using				Fair value measurement using			
Type of liability	Notes	**Quoted prices in active markets (Level 1)**	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**TOTAL**	**Quoted prices in active markets (Level 1)**	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**TOTAL**
As of 31 December 2021									
Liabilities measured at fair value									
Derivative financial instruments, including:									
Interest rate swaps	24	–	4,312	–	**4,312**	–	4,312	–	**4 ,312**
Energy forwards, futures, and swaps	24	–	14,208	–	**14,208**	–	14,208	–	**14,208**
Liabilities for which fair values are disclosed									
Issued debt securities (bonds)	23	–	151,139	–	**151,139**	–	151,139	–	**151,139**
Borrowings from financial institutions	23	–	643,890	–	**643,890**	–	631,183	–	**631,183**
Trade and other financial current payables	26	–	–	163,946	**163,946**	–	–	166,516	**166,516**
As of 31 December 2020									
Liabilities measured at fair value									
Derivative financial instruments, including:									
Interest rate swaps	24	–	9,504	–	**9,504**	–	9,504	–	**9,504**
Energy forwards, futures, and swaps	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 from financial institutions	23	–	641,943	–	**641,943**	–	632,136	–	**632,136**
Trade and other financial current payables	26	–	–	76,429	**76,429**	–	–	51,664	**51,664**

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:

EUR'000

	Group				Parent Company			
	Carrying amount		Fair value		Carrying amount		Fair value	
	31/12/2021	**31/12/2020**	**31/12/2021**	**31/12/2020**	**31/12/2021**	**31/12/2020**	**31/12/2021**	**31/12/2020**
Financial assets								
Fixed rate loans to related parties	–	86,620	–	89,409	534,065	611,096	545,297	641,936
Other financial investments	–	16,836	–	18,031	–	16,836	–	18,031
Financial liabilities								
Issued debt securities (bonds)	151,139	101,256	151,683	103,762	151,139	101,256	151,683	103,762

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

26. Trade and other payables

EUR'000

	Notes	Group 31/12/2021	Group 31/12/2020	Parent Company 31/12/2021	Parent Company 31/12/2020
Financial liabilities:					
Payables for materials and services		60,945	38,101	29,672	14,783
Payables for electricity and natural gas		78,053	16,178	57,297	385
Payables to related parties	29 b	10,969	8,324	30,541	26,761
Accrued expenses		10,889	12,085	5,832	6,132
Accrued expenses from related partie	29 d	327	–	41,359	2,646
Other financial current payables		2,767	1,741	1,816	957
TOTAL financial liabilities		**163,950**	**76,429**	**166,517**	**51,664**
Non–financial liabilities:					
State social security contributions and other taxes		12,405	13,258	4,095	7,244
Contract liabilities		9,822	8,515	4,289	3,771
Other current payables		2,841	2,710	1,160	1,025
TOTAL non–financial liabilities		**25,068**	**24,483**	**9,544**	**12,040**
TOTAL trade and other current payables		**189,018**	**100,912**	**176,061**	**63,704**

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

27. Provisions

Accounting policy

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

Provisions are presented in the Statement of Financial Position at the best estimate of the expenditure required to settle the present obligation at the end of reporting period. Provisions are used only for expenditures for which the provisions were originally recognised and are reversed if an outflow of resources is no longer probable.

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

EUR'000

	Group 31/12/2021	Group 31/12/2020	Parent Company 31/12/2021	Parent Company 31/12/2020
Non-current:				
- post–employment benefits (recognised in profit or loss)	13,623	12,802	6,040	5,745
- post–employment benefits (recognised in equity)	1,798	2,896	1,367	1,488
- termination benefits	–	957	–	507
- environmental provisions	–	662	–	662
	15,421	**17,317**	**7,407**	**8,402**
Current:				
- termination benefits	311	1,846	133	250
	15,732	**19,163**	**7,540**	**8,652**

a) Provisions for post–employment benefits

Accounting policy

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

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

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

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

EUR'000

	Notes	Group 2021	Group 2020	Parent Company 2021	Parent Company 2020
At the beginning of the year		**15,698**	**15,086**	**7,233**	**7,088**
Current service cost		1,485	1,337	672	617
Interest cost		145	87	67	41
Post–employment benefits paid		(809)	(1,288)	(444)	(521)
Losses as a result of changes in actuarial assumptions	21 a	(1,098)	476	(121)	176
Transfer of Latvenergo AS employees to Sadales tīkls AS		–	–	–	(168)
At the end of the year		**15,421**	**15,698**	**7,407**	**7,233**

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

EUR'000

	Notes	Group 2021	Group 2020	Parent Company 2021	Parent Company 2020
At the beginning of the year		**15,698**	**15,086**	**7,233**	**7,088**
(Credited) / charged to the Statement of Comprehensive Income	21 a	(1,098)	476	(121)	176
Charged to the Statement of Profit or Loss		821	136	295	137
Transfer of Latvenergo AS employees to Sadales tīkls AS		–	–	–	(168)
At the end of the year		**15,421**	**15,698**	**7,407**	**7,233**

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Weighted average discount rate used for discounting benefit obligations was 0.92% (2020: 0.58%), 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% (2020: 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	31/12/2021	1,866	(1,677)	1,966	(1,650)	2,184	(1,807)	830	(744)	874	(732)	972	(801)
	31/12/2020	1,173	(1,728)	2,031	(1,701)	2,250	(1,855)	499	(732)	864	(720)	956	(785)

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

Contributions are monitored on an annual basis and the current agreed contribution rate is 5%. The next valuation is due to be completed as of 31 December 2022.

Expected contributions to post–employment benefit plan for the year ending 31 December 2022 is EUR 5,1million.

The weighted average duration of the defined benefit obligation is 19.80 years (2020 – 19.91 years).

EUR'000

		Group				Parent Company			
		Less than 1 year	From 1 to 5 years	Over 5 years	TOTAL	Less than 1 year	From 1 to 5 years	Over 5 years	TOTAL
Defined benefit obligation	31/12/2021	1,947	2,405	11,069	**15,421**	1,532	1,064	4,811	**7,407**
	31/12/2020	2,059	2,281	11,358	**15,698**	1,508	1,054	4,671	**7,233**

b) Termination benefits

Accounting policy

Termination benefits are measured in accordance with IAS 19 and are payable when employment is terminated by the Group Companies before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group and the Parent Company recognise termination benefits at the earlier of the following dates: (a) when the Group entity can no longer withdraw the offer of those benefits; and (b) when the Group entity recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of terminations benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value. Management judgements related to the measurement of provisions for termination benefits is disclosed in Note 4 d.

Termination benefits paid out are included in the Statement of Profit or Loss position 'Personnel expenses' within expenditure of employment termination (Note 9), while termination benefits and projected future liability values for 2021 to 2022 are recognised as a liability in the Statement of Financial Position and as accrued costs within expenditure of employment termination (Note 9):

EUR'000

	Group		Parent Company	
	2021	2020	2021	2020
At the beginning of the year	**2,803**	**4,375**	**757**	**1,257**
Termination benefits paid	(4,281)	(2,387)	(148)	(289)
Changes in provisions	1,789	815	(476)	(211)
At the end of the year	**311**	**2,803**	**133**	**757**

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 equal average earnings per year, with projected increase (salary indexation) in the year 2022 by 7,9% (2021: 0%), average employee length of service at the time of termination, the State Social Insurance Contributions rate is 23.59% in 2021 and 2022.

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	
	2021	2020	2021	2020
At the beginning of the year	**662**	**661**	**662**	**661**
Charged to the Statement of Profit or Loss	(662)	1	(662)	1
At the end of the year	**–**	**662**	**–**	**662**

The environmental provision for the Group represented 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.

From 1 December till 31 December 2021, in accordance with Regulations of the Cabinet of Ministers No. 50 'Regulations regarding the trade and use of electricity', the government granted support for electricity distribution fee to all end-users in the amount of 50%, which is reimbursed from the state budget. The compensation mechanism for electricity end-users provides for a reduction of the electricity distribution system service fee by 50% of the service fee to the end-user, while not changing the distribution system tariffs.

Public Utilities Commission has not changed distribution system services tariffs and Regulations of the Cabinet of Ministers No. 50 'Regulations regarding the trade and use of electricity' determines that the state support is granted to end users, determining the beneficiaries (customers), the amount of the reduction and the period of the support accordingly. The Group or the Parent Company are not considered to be grant receiver because the service is still provided in full and revenues are recognised as revenue from distribution system services in accordance with IFRS 15 (Note 6).

Grants related to expense items

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

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

Grants related to assets

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

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

EUR'000

		Group		Parent Company	
	Notes	31/12/2021	31/12/2020	31/12/2021	31/12/2020
I) Non-current deferred income					
a) contracts with customers					
From connection fees	6	136,217	138,750	–	–
Other deferred income		802	863	802	863
		137,019	**139,613**	**802**	**863**
b) operating lease					
Other deferred income		342	366	342	366
		342	**366**	**342**	**366**
c) other					
On grant for the installed electrical capacity of CHPPs		137,450	161,440	137,450	161,440
On financing from European Union funds		8,220	8,459	2,114	1,601
Other deferred income		103	148	52	73
		145,773	**170,047**	**139,616**	**163,114**
TOTAL non-current deferred income		**283,134**	**310,026**	**140,760**	**164,343**
II) Current deferred income					
a) contracts with customers					
From connection fees	6	14,794	14,167	–	–
Other deferred income		237	924	67	813
		15,031	**15,091**	**67**	**813**
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		896	782	144	7
Other deferred income		–	7	–	4
		24,886	**24,779**	**24,134**	**24,001**
TOTAL current deferred income		**39,937**	**39,890**	**24,221**	**24,834**
TOTAL deferred income		**323,071**	**349,916**	**164,981**	**189,177**

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.

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

EUR'000

	Notes	Group 2021	Group 2020	Parent Company 2021	Parent Company 2020
At the beginning of the year		**349,916**	**375,984**	**189,177**	**211,268**
Received deferred non–current income (financing)		848	1,441	848	1,441
Received advance payments for contracts with customers	6	–	808	–	808
Received connection fees for connection to distribution system	6	12,556	10,749	–	–
Other deferred income credited to the Statement of Profit or Loss		(24,907)	(24,960)	(24,106)	(24,159)
Deferred income from contracts with customer and operating lease credited to the Statement of Profit or Loss		(15,342)	(14,106)	(938)	(181)
At the end of the year		**323,071**	**349,916**	**164,981**	**189,177**

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

EUR'000

	Group		Parent Company			
	2021	2020	2021		2020	
	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	23,359	9,046	43,646	23,206	54,090	8,484
- Sales of property, plant and equipment	2	–	171	–	1,621	–
- Lease of assets	1,039	16,293	1,483	1,039	2,376	662
- Interest income	1,341	1,169	9,282	1,341	10,651	1,169
TOTAL	**25,741**	**26,508**	**54,582**	**25,586**	**68,738**	**10,315**
Purchases of goods, PPE, and services:						
- Purchases of goods and services	79,188	79,833	346,314	8,362	268,058	6,600
- *including gross expenses from transactions with Sadales tīkls AS recognised in net amount*	–	–	*226,712*	–	*265,853*	–
- Purchases of property, plant and equipment and construction services	2,540	29,517	76	563	13	392
- Lease of assets	676	689	145	296	182	200
TOTAL	**82,404**	**110,039**	**346,535**	**9,221**	**268,253**	**7,192**

* Other related parties included transmission system operator – Augstsprieguma tīkls AS, Latvijas elektriskie tīkli AS (from 10 June 2020 until 25 November 2020), Pirmais Slēgtais Pensiju Fonds AS and other entities controlled by the management members of Latvenergo Group

EUR'000

	Notes	Group 31/12/2021	Group 31/12/2020	Parent Company 31/12/2021	Parent Company 31/12/2020
b) Receivables and payables at the end of the year arising from sales/purchases of goods, PPE, and services:					
Receivables from related parties:					
- Subsidiaries	18 a, b	–	–	25,004	25,704
- Other related parties*		12,404	2,387	11,866	1,653
- Loss allowances for expected credit loss from receivables of subsidiaries	18 a, b	–	–	(16)	(19)
- Loss allowances for expected credit loss from receivables of other related parties*		(22)	(5)	(21)	(3)
		12,382	**2,382**	**36,833**	**27,335**
Payables to related parties:	26				
- Subsidiaries		–	–	28,415	24,956
- Other related parties*		10,969	8,324	2,126	1,805
		10,969	**8,324**	**30,541**	**26,761**
c) Accrued income raised from transactions with related parties:					
- For goods sold / services provided for subsidiaries	18 a, b	–	–	435	1,115
- For interest received from subsidiaries	18 a, b	–	–	1,381	1,346
		–	**–**	**1,816**	**2,461**
d) Accrued expenses raised from transactions with related parties:	26				
- For purchased goods / received services from subsidiaries		–	–	41,032	2,646
- For purchased goods / received services from other related parties*		327	–	327	–
		327	**–**	**41,359**	**2,646**

* Other related parties included transmission system operator – Augstsprieguma tīkls AS, Latvijas elektriskie tīkli AS (from 10 June 2020 until 25 November 2020), Pirmais Slēgtais Pensiju Fonds AS and other entities controlled by the management members of Latvenergo Group

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

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

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

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

Dividends received from subsidiaries are disclosed in Note 16.

e) Loans to related parties

Non-current and current loans to related parties

EUR'000

	Group 31/12/2021	Group 31/12/2020	Parent Company 31/12/2021	Parent Company 31/12/2020
Non–current loans to subsidiaries				
Sadales tīkls AS	–	–	467,786	477,507
Elektrum Eesti OÜ	–	–	7,560	–
Elektrum Lietuva, UAB	–	–	1,970	–
Allowances for expected credit loss	–	–	(306)	(344)
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**	**477,010**	**563,783**
Current portion of non–current loans				
Sadales tīkls AS	–	–	97,000	76,648
Elektrum Eesti OÜ	–	–	300	–
Allowances for expected credit loss	–	–	(62)	(55)
Current loans to subsidiaries				
Sadales tīkls AS	–	–	10,000	10,000
Elektrum Eesti OÜ	–	–	34,880	7,937
Elektrum Lietuva, UAB	–	–	56,198	10,209
Enerģijas publiskais tirgotājs SIA	–	–	31,137	73,781
Allowances for expected credit loss	–	–	(85)	(74)
TOTAL current loans	**–**	**–**	**229,368**	**178,446**
TOTAL loans to related parties	**–**	**86,620**	**706,378**	**742,229**

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

All current loans to related parties as of 31 December 2021 will be settled in 2022.

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Movement in loans issued to related parties

EUR'000

	Group		Parent Company	
	2021	**2020**	**2021**	**2020**
At the beginning of the year	**86,620**	**–**	**742,229**	**794,256**
Change in current loans in cash (net)	–	–	319,304	286,688
Change in current loans by non-cash offsetting of operating receivables and payables (net)	–	–	(199,767)	(364,096)
Transferred non–current loan liabilities	–	225,232	–	225,232
Issued non–current loans in cash	–	–	7,860	–
Repayment of loan in cash	(86,672)	(138,560)	(86,672)	(138,560)
Issued non–current loans by non-cash offset	–	–	–	20,000
Repaid non–current loans by non-cash offset	–	–	(76,648)	(81,275)
Impairment for expected credit loss	52	(52)	72	(16)
At the end of the year	**–**	**86,620**	**706,378**	**742,229**
incl. loan movement through bank account				
Issued loans to subsidiaries	–	–	716,106	573,957
Repaid loans issued to subsidiaries	–	–	(388,942)	(287,269)
Repaid loans issued to other related parties	(86,672)	(138,560)	(86,672)	(138,560)
(Repaid) / issued loans, net	**(86,672)**	**(138,560)**	**240,492**	**148,128**

Interest received from related parties

EUR'000

	Group		Parent Company	
	2021	**2020**	**2021**	**2020**
Interest received	1,341	926	10,623	11,578
	1,341	**926**	**10,623**	**11,578**

l) Non–current loans, including current portion

Concluded non–current loan agreements with Sadales tīkls AS

EUR'000

Agreement conclusion date	Principal amount of the loan	Outstanding loan amount		Interest rate	Maturity date
		31/12/2021	**31/12/2020**		
29 September 2011	316,271	20,919	29,300	6 months EURIBOR + fixed rate	1 September 2025
6 February 2013	42,686	2,134	6,403	fixed rate	10 September 2022
18 September 2013	42,686	8,537	12,806	fixed rate	10 August 2023
29 October 2014	90,000	30,000	40,000	fixed rate	10 September 2024
20 October 2015	90,000	40,000	50,000	fixed rate	21 October 2025
22 August 2016	60,000	33,333	40,000	fixed rate	22 August 2026
22 August 2016	50,000	30,000	35,000	fixed rate	14 June 2027
14 December 2018	260,000	203,875	231,938	fixed rate	31 January 2030
3 March 2020	200,000	195,988	108,708	fixed rate + floating rate	25 March 2030
TOTAL	**1,151,643**	**564,786**	**554,155**		

As of 31 December 2021, total outstanding amount of non–current loans with Sadales tīkls AS amounted to EUR 564,786 thousand (31/12/2020: EUR 554,155 thousand), including current portion of the loan repayable in 2021 – EUR 97,000 thousand (31/12/2020: EUR 76,648 thousand). As of 31 December 2021, 5.38% of non–current loans issued to Sadales tīkls AS (31/12/2020: 5%) was bearing floating interest rate, which was influenced by 6 months EURIBOR interbank rate fluctuations.

During 2021 the effective average interest rate of non–current loans was 1.42% (2020: 1.53%). As of 31 December 2021 for non–current floating rate loans 6 months EURIBOR was -0.523% (31/12/2020: 6M EURIBOR -0.474%). As of 31 December 2021, impairment for expected credit loss of non–current loans to Sadales tīkls AS in the amount of EUR 361 thousand EUR (31/12/2020: EUR 399 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	
	31/12/2021	**31/12/2020**
Non-current loan:		
- < 1 year (current portion)	97,000	76,648
- 1 – 5 years	315,672	311,665
- > 5 years	152,114	165,842
	564,786	**554,155**

Concluded non–current loan agreement with Augstsprieguma tīkls AS

EUR'000

Agreement conclusion date	Principal amount of the loan	Outstanding loan amount		Interest rate	Maturity date
		31/12/2021	**31/12/2020**		
8 May 2020	**225,232**	**–**	**86,672**	fixed rate	15 March 2023

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 46,672 thousand were repaid on 18 June 2021 and EUR 40,000 thousand on 20 July 2021 before the maturity date (on 19 June 2020: EUR 138,560 thousand).

Non–current loans to Augstsprieguma tīkls AS by maturity

EUR'000

	Group		Parent Company	
	31/12/2021	**31/12/2020**	**31/12/2021**	**31/12/2020**
Non-current loan:				
- 1 – 5 years	–	86,672	–	86,672
	–	**86,672**	**–**	**86,672**

Concluded non–current loan agreements with Elektrum Eesti OÜ

EUR'000

Agreement conclusion date	Principal amount of the loan	Outstanding loan amount		Interest rate	Maturity date
		31/12/2021	**31/12/2020**		
25 August 2021	**7,560**	**7,560**	**–**	6 months EURIBOR + fixed rate	24 August 2031

On 25 August 2021 the Parent Company issued non–current loan in the amount of EUR 7,860 thousand to subsidiary Elektrum Eesti OU. The annual interest rate according to the loan agreement is 6 (six) months EURIBOR (Euro Interbank Offer Rate) plus margin 0.74%. If the Base rate is negative, it is equal to zero. The final repayment date of the loan is 24 August 2031.

Non–current loans to Elektrum Eesti OÜ by maturity

EUR'000

	Parent Company	
	31/12/2021	31/12/2020
Non–current loan:		
- < 1 year (current portion)	300	–
- 1 – 5 years	900	–
- > 5 years	6,360	–
	7,560	**–**

Concluded non–current loan agreements with Elektrum Lietuva, UAB:

EUR'000

Agreement conclusion date	Principal amount of the loan	Outstanding loan amount 31/12/2021	Outstanding loan amount 31/12/2020	Interest rate	Maturity date
31 October 2021	**1,970**	**1,970**	**–**	6 months EURIBOR + fixed rate	29 September 2031

On 31 October 2021 the Parent Company issued non–current loan in the amount of EUR 1,970 thousand to subsidiary Elektrum Lietuva, UAB. The annual interest rate according to the loan agreement is 6 (six) months EURIBOR (Euro Interbank Offer Rate) plus margin 0.68%. If the Base rate is negative, it is equal to zero. The final repayment date of the loan is 29 September 2031.

Non–current loans to Elektrum Lietuva, UAB by maturity

EUR'000

	Parent Company	
	31/12/2021	31/12/2020
Non–current loan:		
- < 1 year (current portion)	–	–
- 1 – 5 years	875	–
- > 5 years	1,095	–
	1,970	**–**

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 2021 the effective average interest rate was 0.77% (2020: 0.53%).

On 29 March 2021 an agreement was concluded between Latvenergo AS and Enerģijas publiskais tirgotājs SIA for issue of the current loan in amount of EUR 120,000 thousand to ensure Enerģijas publiskais tirgotājs SIA financial resources for the fulfilment of public supplier duties and mandatory procurement process administration. Maturity date of the loan was 31 March 2022 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. Annual interest rate is fixed at 1.098% (2020: 1.115%). As of 31 December 2021, net outstanding amount of current loan is EUR 31,137 thousand (31/12/2020: EUR 73,709 thousand).

As of 31 December 2021 impairment for expected credit loss of current loans to related parties is recognised in the amount of EUR 85 thousand (31/12/2020: EUR 73 thousand).

f) Interest paid to related parties

Financial transactions between related parties have been carried out by using current loans with a target to manage Latvenergo Group companies' financial resources effectively and centrally, using Group accounts. In the reporting period Latvenergo AS has received borrowings from subsidiaries in accordance with mutually concluded agreement "On provision of mutual financial resources". In 2021 the effective average interest rate was 0.77% (2020: 0.53%). At the end of the reporting year Latvenergo AS has no borrowings from related parties (31/12/2020: nil).

EUR'000

	Group		Parent Company	
	2021	2020	2021	2020
Interest received	–	–	26	11
	–	**–**	**26**	**11**

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.

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.

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 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 (IFRIC 17), transferring all the shares of Latvijas elektriskie tīkli AS in the fair value of EUR 222,678 thousand (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 and profit from distribution of non–current financial investments in the amount of EUR 36,246 thousand recognised as 'Other income' (Note 7).

Latvenergo

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In the 2020 Financial Statements till 10 June 2020 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 Profit or Loss was disclosed profit from discontinued operation for period from 1 January 2020 until 10 June 2020 in the amount of EUR 9,844 thousand. Net changes in cash and cash equivalents of discontinued operation for period from 1 January 2020 until 10 June 2020 are negative and amounted to EUR 139 thousand. 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.

31. Changes in liabilities arising from financing activities

The changes in lease liabilities (Note 15):

EUR'000

	Group		Parent Company	
	2021	**2020**	**2021**	**2020**
Net book amount at the beginning of the period	**8,344**	**5,565**	**4,540**	**3,502**
Recognised changes in lease agreements	1,906	4,178	1,725	1,746
Paid lease payments in cash	(1,275)	(1,111)	(294)	(169)
Paid lease payments by non-cash offset	(400)	(400)	(524)	(632)
Change in accrued liabilities	(285)	(19)	(304)	24
Recognised interest liabilities	138	131	83	69
Closing net book amount at the end of the period	**8,428**	**8,344**	**5,226**	**4,540**

In 2021, the movement for borrowings (Note 23) relates to cash flows, except the effect of accrued but not yet paid interest – for the Group decrease in the amount of EUR 239 thousand and for the Parent company decrease in the amount of EUR 238 thousand (2020: the Group – decrease of EUR 796 thousand, the Parent Company – decrease of EUR 815 thousand).

In 2021, deferred income on financing from European Union funds (Note 28) consists of movement in cash, except the credited amount to Statement of Profit or Loss - for the Group in the amount of EUR 873 thousand and for the Parent company in the amount of EUR 97 thousand (2020: the Group – EUR 787 thousand, the Parent Company – EUR 12 thousand).

32. Commitments and contingent liabilities

As of 31 December 2021, the Group had commitments amounting to EUR 136.8 million (31/12/2020: EUR 66.6 million) and the Parent Company had commitments amounting to EUR 105.0 million (31/12/2020: EUR 28.9 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 9 February 2022 to Enerģijas publiskais tirgotājs SIA, on 17 February 2022 to Sadales tīkls AS and on 22 February 2022 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.

33. 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 24 January 2022 the international credit rating agency Moody's Investors Service has updated Latvenergo AS credit analysis. The rating of Latvenergo AS remains unchanged Baa2 with a stable outlook.

In January 2022, Latvenergo AS signed two short–term loan agreements (overdraft agreements) with term for both agreements up to 2 years for working capital financing and liquidity management – with OP Corporate Bank plc Latvia Branch in the amount of EUR 60 million and with SEB banka AS in the amount of EUR 30 million.

In January 2022, the Saeima of the Republic of Latvia adopted a Law on measures to reduce extraordinary rise in energy prices with the aim to reduce the negative socio–economic impact associated with an unprecedented sharp rise in energy prices on the well–being of the population and economic growth. The law provides for various types of support measures to legal and natural persons to partially compensate the rising costs of energy resources from 1 January to 30 April 2022. Various state support mechanisms for reducing energy prices have been established in Estonia and Lithuania, too. Support measures are financed from national budgets.

On 22 February 2022 the Cabinet of Ministers of the Republic of Latvia conceptually supported the intention of the state capital companies Latvenergo AS and Latvijas valsts meži AS to establish a joint venture for the development of wind farms in Latvia.

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

Until the date of authorisation of these financial statements, the restrictive measures imposed had no significant impact on the Group's performance, no operations had been suspended and no significant direct losses related to the restrictive measures had been incurred at the date of the financial statements. Latvenergo Group has not entered into any significant direct agreements with companies in Russia, Belarus, or Ukraine, which could have a material negative impact on the Group's operations in the current situation. An additional impact on the Latvenergo Group's financial results could be caused by the general deterioration of the economic situation.

Assessing the possible risks related to the Russia's invasion of Ukraine and in accordance with the task given by the government on 24 February 2022 to replenish gas reserves for national security purposes, Latvenergo AS has swiftly procured approximately 2 terawatt hours (TWh) of gas for the security of supply of production of the combined heat and power plants of Latvenergo AS. The concluded agreements envisage liquefied natural gas supply to Klaipeda Terminal and injection of gas into Inčukalns underground gas storage in April and May 2022. Natural gas will be supplied from Norway, the USA and Qatar. The purchased amount of gas will ensure the production of electricity and heat at the planned production regime of the combined heat and power plants of Latvenergo AS in 2022, at the same time envisaging gas reserves in the event of a possible energy crisis.

On March 8, 2022, Latvenergo AS and Sadales tīkls AS signed an agreement on a long-term loan in the amount of EUR 175 million.

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 2021.

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

The Management Board of Latvenergo AS:

Mārtiņš Čakste
Chairman of the Management Board

Dmitrijs Juskovecs
Member of the Management Board

Guntars Baļčūns
Member of the Management Board

Kaspars Cikmačs
Member of the Management Board

Harijs Teteris
Member of the Management Board

Liāna Ķeldere
Accounting director of Latvenergo AS

12 April 2022

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INDEPENDENT AUDITORS' REPORT

DOCUMENT DATE IS THE TIME OF ITS ELECTRONIC SIGNATURE

To the Shareholder of Latvenergo AS

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Latvenergo AS and its subsidiaries (the Group) and the accompanying financial statements of Latvenergo AS (the Parent Company) contained in the file latvenergo-2021-12-31-en.zip (SHA-256-checksum: 834c450c0e9997ba3f2b8b9990c489ac0b35ff44fcb5b6cb5ddd55588e7efa6a), which comprise the statements of financial position as at 31 December 2021, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements of the Group and the Parent Company give a true and fair view of the financial position of the Group and the Parent Company as at 31 December 2021, and of their financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

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

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Key audit matters

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

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

Key audit matter	How we addressed the key audit matter
Revenue recognition from contracts with customers with focus on periodization (the Group and the Parent Company)	
The Group and the Parent Company in 2021 have recognized in the statement of profit or loss revenue from contracts with customers amounting to 1,065,219 thousand EUR and 592,785 thousand EUR, respectively, as disclosed in Note 6. Accurate revenue recognition is inherently more complex in the energy sector when compared to some other industries due to the large number of the customers, including both residential and corporate customers, and various pricing arrangements included in the range of products and services provided to different groups. Given the variety of contractual terms with the customers, as well as different revenue streams and product types included in each stream, appropriate periodization of revenue recognition is considered to be relatively complex and requires, among other things, continual operating effectiveness of controls over the various categories of revenue streams.	In relation to revenue recognition, we performed the following procedures, among others: • we gained an understanding of the revenue recognition and measurement for electricity supply, and distribution system services revenue streams; • we have obtained an understanding and tested the relevant key controls implemented over revenue recognition and measurement for electricity supply and distribution system services revenue streams; • we tested relevant key controls over revenue recording, calculation of amounts billed to the Group's and Parent Company's customers and matching of cash receipts to the customers' accounts; • we obtained external customer confirmations for selected largest trade receivables balances; • we performed analytical review procedures by forming an expectation of revenue based on the key performance indicators, including taking into consideration the number and composition of the Group's and Parent Company's customers, electricity supply volumes, changes in electricity prices and also comparing the results of our analysis against the prior reporting period; • we tested a sample of revenue transactions near the financial year-end for their recognition in the appropriate accounting period.

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Revenue recognition was significant to our audit due to the materiality of revenue to the financial statements and the variety of products and components included in revenue which might impact periodization of revenue recognition.	We also assessed the adequacy of the revenue related disclosures contained in Note 2, Note 5. and Note 6. In addition, we evaluated the sufficiency of disclosures made regarding significant judgements made by the management in relation to revenue recognition Note 4. c).
Impairment assessment of property, plant and equipment and frequency of revaluation (the Group and the Parent Company)	
As at 31 December 2021, the Group and the Parent Company have recognized property plant and equipment (PPE) amounting to 2,826,654 thousand EUR and 1,066,973 thousand EUR, respectively, as reported in the statements of the financial position and disclosed in Note 14 a). Certain PPE categories are carried at revalued amounts, as disclosed in the accounting policies. The Group performed an assessment whether there are indications that revaluation of PPE accounted at revalued amounts should be performed as at 31 December 2021 as disclosed in Note 14 c). The Group performed impairment tests based on the value in use estimation for distribution system assets. In addition, the Parent Company performed impairment tests for certain Hydro power plants (HPPs) (combined impairment test for Riga, Plavinu and Keguma HPPs) and assets of Riga Combined Heat and Power Plant (CHP). Each of the above in the judgement of the management represents a separate cash generating unit (CGU). A reversal of impairment amounting to 36,724 thousand EUR was recorded in the statements of profit or loss of the Group and the Parent Company for Riga Combined Heat and Power Plant CGU in the year 2021, while for other CGU's no changes in impairment charge have been recognized as a result of the impairment tests (Note 14. d)). In relation to the impairment tests for the assets of the distribution significant assumptions used by the management include the	In relation to impairment assessment of property, plant and equipment and frequency of revaluation, we performed the following procedures: • we gained an understanding of the revaluation and impairment assessment process; • for distribution system and CHP CGU impairment tests we involved our valuation specialists to assist us with the assessment of the impairment test models, discount rates applied in each model and other significant management assumptions as described; • For all CGUs we discussed with the management the information and data used in the impairment tests. We compared the most significant inputs to the source data. We also compared the amounts used by the management in the cash flow forecasts with the historical results and compared the estimated cash flows with the long-term budgets approved by the management; • In relation to revaluation frequency, we obtained the assessment performed by management. We compared the key inputs to the source data. We evaluated significant management assumptions used in the assessment. Finally, we evaluated the adequacy of the disclosures in relation to the impairment tests and frequency of revaluation and the outcome of these tests as disclosed in Note 4. a) II) and in Note 14. d). We have also reconciled that all assumptions related to the revaluation frequency assessment are appropriately disclosed in Note 14 c).

selection of discount rate, pricing forecast for major revenue streams, which are contingent on regulatory approvals, assumptions related to capital investment plans, as well as terminal value calculation. HPPs impairment test is based on significant assumptions in relation to the selection of discount rate, electricity price and operating expenses forecasts, as well as terminal value calculation. Riga Combined Heat and Power Plant CGU impairment test is based on significant assumptions in relation to the selection of discount rate, variable revenue stream forecast in view of legislation regulating the cogeneration unit capacity component payments and the terminal value calculation. Impairment test and assessment of the frequency of revaluation was significant to our audit as it involves significant management estimates and material judgements.	

Reporting on other information

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

- the Latvenergo Group Key Figures, Latvenergo AS Key Figures, as set out on pages 3 to 4 of the accompanying Annual Report;
- the Management Report, as set out on pages 5 to 11 of the accompanying Annual Report;
- the Statement of Corporate Governance, as set out in a separate statement provided by the Parent Company management and available on the Parent Company's website https://latvenergo.lv/en section *Investors*,
- the Non-financial Statement, as included in the Management Report set out on page 9 of the accompanying Annual Report,

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

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

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

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

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

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

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

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

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

In accordance with the Law on Audit Services of the Republic of Latvia with respect to the Statement of Corporate Governance, our responsibility is to consider whether the Statement of Corporate Governance includes the information required in Article 56^2, paragraph two, clause 5 and 8 and paragraph three of the Financial Instruments Market Law.

In our opinion, the Statement of Corporate Governance includes the information required in Article 56^2, paragraph two, clause 5 and 8 and paragraph three of the Financial Instruments Market Law.

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

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Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Parent Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Other reporting responsibilities and confirmations required by the legislation of the Republic of Latvia and European Union when providing audit services to public interest entities

We were first appointed as auditors of the Group and the Parent Company by Shareholder, a total period of uninterrupted engagement appointment is 1 year.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Parent Company;
- as stipulated in paragraph 37^6 of the Law on Audit Services of the Republic of Latvia we have not provided to the Group and the Parent Company the prohibited non-audit services (NASs) referred to in EU Regulation (EU) No 537/2014. We also remained independent of the audited entity in conducting the audit.

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Report on the Auditors Examination of the European Single Electronic Format (ESEF) Report

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

Based on our agreement we have been engaged by the management of the Company to conduct a reasonable assurance engagement for the verification of compliance with the applicable requirements of the European Single Electronic Reporting format of the Group and the Parent Company financial statements, including Group and the Parent Company annual report for the year ended 31 December 2021 (the Single Electronic Reporting Format of the Group and the Parent Company financial statements) contained in the file latvenergo-2021-12-31-en.zip (SHA-256-checksum: 834c450c0e9997ba3f2b8b9990c489ac0b35ff44fcb5b6cb5ddd55588e7efa6a).

Description of a subject and applicable criteria

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

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

Responsibilities of management and those charged with governance

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

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

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

Auditor's responsibility

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

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

<u>Summary of the work performed</u>

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

Our procedures include in particular:

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

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

Building a better working world

Opinion

In our opinion, the Single Electronic Reporting Format of the Group and the Parent Company financial statements for the year ended 31 December 2021 complies, in all material respects, with the ESEF Regulation.

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

ERNST & YOUNG BALTIC SIA
Licence No. 17

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

Riga,

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

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