2020

Latvenergo Group Consolidated and Latvenergo AS Annual Report

Latvenergo Group Consolidated and Latvenergo AS Annual Report

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

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FINANCIAL CALENDAR

Interim Condensed Financial Statements:

For the 3 months of 2021 (unaudited) – 31.05.2021

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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.

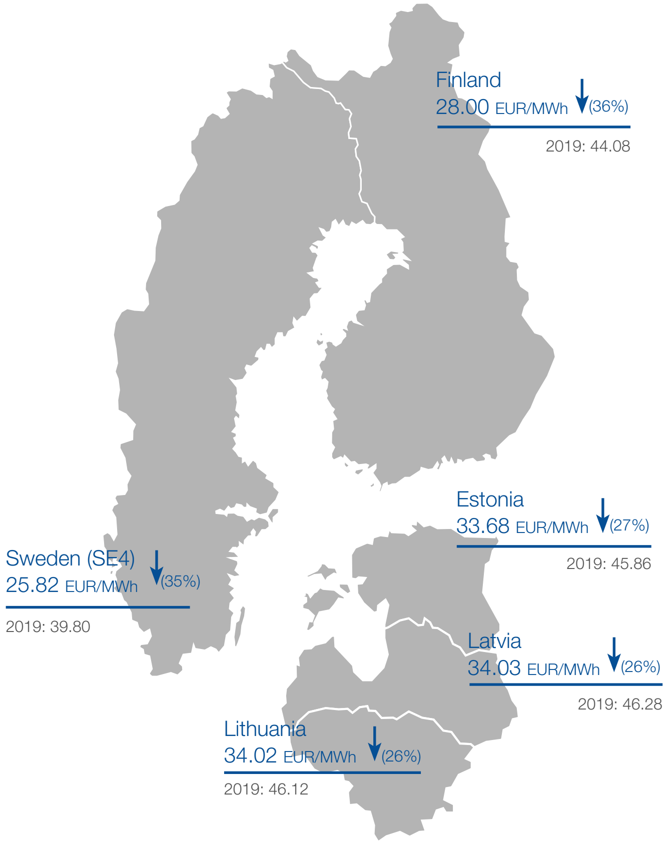
Operating Environment

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 m³/s, while in 2019 it was 401 m³/s. The share of electricity generated from renewable energy sources at Latvenergo Group was 60% (2019: 42%).

In the reporting year, the amount generated at the Latvenergo AS CHPPs reached 1,685 GWh, which was 39% less than in 2019. The operation of the CHPPs is adjusted to the conditions of the electricity market and heat demand.

In 2020, the total amount of thermal energy generated by Latvenergo Group decreased by 8% compared to the previous year. The decrease was impacted by warmer weather.

Trade

In 2020, Latvenergo Group maintained a stable position in the Baltic electricity market, continuing to actively expand into new business segments by launching operations in the Lithuanian household electricity market.

In the reporting year, the total electricity consumption in the Baltics decreased by 2.4% compared to 2019. This was due to warmer weather conditions and the COVID-19 emergency restrictions announced in all three Baltic countries.

In 2020, the Group supplied 6.4 TWh of electricity in the Baltics. The overall amount of retail electricity trade outside Latvia accounted for 1/3 of the total. The electricity trade volume in Latvia was 4.2 TWh, while in Lithuania it was 1.2 TWh and in Estonia it was 0.9 TWh.

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

The total number of electricity customers comprised approximately 740 thousand, including 49 thousand foreign customers. The Group has prepared for the partial opening of the Lithuanian household market to free competition from January 2021. By the end of 2020, more than 13,000 trade agreements were concluded in this segment.

In 2020, Latvenergo Group's natural gas sales to retail customers were 70% higher than in the previous year, reaching 516 GWh. The increase in natural gas sales can be observed in all three Baltic countries, due to the positive dynamics of the number of customers, especially in the segments of Latvian households and Lithuanian business customers.

At the end of the reporting year, the natural gas portfolio consisted of 13.5 thousand customers, of which 12.1 thousand were households.

In 2020, the retail activities of other services in the Baltic states continued. More than 600 contracts were signed for the installation of solar panels in the Baltics; thus, the number of concluded contracts has almost doubled compared to the previous year. By the end of the reporting year, the total installed solar panel capacity provided to Latvenergo Group's retail customers in the Baltics reached 6.3 MW; 79% of panels are installed for customers outside Latvia. In 2020, Elektrum started construction projects for two solar panel parks in Lithuania and Estonia with total planned installed capacity of 1.75 MW. Steady growth in the number of Elektrum Insured customers in the Baltics continued, reaching almost 100 thousand. The development of the Elektrum e-shop continued, exceeding 2,400 transactions in 2020. Since the opening of the electric vehicle charging network in August 2019 until the end of 2020, customers of the Elektrum mobile application have made more than 8,000 public charges.

Distribution

Distribution segment provides electricity distribution services in Latvia. Sadales tīkls AS is the largest state distribution system operator, covering approximately 98% of the territory of Latvia. Distribution system tariffs are approved by the Public Utilities Commission (PUC).

Sadales tīkls AS provides electricity distribution services to more than 800 thousand customers. During the reporting year, the customer satisfaction of Sadales tīkls AS has significantly increased, and the European Distribution System Operators' Association E.DSO has recognized the company as an example of good practice for customer service solutions in Europe.

Sadales tīkls AS – an example of good practice for customer service solutions in Europe

Since 2017, Sadales tīkls AS has been implementing an efficiency programme, which comprises process reviews, decreasing the number of employees and transportation units, and optimizing the number of technical and support real estate bases. Within the framework of this programme, we are planning to further reduce the number of employees at Sadales tīkls AS by around 800 in total by 2022. As of 31 December 2020, the number of employees at Sadales tīkls AS has been reduced by more than 650. At the end of the reporting year, the amount of smart electricity meters installed by the company comprised more than 850 thousand, which was approximately 3/4 of the total number of electricity meters of customers of Sadales tīkls AS. The measures taken by Sadales tīkls AS within the framework of the efficiency improvement programme contributed to a 5.5% reduction in the average distribution system service tariff as of 1 January 2020.

In 2020, the amount of electricity distributed was 6,286 GWh, which is 4% less than in 2019. It was affected by warmer weather and Covid-19.

Investments in modernization of distribution assets have increased the quality of distribution services by lowering System Average Interruption Frequency Index (SAIFI) and System Average Interruption Duration Index (SAIDI). In 2020, SAIFI was 2.3 times, but SAIDI was 219 minutes. Over the last five years, SAIFI has decreased by 26% and SAIDI has decreased by 24%.

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

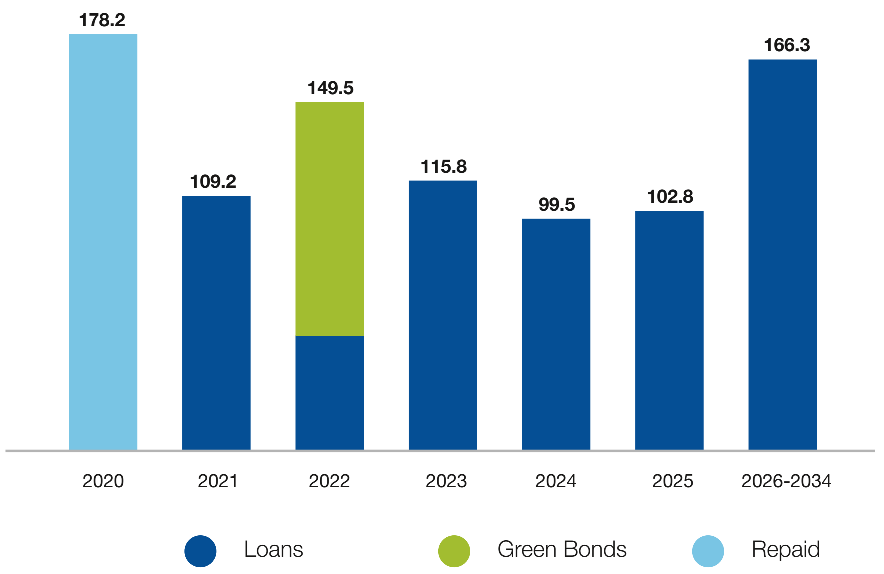
Latvenergo Group finances its investments from its own resources and external long-term borrowings, which are regularly sourced in financial and capital markets in a timely manner.

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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Kaspars Cikmačs
Member of the Management Board

Arnis Kurgs
Member of the Management Board

Uldis Mucinieks
Member of the Management Board

13 April 2021

Latvenergo

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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Arnis Kurgs
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Uldis Mucinieks
Member of the Management Board

Liāna Ķeldere
Accounting director of Latvenergo AS

13 April 2021

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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Liāna Ķeldere
Accounting director of Latvenergo AS

13 April 2021

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

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

Latvenergo

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).

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.

Latvenergo

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)

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	
		2020	2019	2020	2019
EBITDA		**294,448**	**280,967**	**197,889**	**112,651**
Depreciation, amortisation and impairment of intangible assets, PPE and right-of-use assets		(168,146)	(167,917)	(86,259)	(67,543)
Segment profit before tax		**126,302**	**113,050**	**111,630**	**45,108**
Finance income	11	2,125	1,187	12,768	12,995
Finance costs	11	(10,783)	(9,480)	(11,293)	(11,734)
Dividends received from subsidiaries	16	–	–	41,743	54,858
Profit before tax		**117,644**	**104,757**	**154,848**	**101,227**

Reconciliation of assets

EUR'000

	Notes	Group		Parent Company	
		31/12/2020	31/12/2019	31/12/2020	31/12/2019
Segment operating assets		**3,154,592**	**3,765,193**	**1,257,611**	**1,373,066**
Connection usage rights		–	(39,739)	–	–
Non-current financial investments	16	40	39	645,218	831,350
Loans to related parties	29 e	86,620	–	742,229	794,256
Other financial investments	22	16,836	16,885	16,836	16,885
Prepayment for income and other taxes		44	141	–	140
Cash and cash equivalents	19	100,703	122,722	98,261	121,261
Non-current financial investments and cash and cash equivalents of discontinued operation		–	(300)	–	–
Total assets		**3,358,835**	**3,864,941**	**2,760,155**	**3,136,958**

Reconciliation of liabilities

EUR'000

	Notes	Group		Parent Company	
		31/12/2020	31/12/2019	31/12/2020	31/12/2019
Segment operating liabilities		**437,490**	**660,547**	**249,083**	**289,889**
Deferred income tax liabilities	12	6,401	8,327	–	–
Current corporate income tax liabilities		2	2	–	–
Borrowings	23	743,199	882,671	733,392	872,899
Derivative financial instruments	24	9,504	9,216	9,504	9,216
Provisions and other payables		43,997	38,691	21,740	15,667
Total liabilities		**1,240,593**	**1,599,454**	**1,013,719**	**1,187,671**

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

Revenue from major customer in 2020 for the Group amounted to EUR 51,089 thousand and for the Parent Company EUR 50,857 thousand (2019: EUR 58,161 thousand and EUR 58,161 thousand) arising from sales by the generation and trade segment.

6. Revenue

Accounting policy

Revenue from contracts with customers (IFRS 15)

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

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

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

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

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

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

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

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

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

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

Revenue from satisfied performance obligations under such contracts is recognised over time, if one of the following criteria is met:
- customer simultaneously receives and consumes the benefits;
- customer controls the asset as it is created or enhanced;
- the Group's and Parent Company's performance does not create an asset with an alternative use and has a right to payment for performance completed.

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

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

Trade of energy and related supply services

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

Sales of distribution system services (the Group)

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

Heat sales

Revenue from sales of thermal energy is recognised at the end of each month based on the meter readings and corresponds to the invoiced amount.

Sales of IT & telecommunication services

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

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

		Group		Parent Company	
	Notes	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

		Group		Parent Company	
	Notes	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

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

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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 Interest held, %	31/12/2020 EUR'000	31/12/2019 Interest held, %	31/12/2019 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**

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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

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		Parent Company	
	31/12/2020	31/12/2019	31/12/2020	31/12/2019
Receivables from contracts with customers:				
- Electricity, natural gas trade and related services customers (portfolio model)	136,647	138,926	102,120	107,721
- Heating customers (portfolio model)	9,463	9,210	7,386	7,127
- Other receivables from contracts with customers (portfolio model)	3,557	5,019	1,093	2,571
- Other receivables from contracts with customers (counterparty model)	2,780	5,112	1,480	2,452
- Subsidiaries (counterparty model)	–	–	4,782	6,623
	152,447	**158,267**	**116,861**	**126,494**
Allowances for expected credit loss from contracts with customers:				
- Electricity, natural gas trade and related services customers (portfolio model)	(41,761)	(44,108)	(40,672)	(43,187)
- Heating customers (portfolio model)	(328)	(325)	(315)	(315)
- Other receivables from contracts with customers (portfolio model)	(2,175)	(2,297)	(13)	(12)
- Other receivables from contracts with customers (counterparty model)	(5)	(7)	(2)	(3)
- Subsidiaries (counterparty model)	–	–	(3)	(4)
	(44,269)	**(46,737)**	**(41,005)**	**(43,521)**
Receivables from contracts with customers, net:				
- Electricity, natural gas trade and related services customers (portfolio model)	94,886	94,818	61,448	64,534
- Heating customers (portfolio model)	9,135	8,885	7,071	6,812
- Other receivables from contracts with customers (portfolio model)	1,382	2,722	1,080	2,559
- Other receivables from contracts with customers (counterparty model)	2,775	5,105	1,478	2,449
- Subsidiaries (counterparty model)	–	–	4,779	6,619
	108,178	**111,530**	**75,856**	**82,973**

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

EUR'000

		Group		Parent Company	
	Notes	31/12/2020	31/12/2019	31/12/2020	31/12/2019
Other receivables from contracts with customers		2,780	5,112	1,480	2,452
Allowances for expected credit loss on other receivables from contracts with customers		(5)	(7)	(2)	(3)
Receivables from subsidiaries	29 b	–	–	4,170	5,022
Accrued income from subsidiaries	29 c	–	–	612	1,601
Allowances for expected credit loss on subsidiaries receivables	29 b	–	–	(3)	(4)
TOTAL		**2,775**	**5,105**	**6,257**	**9,068**

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

There is no significant concentration of credit risk with respect to receivables from contracts with customers as the Group and the Parent Company have large number of customers except major heating customer the net debt of which as of 31 December 2020 amounted to EUR 7,077 thousand (31/12/2019: EUR 6,818 thousand).

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

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

EUR'000

Late payment delay in days	ECL rate	Group						Parent Company					
		31/12/2020			31/12/2019			31/12/2020			31/12/2019		
		Receivables	Allowances for ECL	Net	Receivables	Allowances for ECL	Net	Receivables	Allowances for ECL	Net	Receivables	Allowances for ECL	Net
On time	0.20%	102,220	(220)	**102,000**	100,773	(221)	**100,552**	67,146	(148)	**66,998**	69,391	(154)	**69,237**
Less 30 days	3%	1,923	(58)	**1,865**	4,139	(124)	**4,015**	1,251	(38)	**1,213**	3,193	(96)	**3,097**
Past due 30 - 59 days	20%	1,070	(214)	**856**	1,194	(239)	**955**	990	(198)	**792**	1,083	(217)	**866**
Past due 60 - 89 days	50%	422	(211)	**211**	470	(235)	**235**	391	(195)	**196**	432	(216)	**216**
Past due 90 - 179 days	60%	572	(343)	**229**	785	(471)	**314**	508	(305)	**203**	562	(337)	**225**
Past due 180 - 359 days	75%	970	(728)	**242**	1,414	(1,060)	**354**	789	(592)	**197**	1,055	(791)	**264**
Past due more than 360 days	100%	15,997	(15,997)	**–**	17,971	(17,971)	**–**	13,480	(13,480)	**–**	15,405	(15,405)	**–**
Insolvent debtors*	100%	26,493	(26,493)	**–**	26,409	(26,409)	**–**	26,044	(26,044)	**–**	26,298	(26,298)	**–**
TOTAL		**149,667**	**(44,264)**	**105,403**	**153,155**	**(46,730)**	**106,425**	**110,599**	**(41,000)**	**69,599**	**117,419**	**(43,514)**	**73,905**

* receivables under insolvency process and with an established payment schedule

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

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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.

Latvenergo

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

		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 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**

Latvenergo

Borrowings by categories of lenders

EUR'000

	Group		Parent Company	
	31/12/2020	31/12/2019	31/12/2020	31/12/2019
Foreign investment banks	334,506	351,458	334,506	351,458
Commercial banks	307,437	394,257	297,630	384,485
Issued debt securities (bonds)	101,256	136,956	101,256	136,956
TOTAL borrowings	**743,199**	**882,671**	**733,392**	**872,899**

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

EUR'000

	Group		Parent Company	
	31/12/2020	31/12/2019	31/12/2020	31/12/2019
Fixed rate non–current and current borrowings:				
- < 1 year (current portion of non–current borrowings)	1,077	86,700	1,077	86,700
- 1–5 years	100,179	100,303	100,179	100,303
Total fixed rate borrowings	**101,256**	**187,003**	**101,256**	**187,003**
Floating rate non–current and current borrowings:				
- < 1 year (current borrowings)	–	292	–	1
- < 1 year (current portion of non–current borrowings)	108,169	93,675	106,031	89,459
- 1–5 years	367,474	363,360	362,162	358,595
- > 5 years	166,300	238,341	163,943	237,841
Total floating rate borrowings	**641,943**	**695,668**	**632,136**	**685,896**
TOTAL borrowings	**743,199**	**882,671**	**733,392**	**872,899**

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

EUR'000

	Group		Parent Company	
	31/12/2020	31/12/2019	31/12/2020	31/12/2019
- < 1 year	461,003	522,950	451,196	513,178
- 1–5 years	182,196	259,721	182,196	259,721
- > 5 years	100,000	100,000	100,000	100,000
TOTAL borrowings	**743,199**	**882,671**	**733,392**	**872,899**

As of 31 December 2020 and as of 31 December 2019 all of the Group's and the Parent Company's borrowings were denominated in euros.

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

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

I) Pledges

As of 31 December 2020 the Group's and the Parent Company's assets are not pledged to secure the borrowings, except the pledge on assets of Liepājas Enerģija SIA of maximum secured claims in the amount of EUR 29 million (31/12/2019: EUR 25 million) to secure its current and non-current borrowings. As of the end of the reporting year there has been pledged the property, plant and equipment in the net book amount of EUR 26 million and the claims on the receivables accounts in the amount of EUR 3 million (31/12/2019: EUR 23 million and EUR 2 million, respectively).

II) Un–drawn borrowing facilities

As of 31 December 2020, the un–drawn committed non-current credit facilities amount to EUR 35 million (31/12/2019: EUR 85 million).

As of 31 December 2020, the Group had entered into five overdraft agreements with total notional amount of EUR 128 million (31/12/2019: two overdraft agreements of EUR 19 million) of which four overdraft agreements were entered by the Parent Company with total notional amount of EUR 125 million (31/12/2019: one overdraft agreements of EUR 15 million). In respect of all the overdraft agreements all conditions precedent have been met. At the end of the reporting year, no credit lines were used (31/12/2019: EUR 291 thousand of credit lines were used).

III) Weighted average effective interest rate

During the reporting year the weighted average effective interest rate (including interest rate swaps) on non–current borrowings was 1.38% (2019: 1.48%), weighted average effective interest rate for current borrowings was 0.77% (2019: 0.87%). As of 31 December 2020 interest rates for non–current borrowings in euros were 6 month EURIBOR+ 0.94% (31/12/2019: +0.99%) for the Group and 6 month EURIBOR+ 0.93% (31/12/2019: +0.98%) for Latvenergo AS. As of 31 December 2020, the total notional amount of interest rate swap agreements concluded by the Group amounted to EUR 193.8 million (31/12/2019: EUR 229.4 million) and the interest rate was fixed for the initial periods from 7 to 10 years.

IV) Issued and outstanding debt securities (bonds)

In 2013 the Parent Company (Latvenergo AS) issued bonds in the amount of EUR 35 million with maturity date – 22 May 2020 (ISIN code – LV0000801165) with the annual coupon rate of 2.8%. In 2015 and in 2016, Latvenergo AS issued green bonds in the total amount of EUR 100 million with the maturity date 10 June 2022 (ISIN code – LV0000801777) with the annual coupon rate of 1.9%. The total nominal amount of outstanding bonds as of 31 December 2020 was EUR 100 million (31/12/2019: EUR 135 million). All issued bonds are quoted in NASDAQ Baltic Stock Exchange. The issued debt securities (bonds) are measured at amortised cost at the end of reporting year.

As of 31 December 2020, the fair value of issued debt securities (bonds) exceeds their carrying amount by EUR 2.5 million (31/12/2019: EUR 3.5 million). The fair value of debt securities (bonds) issued is calculated by discounting their future cash flows and using the market quoted yield to maturity rates of the respective bonds as of the end of the reporting year as discount factor (Level 2).

24. Derivative financial instruments

Accounting policy

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

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

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

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

The fair value of the derivative instruments is presented as current or non-current based on settlement date. Derivative instruments that have maturity of more than twelve months and have been expected to be 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)**

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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Statement of Financial Position
Statement of Changes in Equity
Statement of Cash Flows
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– Independent Auditor's Report

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

EUR'000

Type of assets		Group				Parent Company			
		Fair value measurement using				Fair value measurement using			
	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 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.

EUR'000

	Group		Parent Company	
	31/12/2020	31/12/2019	31/12/2020	31/12/2019
I) Non-current deferred income				
a) contracts with customers				
From connection fees	138,750	142,453	–	–
Other deferred income	863	877	863	877
	139,613	**143,330**	**863**	**877**
b) operating lease				
Other deferred income	366	383	366	383
	366	**383**	**366**	**383**
c) other				
On grant for the installed electrical capacity of CHPPs	161,440	185,429	161,440	185,429
On financing from European Union funds	8,459	7,889	1,601	256
Other deferred income	148	332	73	229
	170,047	**193,650**	**163,114**	**185,914**
TOTAL non-current deferred income	**310,026**	**337,363**	**164,343**	**187,174**
II) Current deferred income				
a) contracts with customers				
From connection fees	14,167	13,629	–	–
Other deferred income	924	135	813	63
	15,091	**13,764**	**813**	**63**
b) operating lease				
Other deferred income	20	20	20	20
	20	**20**	**20**	**20**
c) other				
On grant for the installed electrical capacity of CHPPs	23,990	23,990	23,990	23,990
On financing from European Union funds	782	787	7	12
Other deferred income	7	60	4	9
	24,779	**24,837**	**24,001**	**24,011**
TOTAL current deferred income	**39,890**	**38,621**	**24,834**	**24,094**
TOTAL deferred income	**349,916**	**375,984**	**189,177**	**211,268**

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

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

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

EUR'000

		Group		Parent Company	
	Notes	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**

Latvenergo

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 31/12/2020	Outstanding loan amount 31/12/2019	Interest rate	Maturity date
29 September 2011	316,271	29,300	38,316	6 months EURIBOR + fixed rate	1 September 2025
6 February 2013	42,686	6,403	10,672	fixed rate	10 September 2022
18 September 2013	42,686	12,806	17,074	fixed rate	10 August 2023
29 October 2014	90,000	40,000	50,000	fixed rate	10 September 2024
20 October 2015	90,000	50,000	60,000	fixed rate	21 October 2025
22 August 2016	60,000	40,000	46,667	fixed rate	22 August 2026
22 August 2016	50,000	35,000	40,000	fixed rate	14 June 2027
14 December 2018	260,000	231,938	240,000	fixed rate	31 January 2030
3 March 2020	200,000	108,708	–	fixed rate	25 March 2030
TOTAL	**1,151,643**	**554,155**	**502,729**		

As of 31 December 2020, total outstanding amount of non–current loans with Sadales tīkls AS amounted to EUR 554,155 thousand (31/12/2019: EUR 502,729 thousand), including current portion of the loan repayable in 2021 – EUR 76,648 thousand (31/12/2019: EUR 75,377 thousand). As of 31 December 2020, 5% of loans issued to Sadales tīkls AS (31/12/2019: 8%) was bearing floating interest rate, which was influenced by 6 months EURIBOR interbank rate fluctuations. During 2020 the effective average interest rate of non–current loans was 1.53% (2019: 1.65%). As of 31 December 2020, impairment for expected credit loss of non–current loans to Sadales tīkls AS in the amount of EUR 399 thousand EUR (31/12/2019: EUR 322 thousand) was recognised. Non–current loans are not secured with a pledge or otherwise.

Non–current loans to Sadales tīkls AS by maturity

EUR'000

	Parent Company	
	31/12/2020	31/12/2019
Non–current loan:		
- < 1 year (current portion)	76,648	75,377
- 1 – 5 years	311,665	278,198
- > 5 years	165,842	149,154
	554,155	**502,729**

Concluded non–current loan agreements with Latvijas elektriskie tīkli AS and Augstsprieguma tīkls AS

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	**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

		Group	
	Notes	**2020**	**2019**
Assets			
Property, plant and equipment	14 a	–	601,175
Right–of–use assets	15	–	1,099
Inventories		–	184
Receivables		–	37,635
Cash and cash equivalents	19	–	300
Assets held for distribution		**–**	**640,393**
Liabilities			
Provisions	27	–	(39)
Lease liabilities	15	–	(1,107)
Deferred tax liability		–	(2,435)
Deferred income	28	–	(132,507)
Trade and other payables		–	(43,488)
Liabilities directly associated with assets held for distribution		**–**	**(179,576)**
Net assets directly associated with disposal group		**–**	**460,817**
Amounts included in accumulated other comprehensive income:			
Non–current assets revaluation reserve	21	–	28,916
Post–employment benefit plan revaluation reserve	21	–	20
Reserves of disposal group classified as held for distribution		**–**	**28,936**

Net cash flows from discontinued operation

EUR'000

	Group	
	2020	**2019**
Net cash flows from operating activities	27,449	85,853
Net cash flows used in investing activities	(27,573)	(85,825)
Net cash flows used in financing activities	(15)	(28)
Net changes in cash and cash equivalents	**(139)**	**–**

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

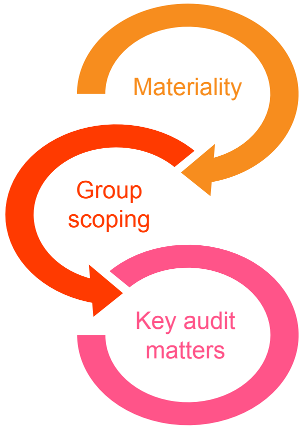
We are independent of the Company and the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) and the ethical requirements of the Law on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