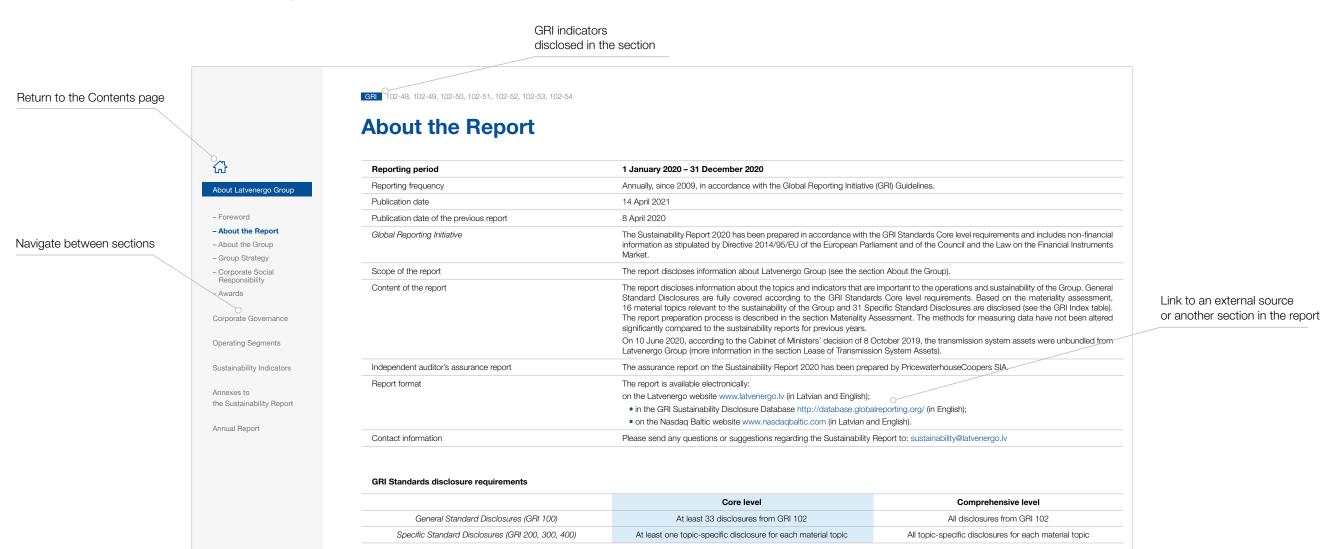
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Guntars Baļčūns Chairman of the Management Board of Latvenergo AS The past year, 2020, will be written in world and Latvian history as completely different, incomparable with other years, and there is no doubt that it was difficult and full of new challenges for every company as well as each of us individually. In a state of national emergency, we were able to adapt quickly to minimise the impact of COVID-19 on the Group's operations and protect our employees and customers while ensuring a continuous and high-quality energy supply. The COVID-19 ordeal has taught each of us to organise our daily lives differently – in a short time, we learned many different new skills. And I am pleased to say that overall the past year was successful for Latvenergo Group, and even in circumstances that have been challenging for every business, the Group was able to achieve good results, and we would like to thank every one of our employees for this.

Latvenergo is at the forefront of Europe's green energy, and this has always been our path since the foundation of the company. At a time when many business processes are being reviewed and changed due to the pandemic, Latvenergo's green thinking is being strengthened in the Group's strategy and aligned with the activities of Latvia and the EU in achieving climate goals. Moreover, Latvenergo has a strategic goal to increase the share of renewable energy in its electricity output, so we are not only reconstructing our generation facilities, but also carrying out purposeful activities so that our customers can generate their own green energy, and they highly appreciate this opportunity. Only by working together can we achieve the goal of the Green Deal for a climate-neutral Europe in 2050.

In the reporting year, electricity generation at the Daugava HPPs increased significantly, and in 2020 we were once again the largest electricity generator in the Baltics, whose output accounted for almost 30% of the total electricity output in the Baltic states. To our great satisfaction, 60% of this output is green energy from renewable energy sources. Speaking of the importance of the Daugava HPPs in the Baltic power system not only on a daily basis, but also in crisis situations, it should be noted that in June 2020 the Daugava HPP cascade effectively provided energy to Latvia and neighbouring countries after an accident in the transmission network, which for a brief period left most of Riga and Latvia without electricity.

The Group is in continuous operation and development, and although the reconstruction process at the generation facilities was affected by the restrictions caused by COVID-19, the reconstruction of Daugava HPPs and the Aiviekste HPP successfully continued in 2020, gas turbines were modernised at CHPP-1, and a heat storage project was constructed at CHPP-2 to further increase the efficiency of the plant.

Last year, electricity consumption in the Baltics decreased by 2.4% due to both the COVID-19 crisis and warmer weather, and in April the price reached a historically low level since the market was opened – the spot price in Latvia was 26% lower than in 2019.

With a 23% market share, in 2020 Latvenergo Group was one of the largest electricity traders in the Baltics. We have significantly expanded our retail operations in new business directions, increased the volume of natural gas sold, and developed sales of other products and services. We sold more than 500 GWh of natural gas in retail in the Baltics, which is a new record and about twice as much as in 2019. More than 600 new solar panel sales agreements were signed, with the total installed capacity of solar panels reaching 6.3 MW. We started the construction of *Elektrum* solar parks in Lithuania and Estonia with a total capacity of 1.75 MW and concluded more than 13 thousand contracts since the opening of the Lithuanian household electricity market. In addition, we significantly expanded the range of products of the online shop elektrumveikals.lv and purposefully developed the charging network for electric vehicles in Latvia. All these achievements prove that Latvenergo Group is a development-oriented company.

The changes related to the unbundling of transmission assets are a significant event for the industry and the Group. In June 2020, all transmission assets were transferred to Augstsprieguma tikls AS. The need for such changes was underpinned by a European Union directive.

Sadales tikls AS continued to implement efficiency measures, improve processes, carry out the smart meter installation programme, and achieve important benefits for every customer. This was reflected in lower costs of the distribution service, allowing the distribution tariff to be reduced by an average of 5.5% from 1 January 2020.



Good financial results are also pleasing. The Group's profit in 2020 reached EUR 116 million – a 23% increase. Such results ensure that in 2021 we will be able to pay almost EUR 100 million in dividends to the state while continuing to develop.

To provide funding for Latvenergo Group's development projects, in 2020, the base prospectus of the third bond programme of Latvenergo AS was registered with the Financial and Capital Market Commission, and the next bond issue is planned in the format of green bonds. We see that the demand for green bonds has increased and is growing year on year. The Green Bond Framework of Latvenergo AS has also received the highest – dark green – rating by the independent research centre CICERO, which confirms that the investment projects planned by Latvenergo are sustainable and environmentally friendly.

It is very important for Latvenergo Group that our generation processes are also environmentally friendly and that resources are used efficiently, and we are convinced that such an attitude is the basis of the sustainability of any company. This position is in line with the Green Deal set by the European Commission. The European Union is committed to a climate-neutral economy by 2050, and active and targeted action is already needed to achieve this goal. Achieving climate goals is very important for everyone, so when creating the strategy for the next period, we already see that climate neutrality will bring not only benefits to society, but also opportunities for growth.

The owner of our company is the state; therefore, any high appreciation is important not only for ourselves, but for Latvian society as a whole. At the beginning of 2021, Latvenergo AS once again received the Nasdaq award for best investor relations on the bond market in the Baltic states. Both Latvenergo AS and Sadales tīkls AS acquired the Platinum category in the Latvian Sustainability Index. In a study on employer image by the personnel recruitment company Amrop, Latvenergo AS was recognised as one of the best-rated employers in Latvia.

We thank our customers, employees, investors and cooperation partners for their trust and wish them success in the new conditions!

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Reporting period	1 January 2020 – 31 December 2020
Reporting frequency	Annually, since 2009, in accordance with the Global Reporting Initiative (GRI) Guidelines.
Publication date	14 April 2021
Publication date of the previous report	8 April 2020
Global Reporting Initiative	The Sustainability Report 2020 has been prepared in accordance with the GRI Standards Core level requirements and includes non-financia information as stipulated by Directive 2014/95/EU of the European Parliament and of the Council and the Law on the Financial Instruments Market.
Scope of the report	The report discloses information about Latvenergo Group (see the section About the Group).
Content of the report	The report discloses information about the topics and indicators that are important to the operations and sustainability of the Group. General Standard Disclosures are fully covered according to the GRI Standards Core level requirements. Based on the materiality assessment 16 material topics relevant to the sustainability of the Group and 31 Specific Standard Disclosures are disclosed (see the GRI Index table). The report preparation process is described in the section Materiality Assessment. The methods for measuring data have not been altered significantly compared to the sustainability reports for previous years.
	On 10 June 2020, according to the Cabinet of Ministers' decision of 8 October 2019, the transmission system assets were unbundled from Latvenergo Group (more information in the section Lease of Transmission System Assets).
Independent auditor's assurance report	The assurance report on the Sustainability Report 2020 has been prepared by PricewaterhouseCoopers SIA.
Report format	 The report is available electronically: on the Latvenergo website www.latvenergo.lv (in Latvian and English); in the GRI Sustainability Disclosure Database http://database.globalreporting.org/ (in English); on the Nasdaq Baltic website www.nasdaqbaltic.com (in Latvian and English).
Contact information	Please send any questions or suggestions regarding the Sustainability Report to: sustainability@latvenergo.lv

GRI Standards disclosure requirements

	Core level	Comprehensive level
General Standard Disclosures (GRI 100)	At least 33 disclosures from GRI 102	All disclosures from GRI 102
Specific Standard Disclosures (GRI 200, 300, 400)	At least one topic-specific disclosure for each material topic	All topic-specific disclosures for each material topic



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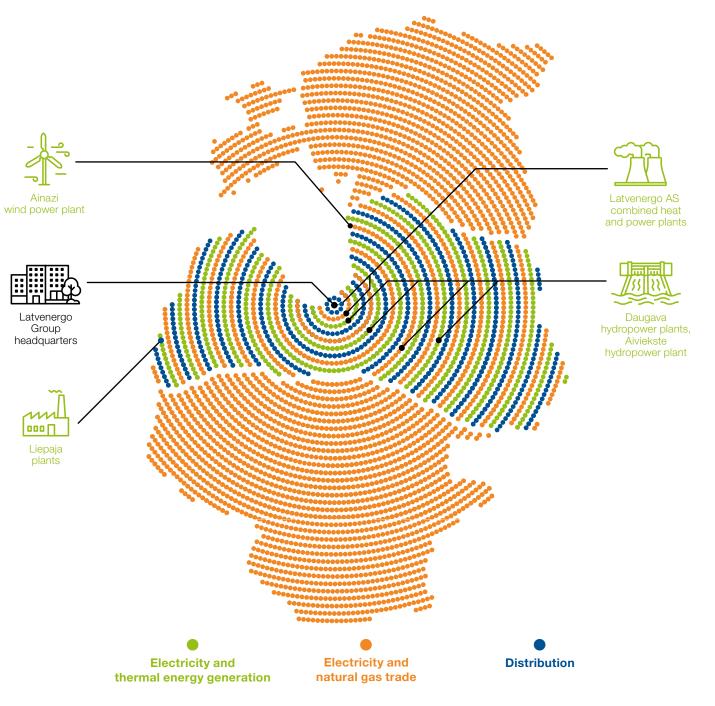
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Latvenergo Group is one of the largest power suppliers in the Baltics. It operates in electricity and thermal energy generation and trade, natural gas trade, and electricity distribution. Until 10 June 2020, the Group also provided leasing of transmission system assets to the transmission system operator. Since the unbundling of the transmission assets, Latvenergo Group's operations have been organised into two operating segments. One segment covers generation and trade, while the other comprises distribution of electricity. For more information on operating segments and the unbundling of transmission assets, see the section Operating Segments.

The Group comprises the parent company Latvenergo AS, with decisive influence, and five subsidiaries. All shares of Latvenergo AS are owned by the Republic of Latvia, and they are held by the Ministry of Economics of the Republic of Latvia. Information about the participating interests in the subsidiaries and their locations is disclosed in Notes 1 and 16 to the Consolidated Annual Report.





Facts 2020

			2020	2019	Employees	3,295
ፌ	Financial figures*				16%	
About Latvenergo Group	Revenue		773.4	841.6		_
	Profit	MEUR	116.3	94.4		Distribution
Francisco	Assets	MEUR	3,358.8	3,864.9		Generation and trade
- Foreword	Investments	MEUR	168.9	229.4		Corporate functions
About the Report	Moody's credit rating		Baa2	Baa2	27%	
About the Group					5176	
Group Strategy						
Corporate Social	Generation and trade					
Responsibility	Installed electrical capacity		2,605	2,591		
Awards	Installed thermal capacity	MW	1,838	1,838	Share of renewable resources in the electricity output	60 %
orporate Governance	Electricity output	GWh	4,249	4,880		
	Thermal energy output	GWh	1,702	1,842		
perating Segments						
Serating Degments	Generation efficiency of the Daugava HPPs	m³/kWh	18.1	17.9	40.1%	Water
stainability Indicators	Generation efficiency of the Latvenergo AS CHPPs	%	76	72		Biomass and wind
						Natural gas
nexes to	CO ₂ emission intensity	t/MWh _{el}	0.12	0.18	59.5%	
e Sustainability Report						
	Market share in the Baltics	%	23	23	0.4%	
nual Report	Retail electricity supply	GWh	6,394	6,505		
indar noport	Retail natural gas supply	GWh	516	303	Elektrum customer satisfaction	(on a scale 1-6)
	Retail customers	thsd.	744	757	Liektrum customer satisfaction	
					4.1 4.3	1
					3.8 3.9	
	Distribution					
	SAIDI	min	219	246		
	SAIFI	number	2.3	2.7		Business customers
	Length of distribution lines	km	92,656	92,958		Households
	Transformer capacity	MVA	6,118	5,922		
	* excluding discontinued operations (see Note 30 of the financial statements)					
	excluding discontinued operations (see Note 50 of the infancial statements)				2019 2020 2019 202	0

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Highlights 2020

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Elektrum strengthens its position in the solar panel market in the Baltics and starts to sell electricity to Lithuanian households

The total capacity of solar panels installed by customers has reached 6.3 MW, which makes Latvenergo one of the leading providers of this service in the Baltics. In the reporting year, more than 600 solar panel sales contracts were signed in the Baltics, which is 92% more than in 2019. In October, the construction of *Elektrum* solar panel parks with a total capacity of 1.75 MW started in Lithuania and Estonia.

Gradual opening of the Lithuanian household market to free competition enables *Elektrum* to further expand its operations in the Baltics. By the end of the reporting year, more than 13,000 agreements were concluded in this segment.

Latvenergo as the leading expert in the industry At the end of the reporting year,

electromobility and strengthen

Continuing to develop

Elektrum provided 36 electric car charging ports, some of which were installed together with cooperation partners. Further development of *Elektrum* ports both in Riga and in regional centres is planned in 2021.

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At the beginning of 2021, Latvenergo AS again received the Nasdaq award for best investor relations on the bond market in the Baltic states.

Transmission system assets have been unbundled from Latvenergo Group

According to the decision of the Cabinet of Ministers, on 10 June 2020, the transmission assets were unbundled from Latvenergo Group, transferring all shares of Latvijas elektriskie tīkli AS to the Ministry of Economics.

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

In the reporting year, customer satisfaction with Sadales tikls AS increased significantly, and European Distribution System Operators (E.DSO) recognised the company as an example of good practice for customer service solutions in Europe.

Quality and security of power supply indicators also increased considerably. In the last five years, the System Average Interruption Duration Index (SAIDI) decreased by 24% and the System Average Interruption Frequency Index (SAIFI) decreased by 26%.

On August 13, the 800,000th smart electricity meter was installed in Daugavpils. At the end of 2020, smart meters accounted for 77% of the total meter fleet and were metering 90% of the total amount of electricity consumed.

Successfully ensuring the continuity of electricity generation, trade and supply in COVID-19 conditions

Since we performed purposeful digitalization of customer service in previous years, customers of *Elektrum* and Sadales tikls AS can easily and efficiently communicate with the company and apply for all services remotely. Remote work and other epidemiological safety measures also play an important role in ensuring business continuity.

The FIZMIX portal has proved particularly useful during distance learning

At a time when education is often remote due to COVID-19, the FIZMIX portal developed and maintained by Latvenergo has proven to be a valuable and important educational platform for both students and teachers. During the distance learning months, the number of portal usage sessions increased by about 70%.



Group Strategy

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2020 has been a challenging year for the world and for Europe as well. To overcome the negative effects of the COVID-19 pandemic on Member States' economies, the European Union has prioritised climate and environmental change, as well as digitalization. These priorities follow the European Commission's (EC) Communication on the European Green Deal of 2019, and the EC is currently working on the preparation of European recovery mechanisms involving Member States, including Latvia. The Green Deal focuses on the use of renewable energy sources and progress towards climate neutrality by 2050.

Latvenergo is already one of the greenest electricity producers in Europe – the Group generates a significant proportion of electricity at hydropower plants. These are supplemented by modernised combined heat and power plants, which generate electricity from natural gas – the most environmentally friendly fossil energy source. Without resting on its achievements, Latvenergo Group will continue to adapt to the industry's development course and use the opportunities it provides in the coming decades. Therefore, the Group sees increasing the share of renewable energy sources in its generation portfolio as an important development direction, paying special attention to the use of wind and solar energy, as well as the development of new product lines focused on energy efficiency and electromobility.

In the reporting year, the continuity of electricity generation, trading and supply was successfully ensured in the conditions of the COVID-19 pandemic. Over the years, the Group has carried out targeted digitalisation of customer service; therefore, customers of *Elektrum* and Sadales tikls AS can quickly and easily apply for all services remotely.

The Latvenergo Group Strategy 2017-2022 defines the strategic operational and financial objectives and main development tasks of the Group. The year 2020 closes two-thirds of the strategy implementation period, and the Group is gradually approaching the fulfilment of its targets. At the end of 2020, work began on preparing a strategy for the next period. The lines of action launched so far also outline future goals – progress towards a climate-neutral economy within the European Green Deal.

Sustainability in the Latvenergo Group

Responsibility for the Group's impact on the economy, society and the environment

Economic development	Society	Environmental protection
Provision of energy to the national economy	Increasing the value of products and services	Environmentally friendly operations mitigating or preventing risks to the environment
Sustainable and well-considered investments in the energy generation and network infrastructure	Loyal and sustainable customer relations	Effective use of natural resources and promotion of energy efficiency
High efficiency standards	Reliable power supply	Fostering preservation of biodiversity
	Development of human resources and their competencies, and ensuring knowledge continuity	





The Group's strategic objectives

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1. Strengthening a sustainable and economically sound market position in home markets (in the Baltics), while considering geographical and/or product/service expansion

This objective envisages excellence in the Group's trade operations and cost efficiency. It also comprises development of new products and services, including starting retail supply of natural gas on domestic markets.

Latvenergo Group remains one of the largest providers of energy supply services and the most valuable energy company in the Baltics. The Group currently operates in all energy trade segments in Latvia, Lithuania and Estonia with its *Elektrum* brand. In 2020, significant work was done to prepare for the gradual opening of the Lithuanian household electricity market to free competition in early 2021. This has allowed *Elektrum* to further expand its operations in the Baltics. In the reporting year, a total of 6.4 TWh of electricity was supplied to retail customers; one-third of it was supplied to customers outside Latvia.

Latvenergo Group is one of the largest consumers of natural gas in the Baltics, and this experience has made it possible to successfully start retail supply of natural gas in the Baltics in the strategy period. In the reporting year, the amount of natural gas supplied to customers increased almost two times and reached 516 GWh.

The Group also offers a range of electricity consumption-related products and services to customers throughout the Baltics – smart home technologies, installation of solar panels, energy risk insurance and various electrical appliances in the *Elektrum* online shop. At the end of the reporting year, the total capacity of solar panels installed by customers reached 6.3 MW, which makes Latvenergo one of the leading providers of this service in the Baltics. In October, the construction of *Elektrum* solar panel parks with a total capacity of 1.75 MW started in Lithuania and Estonia.

The Group also continues to strengthen its position in the field of electromobility. At the end of the reporting year, *Elektrum*, as one of the largest charging networks in Latvia, provided 36 electric car charging ports, some of which were installed together with cooperation partners. Further development of *Elektrum* ports both in Riga and in regional centres is planned in 2021. This is also confirmed by the memorandum concluded in October between Latvenergo AS, Ceļu satiksmes drošības direkcija VAS and car sharing service companies Fiqsy, Carguru and CityBee, which provides for the promotion of electromobility in Latvia.

2. Developing a generation portfolio adequate for synergy with trade and increasing the Group's value

This objective envisages reconstruction of the Daugava HPPs' generating facilities to ensure their sustainable and reliable operation. Furthermore, the aim is to move towards diversification of primary generation sources and the development of generation capacities which meet the criteria for low-emission projects.

In line with market conditions and the European Green Deal, the Group invests in generation assets. In the reporting year, the renewal of Daugava HPP hydropower units continued, which will ensure their operation in the next 40 years. Through the implementation of this project, the installed capacity, efficiency rate and electricity output of the hydropower units is increasing. The use of water, a renewable energy source, in a more efficient way reduces the impact of the Group on climate change. Until now, six hydropower units have been renewed in this strategy period. Reconstruction of Aiviekste HPP was also started in the reporting year.

Furthermore, both CHPPs play a very important role in providing generation capacities at a time when the water inflow in the Daugava River is low due to meteorological conditions. To use the advantages of the cogeneration regime as efficiently as possible, the largest heat storage tank in the Baltics is being built at the CHPP-2, which is scheduled for completion in 2021. The increase in flexibility and efficiency of CHPP-2 will allow the power plant to better adapt operation to variable market conditions, at the same time reducing GHG emissions even more. During the reporting year, CHPP-1 gas turbines were modernised, improving their capacity and efficiency.

The Group sees increasing the share of renewable energy sources in its generation portfolio as a future development direction, paying special attention to the use of wind and solar energy, as well as the development of new product lines focused on energy efficiency and electromobility.

3. Developing a functional, safe and efficient network corresponding to customer needs

This objective envisages increasing operational and cost efficiency of the distribution network, enhancing the quality and reliability of distribution services and actively implementing the digitalisation of the distribution network as well as the development of the transmission assets.

A significant improvement in power supply continuity indicators has been achieved in the strategy period so far. The distribution network was reconstructed and upgraded, which has made it possible to reduce the System Average Interruption Duration Index (SAIDI) by 24% and the System Average Interruption Frequency Index (SAIFI) by 26% since 2016. Digitalisation of the distribution network continued successfully – at the end of the reporting year, smart meters already accounted for 77% of the total meter fleet and were metering 90% of the total amount of electricity distributed. In the reporting year, customer satisfaction with Sadales tikls increased significantly, and European Distribution System Operators (E.DSO) recognised the company as an example of good practice for customer service solutions in Europe.

The strategic development and efficiency implementation programme initiated by the Group in 2017 allowed the Group to retain and increase its value and competitiveness in the open market and in the changing energy sector in the long term. Reorganisation of the structure of Sadales tikls AS, centralisation of processes and significant reduction of the number of vehicles, maintenance depots and employees were carried out within the programme. The reduction in costs has provided an opportunity to reduce the total payment for electricity distribution by 5.5% on average from 1 January 2020.

Pursuant to the decision of the Cabinet of Ministers, on 10 June 2020, the transmission assets were unbundled from Latvenergo Group, transferring all shares of Latvijas elektriskie tīkli AS to the Ministry of Economics. More information is available in the section Lease of Transmission Assets.



The Group's financial objectives

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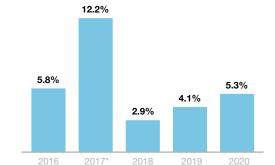
Profitability

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

Return on equity (ROE)

> 6%

Industry average: 5–8%



Latvenergo Group's profit for 2020 amounted to EUR 116.3 million, which is a 23% increase from the year before. The return on equity (ROE) also increased by 1.2 percentage points. The overall increase in the Group's profit was fostered by lower energy purchase prices and a 23% increase in electricity generation at the Daugava HPPs. On the other hand, profit and profitability were negatively affected by lower revenues of the distribution segment due to a decrease in the volume of distributed electricity and the distribution system service tariff. The level of profitability of regulated services provided by the Group is determined by the PUC.

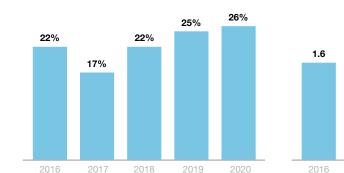
Capital structure

an optimal and industry-relevant capital structure that limits potential financial risks

Net debt to equity

< 50%

Industry average: 30–50%



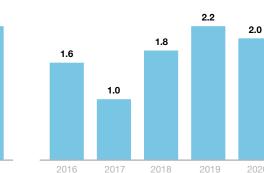
The 2020 capital structure financial ratios met the set objectives and exceeded average industry ratios as well.

Taking into account the unbundling of transmission assets from Latvenergo Group in June 2020, the discontinued operation (transmission system assets) was removed from capital structure ratios.

Net debt to EBITDA

< 3

Industry average: 2.5–3



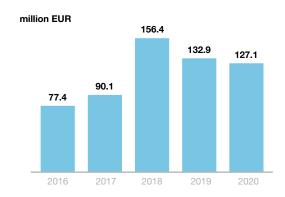
Dividend policy

a dividend policy that is consistent with the planned investment policy and capital structure targets

Dividend payout ratio



Industry average: 60–70%



Dividends are paid in compliance with the legislation of the Republic of Latvia. The strong capital structure provides for dividend payments larger than the industry average. The dividend policy defined in the strategy sets the dividend payout ratio at more than 80% of the profit, while each year's dividend payout is set by the Shareholder Meeting upon evaluation of the actual results. Over the last five years, the average dividend payout ratio has been around 80%. For more information on the ratio, see the Annual Report section Key Figures.

* In 2017, the Group's profit consisted of its operating result – a profit in the amount of EUR 172.9 million – and a deferred tax reversal in the amount of EUR 149.1 million as a result of the corporate income tax reform.





Corporate Social Responsibility

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Latvenergo Group follows responsible business principles and implements statutory and voluntary activities, contributing to sustainable economic, environmental and social development. In its operations, the Group implements the principles of social responsibility in compliance with ISO 26000.

Corporate social responsibility (CSR) principles and activities are set in the CSR policy of the Group. These activities promote the involvement of large groups of society and ensure a considerable long-term impact and public benefit, and they are implemented in the following directions:

- science and education;
- raising public awareness of electrical safety;
- environmental protection;
- culture and energy heritage;
- social support and responsibility towards employees.

The corporate reputation study of 2020 shows that most stakeholders see Latvenergo Group as an example of responsible business. Public awareness of electrical safety and environmental protection has grown significantly. CSR activities are positively assessed by all target groups, especially industry experts and media representatives. 69% of the population and 91% of the surveyed industry experts believe that the Group should continue CSR activities in the field of education and science.

Donations comprise one of the forms of CSR. The donation strategy of Latvenergo AS (updated at the beginning of 2021) provides for new tasks – support for the improvement of physics classrooms in schools, sports activities for children and young people, and energy-efficient solutions for people with special needs. In a survey on the company's donation activities conducted in 2020, almost every inhabitant of Latvia knew or had heard about one or more projects supported by Latvenergo AS. The population evaluates donation activities positively – the rating of cultural activities has increased slightly, while the rating of education and science, as well as social support activities, has remained high.

Recognizing its own role in and contribution to sustainable development, the Group is committed to processes, products and services that promote the achievement of the United Nations' Sustainable Development Goals (SDGs). Three SDGs have been set as priorities and are relevant for the main activities of the Group. When implementing CSR activities, the Group also contributes to the achievement of other SDGs.

SDG 7 AFFORDABLE A CLEAN ENERG

Ensure access to affordable, sustainable and modern energy for all

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

Build resilient and sustainable infrastructure, promote inclusive and sustainable industrialization, and foste innovation



Take action to combat climate change and its impacts

	The Group's contribution to the achievement of the SDG	Section
AND Gy	high share of renewable energy in the generation portfolio and $\rm CO_2$ emission intensity significantly lower than the European average	Generation Environmental Topics
	starting the construction of solar panel parks for customers in Lithuania and Estonia	Generation
ess ile, and	modern electricity products in line with the specifics of customers' consumption, including <i>Elektrum Solar, Elektrum Green, Elektrum Smart House, Energo pulss,</i> trade of products promoting energy efficiency, electric vehicle charging stations	Trade
/ for all	various measures for promotion of customers' energy efficiency, for example, seminars, individual consultations at the Energy Efficiency Centre	Trade
	automation and digitalisation of customer service processes	Social Topics
VATION Icture	the Daugava HPPs hydropower unit reconstruction programme and Aiviekste HPP reconstruction to ensure generation of sustainable energy and efficient use of resources	Generation
]	renewal of the distribution network and creation of a more efficient network structure	Distribution
t and structure,	construction of the Baltics' largest heat storage tank at CHPP-2, ensuring more effective use of energy sources	Generation Environmental Topics
usive able and foster	digitalisation of the distribution network, which promotes energy efficiency and reduction of costs	Distribution
n	involvement in the Innovation Forum for Excellent Latvian Enterprises	Social Topics
	CO ₂ emission intensity significantly lower than the European average secured by the considerable share of renewable energy sources in the consumption of primary energy sources and efficient CHPP generation modes	Generation Environmental Topics
combat	modernisation of the electricity distribution network, which has allowed the Group to reduce distribution losses by 58 GWh or 17% in the last five years	Distribution

an energy management system corresponding to the international standard Environmental Topics ISO 50001



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Science and education

Activities that promote young people's interest in exact sciences and engineering professions, complement teachers' educational resources, support energy researchers and lecturers, and educate the public on energy efficiency.





246 teams or 1,230 schoolchildren from all over Latvia applied for the contest in the 25th anniversary year of *FIZMIX Eksperiments*. Due to the emergency situation, the final of the competition was organised remotely for the first time. Participants had to perform various tasks and practical experiments, while experiment workshops were organised to improve the professional competence of physics teachers.

The website of the Energy Efficiency Centre

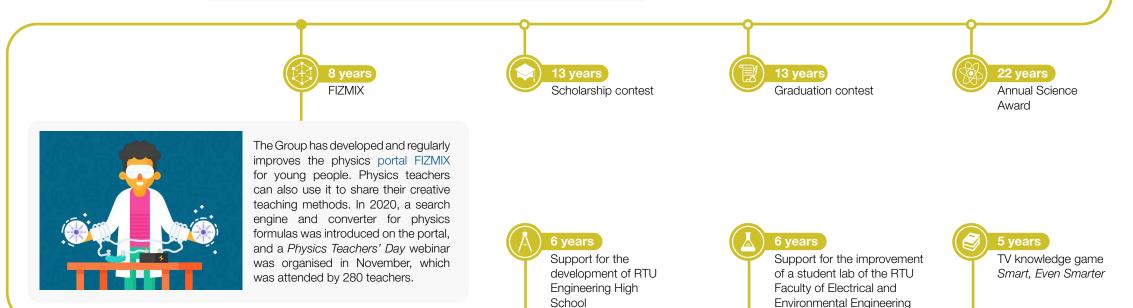
23 years

Centre

Energy Efficiency

provides e-consultations and tips on how to better care for nature and economise. In 2020, the Group implemented a new household energy efficiency programme, *Energo Pulse*. It provides opportunities to compare your energy consumption with other similar households in Latvia and to receive tips for reducing household energy consumption.







Culture and energy heritage

26 years

Energy Museum

Support for nationwide cultural events that strengthen Latvia's cultural traditions and national identity.





The Energy Museum promotes public awareness of environmentally friendly energy generation, its energyefficient use and the development of electromobility; it also facilitates interest in engineering professions and career opportunities at Latvenergo Group. In 2020, the digital exhibition *A Selection from the Museum Storage Collections* was created in the Museum in Kegums and a new exhibit storage facility was set up.



Take a train and go to Kegums to learn the history of energy and to Jurmala to learn about energy efficiency!

In cooperation with the State Cultural Capital Fund (SCCF), in 2020 the Group supported the *Rhythms of Riga 2020* music festival, the *Cesis 2020* art festival, the *Valmiera Summer Theatre Festival 2020*, the *Porta* world music festival, the International Baltic Ballet Festival and the *Riga Jurmala* classical music festival.



Environmental protection

Activities aimed at preserving biodiversity and minimising the environmental impact of the Group.

11 years Fish protection projects

> The Group cooperates with the association *Mēs zivīm* in replenishment of fish breeds characteristic of the Daugava River basin. In April, more than 400 artificial spawning nests for fish were placed in the Daugava River near Ikskile, Kaibala and Klintaine. One of the nests was shown online on the *Latvenergo* website and in the company's *Facebook* account.



Raising public awareness of electrical safety

Electrical safety projects aimed at reducing the number of electrical injuries caused by lack of knowledge.

15 years

Education of children and young people on electrical safety

In 2020, Sadales tikls AS made a short educational film on electrical safety, which was provided to educational institutions throughout Latvia and received positive feedback from teachers and students. The company's employees – electrical safety ambassadors – have also conducted more than 120 classes both on site and remotely, educating a total of about 3,800 children and young people.

Social support and responsibility towards employees

Support for socially vulnerable persons and additional social guarantees for employees.





In cooperation with Ziedot.Iv, Latvenergo Group supported 10 social projects following a project tender in 2020, thus providing social support to several thousand people throughout Latvia.

3 years Project tender Support for the Promotion of Social Assistance

Sadales tikls AS educates people engaged in business operations, logging and agricultural work and urges them to take care of their own safety and the safety of those around them and to follow electrical safety rules near electricity lines.

7 years

Education of people engaged in business operations, logging and agricultural work on electrical safety

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Latvenergo Group's sustainability, governance and social responsibility are appreciated

- At the beginning of 2021, Latvenergo AS again received the Nasdaq award for best investor relations on the bond market in the Baltic states. Detailed and high-quality sustainability reports, an informative and investor-friendly website, and timely disclosure of information were especially appreciated.
- For the eighth year in a row, Latvenergo AS was awarded the Platinum category and the historically highest assessment of 97.5% from the Latvian Sustainability Index. Sadales tikls AS was awarded the Platinum category for the second time. Liepājas enerģija SIA was awarded the Gold category for the third time.
- In a study conducted by Amrop personnel recruitment company on employer image, Latvenergo AS was recognized as one of the best rated employers in Latvia. For the eighth time, Latvenergo AS was ranked as the top employer in the production sector in a survey by CV-Online Latvia. Sadales tikls AS received *Work-Life Balance Award 2020* by the Employers' Confederation of Latvia in the category *Support measures for employees for implementation of flexible working mode*.
- In the contest *The Safest Company Car Fleet* the Golden Award went again to the car fleet of Latvenergo Group and the special vehicle fleet of Sadales tikls AS.
- Sadales tikls AS received an acknowledgement from the school programme *Ready for Life* for its contribution to improving students' competencies and strengthening the education system in Latvia.

Latvenergo Group – a leader in the energy industry

- In TOP 101 Most Valuable Companies in Latvia Latvenergo AS received the award for the most valuable company in Latvia for the 13th time and was declared the most valuable power utility in the Baltics.
- In the Latvian Business Annual Report 2020, Latvenergo AS retained its leading position among Latvian electricity and gas sector companies. Sadales tīkls AS was in second place by turnover.
- In the TOP 500 of Latvian Companies, Latvenergo AS was recognised as the largest EBITDA maker, the largest state-owned company and the largest company in the energy sector.

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

 The e-services of Sadales tikls AS and centralised data exchange between electricity traders and customers have been recognized by European Distribution System Operators (E.DSO) as an example of good practice for customer service solutions in Europe.



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The corporate governance model of Latvenergo Group has been developed in compliance with governance best practice based on the regulatory framework and corporate governance guidelines. The elements included in the model are a prerequisite for achieving the Group's goals and increasing its value.

Every year, Latvenergo AS prepares a corporate governance report according to the requirements of the Financial Instrument Market Law and the Principles of Corporate Governance and Recommendations on Their Implementation issued by Nasdaq Riga AS. In 2020, the company complied fully with all 77 (out of 83) governance principles applicable to the company's operations; the other six are not applicable to the company's operations. The report is available on the Latvenergo website and on the Nasdaq Baltic website.

Roles. Prevention Ethics and **Openness and** responsibilities and of conflicts **Stakeholders** compliance transparency accountability of interest Responsibility Efficiency **Openness** Shareholder Meeting Supervisory Board Management Internal Audit Board VALUES COMMUNICATION

Ethics and compliance

Latvenergo Group follows high standards of professional ethics, ensures the compliance of its operation with legislative requirements and does not engage in anti-competitive, corrupt or discriminatory transactions.

To prevent corrupt or fraudulent activities, employees are regularly informed about ethics and compliance standards and the internal regulations of the Group are continuously improved. The Group also urges its partners to comply with the same ethical principles and, when entering contracts, it asks for confirmation that cooperation will be based on the principles of fair business cooperation. The Code of Ethics and fundamental ethical principles for cooperation with contractual partners are published on the Group's website.

Roles, responsibilities and accountability

The roles, responsibilities and accountability of the governance bodies are clearly defined by laws and regulations of the Republic of Latvia and by the Group's internal documents. The most important of these are the companies' Articles of Association and regulations of the governance bodies, which are published on the Group's website.

Openness and transparency

Latvenergo Group publishes financial and non-financial information on the Latvenergo website and the Nasdaq Baltic website. The Sustainability and Annual Report and the Corporate Governance Report are published by the Group on a yearly basis. The Interim Financial Reports of the Group, Latvenergo AS and its subsidiaries are published on a quarterly basis. Virtual conferences on the Group's financial results and business developments are held every six months.

Prevention of conflicts of interest

Members of supervisory boards and management boards of state capital companies have the status of public officials, which restricts their activities that fall outside the framework of their official powers to prevent personal or financial interests in their activities. Members of supervisory boards and management boards are obliged to submit annual asset declarations as public officials.

The Group's Code of Ethics defines the types of conflict of interest and the measures for the prevention of conflict of interest situations. The Group organises trainings and informative events and has introduced conflict of interest declarations, which are submitted annually by employees who, as a part of their official duties, participate in decision-making and have run into or may run into conflict of interest. Upon entering employment, new employees must confirm their commitment to prevent conflict of interest within their activities.

Stakeholders

Latvenergo Group assesses and takes into consideration its impact on stakeholders and vice versa and handles issues of material importance to its stakeholders with a sense of responsibility. More information on the Group's cooperation with stakeholders is provided in the section Stakeholder Engagement.



Governance Bodies

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Shareholder Meeting

The principal duties

- approval of the Annual Report and decision-making on distribution of the company's profit from the preceding year
- electing and dismissing members of the Supervisory Board and the Audit Committee, approval of their remuneration
- appointment of the auditor, determining his/her remuneration

100% of the shares of Latvenergo AS are owned by the state and held by the Ministry of Economics of the Republic of Latvia. Latvenergo AS is a nationally important economic object, and its shares may not be privatised or alienated.

The interests of the shareholder are represented at the Shareholder Meeting by the State Secretary of the Ministry of Economics or his/her authorised delegate. Meetings are convened in accordance with the requirements and timelines stipulated by the Law on Governance of Capital Shares of a Public Person and Capital Companies.

Six Shareholder Meetings took place in 2020. The most important decisions passed were the approval of the Annual Report 2019, distribution of dividends in the amount of EUR 127.1 million, unbundling of transmission assets and election of members of the Supervisory Board and the Audit Committee.

Supervisory Board

The principal duties

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

In accordance with the Articles of Association of Latvenergo AS the Supervisory Board consists of five members, their term of office is five years and all members are independent specialists who are not engaged in the operational activities of the Group. The Supervisory Board changed in the reporting year – on June 10, the Shareholder Meeting elected a new composition of five members through a competition.

15 meetings of the Supervisory Board took place in 2020. In addition to their main duties, the Board supervised the implementation of the strategic development and efficiency programme; initiated and supervised the audit regarding actions of the Group's officials in 2015 (breaches of the Code of Ethics were identified) and drew conclusions about the necessary improvements in the internal governance processes; organised management discussions on the development of the strategy for the next period. The Supervisory Board of Latvenergo AS has carried out a self-assessment of its performance in 2020 and concluded that the Supervisory Board worked according to the authority provided in the Articles of Association and that it has overall successfully ensured strategic management and supervision of the operation of the company and its Management Board.

In compliance with the Regulations, the Supervisory Board of Latvenergo AS may form committees consisting of members of the Supervisory Board for reviewing particular matters. A Human Resources Committee was established to prepare proposals for the selection, remuneration, performance assessment and combination of positions of employees of the Management Board, the Audit Committee and the Internal Audit. Seven meetings of the Committee were held in 2020.

The Regulations of the Supervisory Board of Latvenergo AS are available on the website of the Group.

Management Board

The principal duties

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

The Regulations of the Management Board of Latvenergo AS provide that it consists of five members elected by the Supervisory Board for five years after evaluating their suitability with regard to necessary competences, experience and anticipated responsibilities. The Management Board operates in compliance with the Articles of Association and the Regulations of the Management Board and reports to the Supervisory Board. All members of the Management Board are independent in their operations and hold no interest in the capital of cooperation partners or related companies. The Management Board members are jointly liable for compliance with all binding laws and regulations, execution of the decisions of the Shareholder Meeting and the Supervisory Board, and the financial performance of the Group.

In 2020, several changes took place in the Management Board. The Chairman of the Management Board Ā. Žīgurs and the Member of the Management Board U. Bariss left the Board in October and November, respectively. G. Baļčūns was appointed the Chairman of the Management Board in November. A. Kurgs and U. Mucinieks were appointed as temporary Management Board members in November 2020 and February 2021, respectively (both will remain in office until permanent Management Board members are selected). At the end of the reporting year, the Management Board had three members, and as of this report's publication, it has four members. New members of the Management Board for Latvenergo AS will be selected through a competition.

In 2020, 65 Management Board meetings were convened. Number of meetings attended: \overline{A} . Žīgurs (Chairman of the Management Board until 30.10.2020) – 46; U. Bariss (held office until 15.11.2020) – 55; K. Cikmačs – 64; G. Baļčūns (Chairman of the Management Board from 31.10.2020) – 62; A. Kurgs (holds office from 06.11.2020) – 11. The overall attendance rate was 95%.

The Regulations of the Management Board are available on the Latvenergo website.

Audit Committee

The principal duties

- to supervise the financial reporting process
- to supervise efficiency of the internal control and risk management systems
- to supervise the work of the Internal Audit and the external auditor
- to supervise implementation of the Fraud Risk Management Plan

There is an independent Audit Committee at Latvenergo AS, which reports on its operations and performance to the Supervisory Board. In accordance with the Company's Articles of Association, it is composed of five members, and at least one of them is a member of the Supervisory Board. At the end of the reporting year, the Audit Committee had four members, while the fifth member was elected by the Shareholder Meeting in February 2021. Two members of the Audit Committee are also members of the Supervisory Board, and all members of the Committee are independent. Five meetings of the Audit Committee were held in 2020. The Regulations of the Audit Committee are available on the Latvenergo website.

The Audit Committee of Latvenergo AS operates under the Commercial Law and Financial Instruments Market Law of the Republic of Latvia and the Rules of the Audit Committee approved

Commercial Law and Financial Instruments Market Law of the Republic of Latvia and the Rules of the Audit Committee approved by the Shareholder.

Audit Committee Report

No restrictions have been imposed on the actions of the Committee, and representatives of Latvenergo AS have ensured the availability of necessary information. The Audit Committee have informed the Supervisory Board of its conclusions and recommendations based on the work of the Committee.

In 2020, in addition to the principal duties, the Audit Committee:

- considered and assessed the methodology for internal control system's self-assessment of Latvenergo AS;
- refined the working mechanisms with the newly elected Supervisory Board;
- defined the cooperation between the Committee and the Supervisory Board of Latvenergo AS subsidiary Sadales tīkls AS;
- approved amendments to the Regulations of the Internal Audit Department.

Having assessed the information received from the Internal Audit Director, Compliance Control Manager, Risk Manager, external auditor and other assurance providers, nothing has come to our attention that would lead us to believe that the internal controls of Latvenergo AS are not operating adequately for the purpose of the preparation of the Annual Report 2020.

We submit our activity report and assessments to the Supervisory Board of Latvenergo AS in April 2021.

Torben Pedersen, Chairman of the Audit Committee Svens Dinsdorfs, Member of the Audit Committee Toms Siliņš, Member of the Audit Committee (from 11 June 2020) Gundars Ruža, Member of the Audit Committee (from 11 June 2020) Ilvija Grūba, Member of the Audit Committee (from 3 February 2021)



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Remuneration Policy for the Supervisory Board, the Audit Committee and the Management Board

The remuneration of the Supervisory Board and the Management Board is provided for by the Law on Governance of Capital Shares of a Public Person and Capital Companies and regulations of the Cabinet of Ministers based on it. The legislation provides for uniform regulation regarding remuneration of members of supervisory and management boards of public companies.

The monthly salary of the Chairman of the Supervisory Board and the Chairman of the Management Board is linked to the average monthly salary of employees in Latvia during the preceding year, as published by the Central Statistical Bureau, multiplied by a ratio specified according to the capital company's reference criteria (turnover, assets and number of employees). The maximum ratio applicable to the monthly salary of the chairman of a supervisory board is 3, and in 2020 this was applied to the monthly salary of the Chairman of the Supervisory Board of Latvenergo AS. The ratio applied to the monthly salary of the Chairman of the Management Board was 10, based on the capital company's reference criteria. In 2020, the ratio applicable to the monthly salary of the Chairman of the Management Board was 9.3.

The remuneration of supervisory board and management board members may not exceed 90% of the monthly salary of the chairman of a supervisory or management board respectively. Management board members are entitled to compensation for the performance of additional duties at the company. 20% of the uniform monthly salary of the Chairman and members of the Management Board comprises remuneration for performing the duties of Chief Executive Officer and Chief Officers.

The Supervisory Board may decide on payment of bonuses to the Management Board members once a year following the approval of the Annual Report. The bonuses are based on the company performance, the execution of the strategy and the achievement of the set targets. For Management Board members, bonuses may not exceed double their monthly salary. Members of the Supervisory Board do not receive bonuses. The authorisation agreements signed with the members of the Management Board provide for the possibility to receive a severance payment in the amount of three months' salary if they are recalled from their duties before the expiration of their term of office, including in the event of reorganisation or liquidation of the company. The remuneration policy does not provide for an option to pay remuneration in the form of shares or share options.

The remuneration of the Audit Committee is stipulated by the Regulations of the Audit Committee. The remuneration of the Audit Committee members is determined by the Shareholder Meeting, and its amount corresponds to the average monthly salary of employees in Latvia during the preceding year, as published by the Central Statistical Bureau of the Republic of Latvia. The monthly salaries of the Audit Committee members are determined for the entire term of their office, with the right to revise them once per year. Members of the Audit Committee who are simultaneously members of the Supervisory Board of Latvenergo AS are not compensated for duties performed in the Audit Committee.

Authorisation agreements are signed with the members of the Management Board, the Supervisory Board and the Audit Committee, and the provisions of the Collective Bargaining Agreement do not apply to them.

Remuneration for 2020

In 2020, remuneration was paid to the Supervisory Board of Latvenergo AS in accordance with the period in which they worked.

The Management Board was remunerated as follows: Member of the Management Board and Chief Financial Officer (Chairman of the Management Board and Acting Chief Executive Officer from 31.10.2020) G. Baļčūns – EUR 167,893.02; Member of the Management Board and Chief Financial Officer K. Cikmačs – EUR 165,891.55; Member of the Management Board and Chief Administrative Officer (from 06.11.2020) A. Kurgs – EUR 22,347.60; Chairman of the Management Board and Chief Executive Officer (until 30.10.2020) Ā. Žīgurs – EUR 224,758.97; Member of the Management Board and Chief Commercial Officer (until 15.11.2020) U. Bariss – EUR 180,901.43.

The Audit Committee was remunerated as follows: Chairman of the Committee T. Pedersen – EUR 12,938.38; Member of the Committee S. Dinsdorfs – EUR 12,523.20; Member of the Committee (until 19.11.2020) M. Salgrāve – EUR 11,052.67.

The Supervisory Board which worked until 10.06.2020 was remunerated as follows: Chairman of the Supervisory Board E. Valantis – EUR 14,167.80; members of the Supervisory Board E. Šaicāns and I. Bērziņa – EUR 13,501.08 each. The Supervisory Board which started to work from 11.06.2020 was remunerated as follows: Chairman of the Supervisory Board I. Golsts – EUR 21,304.80; members of the Supervisory Board K. Rokens, T. Siliņš, A. Laizāns and G. Ruža – EUR 19,173.00 each.

Dividend Policy

The distribution of Latvenergo AS dividends is regulated by laws of the Republic of Latvia. In accordance with the Law on the Medium-Term Budget Framework for 2021, 2022 and 2023, the expected amount of dividends to be paid by Latvenergo AS (incl. corporate income tax) is:

- at least EUR 98.2 million in 2021 (for the reporting year 2020);
- at least EUR 87.7 million in 2022 (for the reporting year 2021);
- at least EUR 71.0 million in 2023 (for the reporting year 2022).

The actual amount payable by Latvenergo AS in dividends is determined by the Shareholder Meeting after the approval of the Annual Report, upon evaluation of the results for the previous year.

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Internal Audit

The Internal Audit is an independent unit of Latvenergo AS and its objective is to evaluate and improve the effectiveness of internal control, risk management and governance processes. Internal audits are performed in compliance with the International Standards for the Professional Practice of Internal Auditing. The compliance of internal audit activities with the standards are evaluated by a qualified external assessor once in five years. The last evaluation was carried out in 2019, and the assessor provided a positive attestation of compliance.

The activities of the Internal Audit are supervised by the Audit Committee, which endorses the annual internal audit plan, which is then approved by the Supervisory Board of Latvenergo AS. The internal audit reports on Latvenergo AS are submitted to the Audit Committee while internal audit reports on the Group's subsidiaries are submitted to the Supervisory Board of the relevant company or the Shareholder Meeting. Once a year, based on the audit results and results of other inspections, an overall opinion on the effectiveness of the Group's internal control and risk management systems and recommendations for their improvement are submitted to the Audit Committee and the Management Board of the company of the Group.

Every year, the Internal Audit submits its activity report to the Supervisory Board, the Management Board and the Audit Committee. It comprises information on the audits carried out, assessments of the areas reviewed and recommendations made as well as quality assurance of the internal audit and its compliance with international standards.

Auditor

The annual report auditor of Latvenergo AS for 2020 is PricewaterhouseCoopers SIA, a commercial company of certified auditors. The auditor is selected as a result of the most economically advantageous tender for a period of three years, evaluating the price of the service, the qualifications of the staff involved, the audit execution plan and the audit hours.



Governance of Subsidiaries

Latvenergo Group subsidiaries are governed through governance instruments such as strategy, organisational structure organised around functional units, and policies.

- The activities of the Management Boards of Sadales tīkls AS (until the election of the subsidiary's Supervisory Board on 14.07.2020), Latvijas elektriskie tīkli AS (until unbundling of transmission assets on 10.06.2020) and Enerģijas publiskais tirgotājs AS are supervised by the Shareholder Meeting, where the interests of Latvenergo AS are represented by its Management Board.
- The supervisory body of Elektrum Eesti OÜ and Elektrum Lietuva UAB, which operate outside the territory of Latvia, is their Supervisory Board. Employees of Latvenergo AS who are responsible for the relevant areas of operation at Latvenergo AS are appointed to the Supervisory Boards of these subsidiaries.
- Supervisory functions at Liepājas enerģija SIA, where the equity share of Latvenergo AS is 51%, are carried out by a Supervisory Board of six individuals, half of whom are representatives of Latvenergo AS.

Changes in governance bodies of subsidiaries

In 2020, changes took place in the governance bodies of Sadales tīkls AS:

- On 14 July 2020, the Shareholder Meeting elected the Supervisory Board of Sadales tikls AS consisting of four members. It includes Kristaps Ločmelis (Chairman of the Supervisory Board), Edijs Šaicāns (Deputy Chairman of the Supervisory Board), as well as independent members of the Supervisory Board Viktorija Meikšāne and Inese Zīle.
- On 16 August 2020, Inga Āboliņa resigned from the position of a member of the Management Board. At the end of the reporting year, the Management Board of Sadales tīkls AS consisted of four persons. On 18 January 2021, Kristīne Sarkane was elected to the Management Board of Sadales tīkls AS.
- On 11 June 2020, the unbundling of transmission system assets closed with the transfer of shares of Latvijas elektriskie tīkli AS to the Ministry of Economics of the Republic of Latvia.

On 17 December 2020, the Shareholder Meeting of Enerģijas publiskais tirgotājs AS decided to reorganise Enerģijas publiskais tirgotājs AS by transforming it into Enerģijas publiskais tirgotājs SIA. The reorganisation process ended on 31 March 2021.

Latvenergo AS Supervisory Board



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Ivars Golsts Chairman of the Supervisory Board



Kaspars Rokens Deputy Chairman of the Supervisory Board



Aigars Laizāns Member of the Supervisory Board



Toms Siliņš Member of the Supervisory Board



Gundars Ruža Member of the Supervisory Board

	Douid			
Term of office				
10.06.2025	10.06.2025	10.06.2025	10.06.2025	10.06.2025
Committee membership				
Human Resources Committee	Human Resources Committee (Chairman)	Human Resources Committee	Audit Committee	Audit Committee
Experience				
2019–2020: Fiscal Discipline Council, Secretary	2020-present: Velve SIA, Chairman of the	2016–2021: Latvijas Dzelzceļš VAS, Member of	2020-present: Air Baltic Corporation AS, Member	2020–present: LATRAPS LPKS, Member of the
2008–2015: Latvian Guarantee Agency, Director	Management Board and Chief Executive Officer	the Supervisory Board	of the Supervisory Board	Management Board and Chief Financial Officer;
2003–2006: Latvian State Radio and Television	2017–2019: RB Rail AS, Member of the	2013-present: Latvia University of Life Sciences	2020-present: RERE Grupa AS, Chief Financial	SIA LATMALT, Chairman of the Management Boar
Centre VAS, Chairman of the Management Board-	Management Board and Chief Operating Officer	and Technologies, Vice-Rector for Studies, Professor and Lead Researcher	Officer and Member of the Executive Board	2017–2019: Moller Auto Baltic AS, Chief Executive
Director General	2011–2016: Schneider Electric Latvia SIA, Member of the Management Board, Chief		2018–2020: Remaco Asset Management AG, Group Chief Financial Officer and Investment	Officer of the Group, Member of the Management Board in subsidiaries in Lithuania, Latvia and Estonia
2000–2003: European Bank for Reconstruction and Development, Advisor for Norway / Finland /	Executive Officer	1984–2013: Latvia University of Life Sciences and Technologies, Researcher and Professor	Advisor, Member of the Executive Management	
Latvia Office of Board Directors	1998–2010: Machinery Latvia SIA, Member of the		2013–2016: Sberbank AG. Chief Financial Officer.	2009–2016: Moller Auto Baltic AS, Chief Financial
	Management Board, Chief Executive Officer		Member of the Executive Board	Officer of the Group, Member of the Management Board in subsidiaries in Lithuania, Latvia and Estor
	1994–1998: ABB Latvia, Production Director /		2005–2012: Swedbank AB Group, Member of the	2006–2008: Moller Baltic Import SE and Moller
	Power Plant Department Manager	Management Board, Member of the Supervisory Board, Chief Financial Officer in the Group's companies in Latvia, Estonia, Lithuania 1993–2002 and 2004–2005: Bank of Latvia, Analyst, Investment Portfolio Manager, Head of	Board, Chief Financial Officer in the Group's companies in Latvia, Estonia, Lithuania	Baltikum Holding, Chief Financial Officer
				2002–2006: Ernst & Young Baltic SIA, Member
				of the Management Board, Head of the Business
			Outsourcing Department, Audit and Business	
			the Trading and Investment Division, Deputy Head	Advisory Senior Manager
			of Foreign Exchange Operations Management	1994–2002: Arthur Andersen SIA, Audit and Business Advisory Project Manager/Senior
				Consultant on Tax and Law
Education				
University of Colorado at Denver, Master of	SSE Riga, Master of Business Administration	LLU, Doctor of Sciences in Agricultural	New York University, Leonard N. Stern School of	University of Latvia, Economist's Diploma in
Science in International Business (2000)	(2007)	Engineering (2011)	Business, MBA (2004)	Accounting (2001)
				Link such soft at its Masteria Desures in
RTU, Computer Hardware Engineer (1991)	RTU, Master's Degree in Energy Supply	RTU, Riga Business Institute, Master of Business	University of Latvia, Master of Social Sciences in	University of Latvia, Master's Degree in
	RTU, Master's Degree in Energy Supply Optimisation (1996) KTH Royal Institute of Technology, Licentiate	RTU, Riga Business Institute, Master of Business Management (1996) LLU, Master's Degree in Agricultural Engineering	University of Latvia, Master of Social Sciences in Business Management (1999) University of Latvia, Bachelor's Degree in	University of Latvia, Master's Degree in International Law (2000) University of Latvia, Bachelor's Degree in Law



Latvenergo AS Management Board



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Guntars Balčūns

Chairman of the Management Board and Acting Chief Executive Officer (from 31.10.2020), Chief Financial Officer

15.11.2025 Experience

Education

Administration (2016)

Administration (2003)

Term of office

2016-present: Elektrum Eesti OÜ, Member of the Supervisory Board 2016-present: Elektrum Lietuva UAB, Member of the Supervisory Board 2016-present: Baltic Institute of Corporate Governance, Member of the Supervisory Board 2015-present: Latvenergo AS, Chief Financial Officer 2015-present: Latvenergo AS, Member of the Management Board; from 31.10.2020: Chairman of the Management Board 2014–2015: Enerģijas publiskais tirgotājs AS, Member of the Management Board 2005-2015: Latvenergo AS, Business Planning and Control Director, Corporate Strategy Project Manager

RTU Riga Business School, Master of Business

University of Latvia, Master of Economics (2005)

SSE Riga, Bachelor of Economics and Business



Member of the Management Board and Chief Technology and Support Officer

24.09.2023

Kaspars Cikmačs

2018-present: Latvenergo AS, Chief Technology and Support Officer 2018-present: Latvenergo AS, Member of the Management Board 2010–2018: Citadeles banka AS. Member of the Management Board, Chief Operating Officer 2009–2010: Parex Banka AS, Head of Information Technologies 2005–2009: Swedbank Baltic Banking, Head of IT Operations in the Baltics 1996–2005: Hansabanka, Head of IT Monitoring in the Baltics, Head of Service Support and Monitoring, IT System Administrator

SSE Riga, Master of Business Administration (2012)

University of Latvia, Bachelor of Computer Sciences

INSEAD (France), Business Management (2006)



*

Arnis Kurgs Member of the Management Board and Chief Administrative Officer (from 06.11.2020)



Uldis Mucinieks

*

Member of the Management Board (from 01.02.2021) and Chief Commercial Officer (from 16.11.2020)

	2020–present: Latvenergo AS, Member of the Management Board	2021–present: Latvenergo AS, Member of the Management Board	Members of the Management Board
	2013-present: Latvenergo AS, Administrative Director	2020–present: Latvenergo AS, Chief Commercial Office	who left office in 2020:
	2010–present: Elektrum Eesti OÜ, Member of the Supervisory Board 2010–2019: Elektrum Lietuva UAB, Member of the	2017–present: Elektrum Eesti OÜ, Member of the Supervisory Board; from 13.11.2020: Chairman of the Supervisory Board	Āris Žīgurs
	Supervisory Board	2016-present: Elektrum Lietuva UAB, Member of the	Chairman of the Management Board
	2006–2015: Latvenergo AS, Member of the Management Board	Supervisory Board; from 13.11.2020: Chairman of the Supervisory Board	and Chief Executive Officer (until 30.10.2020)
	2006: Sadales tikls AS, Member of the Supervisory	2015–2020: Latvenergo AS, Sales Director	
	Board	2015–2017: Elektrum Eesti OU, Chairman of the	Uldis Bariss
	2003–2006: Augstsprieguma tikls AS, Member of the Supervisory Board 1995–2006: Latvenergo AS, Legal Department	Management Board 2013–2015: DNB banka AS, Head of the Sales Management Department 2014–2015: IPAS DNB Asset Management, Member	Member of the Management Board and Chief Commercial Officer (until 15.11.2020)
	1994–1997: Riga City Council, Member of the Audit Committee	of the Supervisory Board	
	1993–1995: Saeima of the Republic of Latvia, Consultant	2001–2012: Mandatum Life Insurance Baltic SE, Member of the Management Board, Head of the	
	1992–1993: Ministry of Maritime Affairs, Legal Adviser	Latvian Branch, Sales Manager in the Baltics, Key Account Manager, Corporate Customer Manager	
		2000–2001: Janne SIA, Insurance Consultant, Legal Assistant	_
	Turība University, Professional Master's Degree in	SSE Riga, Executive MBA (2012)	
	Law (2006) University of Latvia, Master's Degree in Law (1993)	University of Latvia, Master's Degree in Public Management (2006)	

University of Latvia, Lawyer's Qualification (2004)

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(1999)

Latvenergo AS Audit Committee

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Torben Pedersen	Svens Dinsdorfs	Ilvija Grūba	
Chairman of the Audit Committee	Member of the Audit Committee	Member of the Audit Committee	
Term of office			
02.02.2024	02.02.2024	02.02.2024	
Experience			
2018–present: AS BDO Latvia, Member of the Council	2017–present: INDEXO IPAS, Member of the Supervisory Board	2021–present: Latvenergo AS, Member of the Audit Committee	Members of the Audit Committee who are also members of the Latvenergo AS
2013–present: Vilnius International School, Shareholder Representative	2015–present: Elko Grupa AS, Director, Member of the Management Board	2019–present: AstraZeneca, Compliance Assurance Lead for Europe, Canada, Russia and	Supervisory Board:
2012–present: Latvenergo AS, Chairman of the Audit Committee	2012–present: Latvenergo AS, Member of the Audit Committee	Eurasia and Data Privacy 2016–2019: AstraZeneca, Compliance Assurance	Toms Siliņš
2013–2014: Rus-Agro Team AS, Member of the	2006–2014: Elko Grupa AS. Finance Director.	Partner for Germany, Switzerland, Austria,	Term of office: 02.02.2024
2013–2014: Rus-Agro Team AS, Member of the Management Board 2012–present: Baltic Engineers UAB, Chairman of the Management Board	Member of the Management Board 2004–2006: Sirowa Riga AS, Finance Director 1998–2004: Air Baltic Corporation AS, Vice	Scandinavia and the Baltic Countries and for the Production Unit in Sweden and Bussia	Information about experience and education is available in the subsection
		2013–2015: AstraZeneca, Compliance Assurance	Latvenergo AS Supervisory Board.
2011–2016: Danish Chamber of Commerce in Lithuania, Member of the Supervisory Board	President of Strategic Development, Business Control Director	Manager in the Baltic Countries, Iceland and Norway	
2001–2010: Deloitte. Partner	Control Director	2011–2012: AstraZeneca Latvija SIA, Compliance	Gundars Ruža
		Assurance Manager in the Baltic Countries	Term of office: 02.02.2024
1994–2001: Arthur Andersen, Partner		2009–2011: PricewaterhouseCoopers Latvija, Risk Management, Internal Audit Services Manager	Information about experience and education is available in the subsection Latvenergo AS Supervisory Board.
Education Aarhus School of Business. Master of Economics	SSE Riga, Master of Finance and Economics	Institute of Internal Auditors (USA), Certified	
and Auditing (1974)	(2003)	Internal Auditor (2008)	
Chartered Accountant Qualification (Denmark)	SSE Riga, Bachelor of Economics and Business Administration (1998)	University of Latvia, Economist's Qualification in Accounting (2003)	
		University of Latvia, Master of Social Sciences in Business Management (2000)	

Members of the Audit Committee who left office in 2020:

Marita Salgrāve

Member of the Audit Committee (until 19.11.2020)

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Group Management

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Latvenergo Group's management model is based on corporate governance best practice. To ensure effective Group governance, decision-making and achievement of goals, strategic and operational management are separate.

The Group's strategic management is implemented by the Management Board, whose accountability is joint according to the Commercial Law, and operational management is ensured by Chief Officers, whose accountability is individual. The main duty of the Management Board is to lead the Group to reach the objectives set in the strategy. At minimum, the Management Board reports to the Supervisory Board on a quarterly basis and to the Shareholder on an annual basis. Chief Officers ensure the operational management

Latvenergo Group Organisational Structure

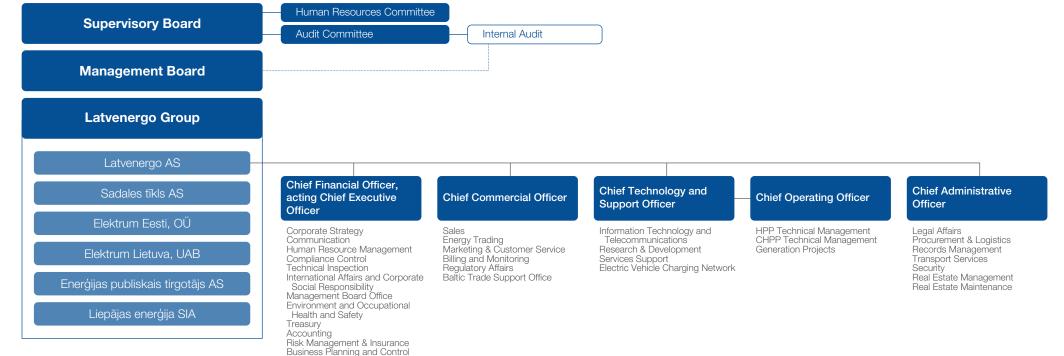
of Latvenergo AS, including goal achievement and policy implementation; they also ensure their division's cooperation with the functions of other divisions and adoption of decisions in compliance with the Group's strategy and delegation. The divisions have been established in accordance with the strategic goals of the Group.

Considering their previous experience and knowledge of the Group's operations, the duties of Chief Officers are performed by the Members of the Management Board of Latvenergo AS. As two members of the Management Board (Āris Žīgurs and Uldis Bariss) resigned from the Management Board in 2020, the respective duties of the Chief Officers are temporarily performed by experienced employees of the Group with the competence required for the respective division.

At the end of 2020 and at the time of publication of this report, the duties of the Chief Officers are divided as follows:

- Guntars Baļčūns Acting Chief Executive Officer and Chief Financial Officer;
- Kaspars Cikmačs Chief Technology and Support Officer;
- Arnis Kurgs Chief Administrative Officer;
- Aivars Kvesko Chief Operating Officer;
- Uldis Mucinieks Chief Commercial Officer.

G. Baļčūns, K. Cikmačs, A. Kurgs and, since 1 February 2021, U. Mucinieks are also members of the Management Board of Latvenergo AS. A. Kurgs and U. Mucinieks have been temporarily appointed to the Management Board until new members of the Management Board are selected through a competition. A. Kvesko will also continue to perform the duties of Chief Officer until the new Management Board is formed.





Internal Control System and Risk Management

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Internal Control System

To ensure the achievement of Latvenergo Group's strategic goals and to successfully supervise its operations, an internal control system has been created in the Group. The system has been developed and improved taking into account the COSO (Committee of Sponsoring Organizations of the Treadway Commission) model, which is a widely used approach internationally for defining internal control principles. The three main objectives of the internal control system are:

- efficiency of the Group's operations;
- credibility of the disclosed information;
- compliance of operations with laws and regulations.

Efficiency of operations

During the strategy period until 2022, an extensive efficiency programme is being implemented that aims to improve the competitiveness of the Group and to strengthen its position in the dynamically changing Baltic regional market. The programme includes revision, centralisation and digitalisation of the Group's processes, as well as a significant reduction in employees, technical bases and vehicles.

Reporting

Reporting includes both internal and external reports on financial and non-financial operations. Internal reports provide accurate and complete information to the Group's management for decisionmaking and supervision of operations. External reports inform investors and other stakeholders of the financial position of the Group and its performance.

Compliance

The Group operates in compliance with external and internal regulations. Internal regulations and their compliance with external regulations are reviewed on a regular basis, potential risks are identified and evaluated, and additional controls are developed.

To achieve the above goals on the level of the Group, its subsidiaries and its divisions, the following internal control system elements are continuously improved:

- control environment;
- risk assessment;
- control measures;
- information and communication;
- monitoring.

Control environment

The Group's management promotes business activities that are in line with the principles of good faith and comply with ethical standards. It also implements actions to prevent the risk of fraudulent conduct and corruption and to improve the control environment. Responsible persons for establishment and performance of controls are appointed on all organisational levels. Employees receive training on a regular basis to promote a common understanding of the elements of the internal control environment. The Internal Audit annually provides a comprehensive opinion on the effectiveness of the internal control and risk management system as well as recommendations for its improvement.

Risk assessment

The Group continuously improves its risk management process to adapt to the changing business environment and market developments. Risk assessment is integrated into all the company's governance processes.

Control measures

The Group has introduced and continuously improves integrated control measures, such as governance policies, the regulations of structural units, and the division of employee duties and responsibilities. These are aimed at promoting strategy implementation and goal achievement by ensuring productive and efficient operations compliant with ethical standards.



Information and communication

The internal information flow and control systems ensure verified, accurate and reliable information for communicating both internally and to external stakeholders. The Group's management provides regular information to employees on both long-term and short-term plans and results. The main information channels are intranet *LEports*, the employee magazine *Latvenergo Vēstis*, the internal record-keeping systems, databases, and seminars. Employees' opinions are considered in internal surveys and development interviews. The Group has working groups, which include representatives with various skills and competencies, to exchange opinions and knowledge and facilitate employee engagement in decision-making.

Monitoring

The Group's management is responsible for regular assessment and improvement of controls, while the management's performance is monitored by the Supervisory Board and the Audit Committee. The Internal Audit examines the functioning of controls and evaluates their effectiveness. The external auditor issues an opinion on the impartiality and compliance of the financial reports. All supervisory institutions are independent in their operations.

In 2020, Latvenergo AS performed a self-assessment of the internal control system, which allowed for structured assessment of the functioning of the elements of the existing system, identification of deficiencies, and determination of further actions for the improvement of the internal control system. This self-assessment will henceforth become an essential part of the regular system for evaluating and improving controls.

Supervisory institutions

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	Auditor	Supervisory Board	Audit Committee	Human Resources Committee	Internal Audit
Objective	To provide an opinion on compliance of the Group's financial reports with the IFRS	To represent the interests of the Shareholder in between the Shareholder Meetings and supervise the operation of the Management Board	To supervise the preparation of the Group's financial reports and the operation of internal control systems, thus stimulating transparency of company operations	To ensure the supervisory functions of the Supervisory Board in the area of human resource management	To evaluate and assist in improving the effectiveness of internal control, risk management and governance processes
Monitoring scope and tasks	 Auditing financial reports and checking the sustainability report Evaluation of accounting principles and justification of major management accounting estimates (as part of auditing financial reports) 	 Supervision of the Management Board's operations Approval of the medium- term operational strategy and the current year's budget and monitoring of their implementation Evaluation of the Audit Committee's work Supervision of the Company's compliance with legislation, the Articles of Association and the decisions adopted by the Shareholder Meeting 	 Supervising the preparation of financial reports Supervising the effectiveness of the internal control system and risk management Supervising the activities of the Internal Audit and the auditor as well as the implementation of the Fraud Risk Management Plan Ensuring the selection process of the sworn auditor 	 Ensuring the selection of the Management Board, the Audit Committee and the Internal Audit Director Evaluation of the remuneration, performance and combining of positions of the Management Board and the Internal Audit Director 	✓ Evaluation of the effectiveness of internal control, risk management and governance processes, providing recommendations and supervising their implementation
Reporting	Once a year, following the finalization of the consolidated financial statements, the Auditor reports to the Shareholder Meeting.	At least once a year, the Supervisory Board reports to the Shareholder Meeting.	At least once a year, the Audit Committee reports on its activities and performance to the Supervisory Board.	The Human Resources Committee reports on its activities and performance to the Supervisory Board.	Every quarter, the Internal Audit reports to the Audit Committee on the audits performed and the implementation of audit recommendations.



Risk Management

The objective of the Group's risk management is to identify significant risks in a timely manner and manage them to ensure achievement of the strategic goals and minimise potential losses or harm to its reputation. Risk management is integrated into strategy development and implementation as well as operational activities.

Significant risks are analysed in internal working groups and in the Risk Management Committee, which is a specially established institution on the level of the Management Board of Latvenergo AS. Within the analysis, the probability and impact of a risk is evaluated, critical controls are identified, risk mitigation measures are developed, and the implementation of these control measures is supervised.

Any risks identified are conveyed to the internal audit system, thus allowing the risk assessment to be used for planning the activities of the Internal Audit.

In 2020, the Management Board of Latvenergo AS defined the main risk indicators for the Group's most significant risks, which provide an early warning on changes in the probability or impact of a specific risk.

fraud and corruption

The Group's risks

ate Governance	Strategic risks	Operational risks	Financial risks	Legal and compliance risks	Fraud and corruption risks
aance Bodies Management al Control System sk Management Procurement older Engagement g Segments bility Indicators	Risks related to the implementation of strategically important capital expenditure projects, introduction of new, innovative technologies and expanding into new market and business areas.	Risks related to energy generation and ensuring the functionality of power plants and energy distribution. They are also associated with loss of assets, human health and safety, information technologies, environmental impact and other issues. These risks arise from imperfect or insufficiently effective processes and systems, errors or insufficient competence on the part of employees, damage to equipment or external events.	Market risk, credit risks, liquidity and cash flow risk.	Risks arising from laws and regulations of the EU and the Republic of Latvia.	Likelihood that an employee or a group of employees will act intentionally to serve their own interests or interests of another person, gaining undue benefits and causing financial or reputational damage to the Group.
to	Main risk management tools				
ainability Report	 monitoring change and development trends in the energy sector and the political environment, participating in developments that affect the Group's operational aspects evaluating and implementing necessary changes in the Group 	 maintenance of the internal control system and its continuous improvement regular control and repair of equipment ensuring qualifications of personnel at the necessary level (briefings, trainings, knowledge tests) use of insurance services 	 fixed-price delivery contracts with customers derivative financial instruments delivery of natural gas for a fixed price balanced allocation of financial assets and liabilities raising of funding in a timely manner (incl. credit lines) 	 monitoring changes and development trends in the legal environment that apply to the Group's operations participation in the development process of new regulatory documents and implementation of necessary changes in the Group 	 ban on accepting and offering gifts (except for items of insignificant material value) ban on combining of positions (except in cases where the employer's written consent has been received) ban on conflicts of interest (conflict of interest declarations, employee declaration on averting conflicts of interest) regular training of employees on issues of ethics, prevention of conflicts of interest, and prohibiting

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Group Procurement

total number of suppliers exceeds three thousand.

The Group's procurement process complies with the legislation

of the EU and the Republic of Latvia and the regulations of the

countries in whose territory the Group carries out its commercial

activity. The key principles of the Group's procurement are based

on the requirements of Directives 2014/24/EU and 2014/25/EU

of the European Parliament and the Council and those of the Law

on Procurement of Public Service Providers of the Republic of

Latvia. In addition to these requirements, the Group has defined

common basic principles for procurement to ensure sustainable

growth of the Group's capital companies and the most efficient

use of funds. The procurement process is organised in a way

that promotes competition among suppliers and ensures the

most efficient spending as well as observation of the principles of

openness and equality. Both the efficiency of the market research

and the openness of the procurement process is facilitated by the

introduction of IT technologies that allow for all procurement to be

Latvenergo Group encourages its contractual partners to comply

with comparable principles of business ethics and, upon signing

agreements, asks its partners to provide declarations of adherence

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To ensure its operations, Latvenergo Group procures electricity, energy resources, and various types of construction work, goods and services. Most of the Group's procurement comes from suppliers and service providers in the Baltics and the Nordic countries. The

Procurement of construction work, goods and services

In 2020, Latvenergo Group's costs of construction work, goods and services amounted to approximately EUR 250 million. The largest share of these costs comprised investments in reconstruction of the existing assets and construction of new ones, where EUR 168.9 million were invested in the reporting year. To ensure high-quality power network service, technical indices and security of operations, a considerable amount of investment was made in network modernisation, accounting for 2/3 of the total investment. The Group is also continuing reconstruction of the hydropower units of the Daugava HPPs, where EUR 18.5 million was invested in the reporting year. The other costs related to the procurement of construction work, goods and services consist of procuring materials, repair work and various services.

In procurement procedures, the Group follows the principles of green procurement where possible and economically feasible. The capital companies of the Group comply with the Cabinet of Ministers Regulations No. 353 *Requirements for Green Public Procurement and the Procedure for their Application* of 20 June 2017 and apply the green procurement criteria to the groups of procurement goods and services referred to in the Regulations.

Procurement of electricity

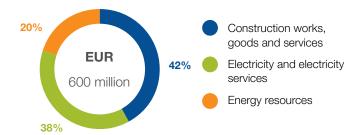
The total costs of electricity procurement at Latvenergo Group amounted to approximately EUR 230 million, also comprising the costs of ancillary electricity services and electricity futures to reduce price risks. The Group sells all the electricity it generates and at the same time procures electricity for its customers on the Nord Pool power exchange, thus ensuring full transparency of its transactions. With the interconnections of the transmission network, the Baltic countries are fully integrated into the Nordic electricity market; therefore, electricity pricing in Latvia is determined by the same factors as in the Nordic countries, and electricity price fluctuations are increasingly related to common trends across the Nord Pool exchange region.

The electricity procurement process is targeted at cost optimisation and provides economic benefits to both Latvenergo Group and its customers. Generation volumes of the Latvenergo AS CHPPs and Daugava HPPs are linked to economically equivalent volumes of customer portfolios, thus achieving cost-effectiveness while excluding internal price risks between sale and purchase transactions.

The Group's customer portfolio can be made larger than its generation volumes making use of electricity financial instruments in the price risk management and flexibility of the Group's generation assets (switching strategically between electricity supply sources: the power exchange and generation at power plants). This way, Latvenergo Group can fulfil the profit potential of sales of the electricity generated, reduce the cost of procuring electricity necessary for customers and reduce its exposure to market price fluctuation risks.

Types of procurement in 2020

carried out electronically.



Purchased	electricity
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	Units	2016	2017	2018	2019	2020
Purchased electricity	GWh	4,081	3,544	4,020	3,569	3,823

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Procurement of energy resources

The energy resource procurement of the Group comprises natural gas, woodchips and diesel fuel, as well as CO2 emission allowances for generation of electricity and thermal energy. In 2020, the total costs amounted to approximately EUR 120 million. The Latvenergo AS CHPPs accounted for more than 90% of energy resource procurement costs. Natural gas makes up the largest share of these expenses. It is used as the primary fuel by the CHPPs and as one of the fuel sources by the Liepāja plants. The Group organises natural gas supplies to the CHPPs independently through wholesale purchases of natural gas (including inventories for the next heating season). Liepājas enerģija SIA buys natural gas from natural gas trade companies in Latvia. Consumption of natural gas depends on the electricity market conditions and the demand for thermal energy. Due to warmer weather conditions and lower electricity market prices, in 2020 the output of the CHPPs and thus natural gas consumption was lower.

To ensure the reliability of thermal energy supply in situations where the supply of natural gas is interrupted, the CHPPs store backup fuel reserves of diesel. The boiler house of Liepājas enerģija SIA also uses diesel. Procurement of diesel fuel accounts for an insubstantial share of the overall costs of energy resources.

The Liepaja plants mainly use a renewable energy source, woodchips, which accounted for approximately 2% of the Group's total energy resource costs in 2020. Like all other goods and services, woodchips and diesel fuel are procured under the conditions of free competition.

The costs of CO_2 emission allowances in 2020 accounted for approximately 15% of total energy resource costs. For more information on the allocated CO_2 emission allowances, see the section Environmental Topics.

Fuel consumption

	Units	2016	2017	2018	2019	2020
Natural gas*	thsd. nm ³	598,425	465,947	667,256	674,889	491,063
Wood chips	loose m ³	232,792	255,352	252,534	225,166	237,511
Diesel fuel	m ³	18	12	10	11	10

*as of 2017, also includes the volume of natural gas sold



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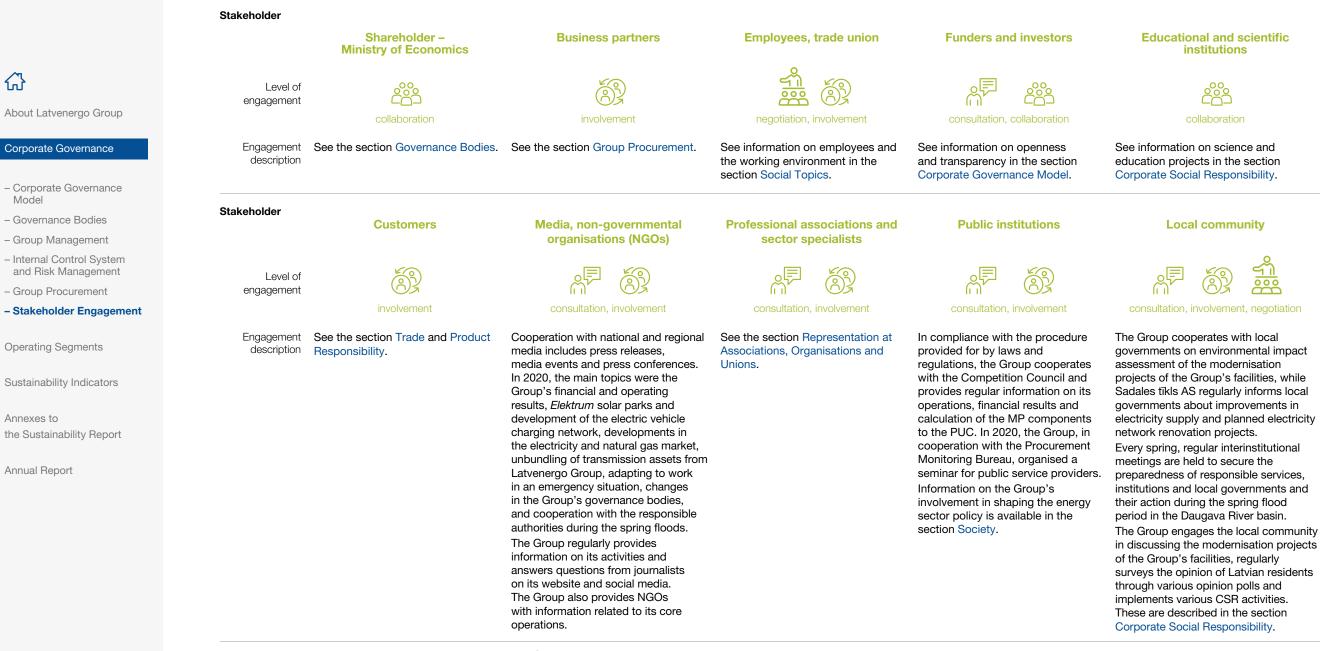
Stakeholder engagement is an important element of Latvenergo Group's responsible business conduct. Stakeholders are identified, evaluated and grouped taking into account the GRI guidelines and the AA1000 Stakeholder Engagement Standard. The Group assesses the social, environmental and economic impact of its activities and engages stakeholders in addressing issues of mutual interest. Stakeholder engagement takes place at the level of consultations, negotiations, involvement and/or collaboration.

- In 2020, the following recommendations received from stakeholders for the improvement of the Group's operations were implemented:
- A new Latvenergo Group website with interactive graphics and a responsive design has been developed. New tools make it more transparent and easy to use;
- In October, Latvenergo AS, Celu satiksmes drošības direkcija VAS and car sharing service companies Fiqsy, Carguru and CityBee agreed in a joint memorandum on the promotion of electromobility in Latvia. According to the memorandum, Latvenergo AS will continue to develop electric transport infrastructure in Latvian cities, participate in research on the most suitable places for the establishment of this infrastructure, and research and develop new products, such as the possibility to sell electricity stored in car batteries in electricity markets. The development of electromobility has also been discussed with stakeholders in a forum organised by Sadales tīkls AS, *The charging network connects Latvia*;
- By supporting customers' interest in using renewable energy, construction of solar parks in Lithuania and Estonia with a total capacity of 1.75 MW has started, which could provide electricity to more than 600 households.

For more information on the sustainability topics jointly defined by stakeholders and the Group, see the section Materiality Assessment.

Stakeholder	Mutual impact	Material topics
Shareholder – Ministry of Economics	• • •	 the Group's contribution to the national economy the Group's strategy, governance, investments and performance compliance with the requirements of laws and regulations and fair competition
Business partners	•••	 clear and transparent procurement tenders; investments, compliance with laws and regulations and fair competition efficiency, availability and security of distribution services
Employees, trade union	• • •	 occupational health and safety collective bargaining agreement involvement, development, productivity and motivation of employees
Funders and investors	•••	 the Group's financial results, significant events, compliance with laws and regulations and agreements fair competition and communication practice
Educational and scientific institutions	• • •	 involvement of the Group in the development of educational programmes that meet the requirements of the labour market and involvement of the Group's experts in educational programmes science and education projects; educational materials for children and youth
Customers	• •	 products, services, their quality and price reducing the frequency and duration of unscheduled power outages availability of information
Media, non-governmental organisations (NGOs)	• • •	 availability of information on the Group's core operations and governance current issues in energy sector policy compliance with laws and regulations and fair competition
Professional associations and sector specialists	• • •	 efficiency of generation facilities and involvement in shaping energy sector policy compliance with laws and regulations and fair competition community contribution availability of information
Public institutions	• • •	 development of Latvian and EU energy policies efficiency of energy generation facilities and contingency management plans compliance with laws and regulations and fair competition data security
Local community	• • •	 modernisation of generation facilities and network development projects; efficiency and availability of distribution services compliance with environmental protection requirements the Group's CSR activities





E Latvenergo

negotiation – participatory discussions

ions involvement – participation in joint activities, development of solutions and action plans GRI 102-13

Representation at associations, organisations and unions

Membership in industry associations, unions and organisations provides Latvenergo Group with information on current developments in energy and related industries and ensures representation of its interests during drafting of national and international policy documents, legislative acts and standards. Representatives of the Group regularly discuss issues pertaining to energy and development of related sectors with sector experts at various forums, conferences, seminars and working groups.

National associations and professional organisations



- Governance Bodies

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- Internal Control System and Risk Management
- Group Procurement
- Stakeholder Engagement

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Latvian Association of Power Engineers and Energy Constructors



Latvian Association of Large Dams



Institute for Corporate Sustainability and Responsibility



World Energy Council, Latvian National Committee



Employers' Confederation of Latvia



Latvian Chamber of Commerce and Industry



Latvian Association of Heat Supply Companies The most significant events in which the Group's representatives participated in 2020 include:

- the conferences Clean Energy for Transport, Energy 2020 and Heat Supply 2020;
- the foreign and security policy forum *Riga Conference 2020*;

BALTIC

- INSTITUTE -

Baltic Institute of Corporate Governance

Technical Association for Power and Heat

Generation VGB PowerTech e.V.

Member of

- Lampa Conversation Festival;
- Innovation Forum.

International organisations and unions



ENCS European Network for Cyber Security

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European Distribution System Operators' Association for Smart Grids

-eurelectric

Union of the Electricity Industry – Eurelectric



International Business Network Organization for Economic Cooperation and Development







Operating segments of Latvenergo Group

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Distribution

The distribution service ensures the flow of electricity from the transmission network to consumers. Sadales tikls AS is the country's largest distribution system operator and covers approximately 98% of the territory of Latvia. Distribution system service tariffs are approved by the Public Utilities Commission (PUC).

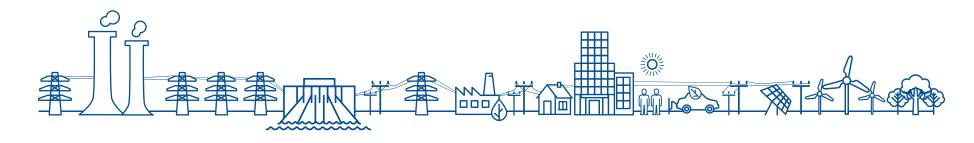


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Transmission

Leasing transmission system assets (330 kV and 110 kV electricity transmission lines, substations and distribution points) to the transmission system operator. The lease payment for the transmission assets is calculated in compliance with the methodology approved by the PUC.

According to the Cabinet of Ministers decision of 8 October 2019, the transmission assets were unbundled from Latvenergo Group on 10 June 2020.





Generation and Trade

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Generation and trade is the largest operating segment of Latvenergo Group in terms of both revenue and EBITDA. In 2020, 89% of the segment's revenue was comprised of revenue from the trade of electricity, natural gas, and associated services, while thermal energy revenue accounted for 11%. Most of the generation and trade segment revenue is unregulated, while tariff-regulated operational revenue comprises revenue from:

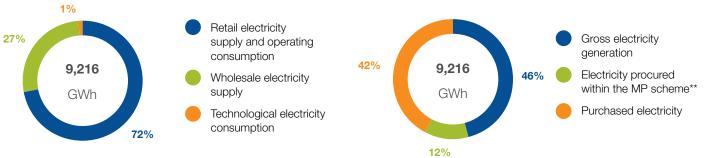
- generation of thermal energy and payment for the installed electrical capacity at the Latvenergo AS CHPPs;
- generation of electricity and thermal energy at the Liepaja generation facilities and Aiviekste HPP.

In 2020, the Group generated 4.2 TWh or 66% of the total amount of electricity sold in the retail trade. 60% of the amount generated came from renewable energy sources. The generation of electricity at the Daugava HPPs increased significantly, which was determined by the normalisation of water inflow in the Daugava compared to the atypically low inflow in 2018–2019. In turn, the generation of the Latvenergo AS CHPPs decreased in the reporting year due to electricity market conditions and lower demand for thermal energy. For more information, see the section Generation.

With a 23% market share, Latvenergo Group is one of the largest electricity traders in the Baltics. In the reporting year, the total amount of electricity sold, including auxiliary consumption, was 9.2 TWh. 66% of the electricity sold in the retail trade was obtained from renewable energy sources. For more information, see the section Trade.

In the reporting year, the Group sold 516 GWh of natural gas in the retail trade in the Baltics, which is almost twice as much as in 2019. In 2020, the total amount of natural gas consumed by the Group for its own use and sold to customers comprised 5.1 TWh.

Latvenergo Group electricity balance sheet in 2020*



Latvenergo Group electricity balance sheet*

	Units	2016	2017	2018	2019	2020
Retail electricity supply and operating consumption	GWh	7,666	7,259	7,281	6,773	6,670
incl. retail electricity supply	GWh	7,666	6,923	6,954	6,505	6,394
Wholesale electricity supply	GWh	2,474	3,448	3,030	2,754	2,460
Technological electricity consumption	GWh	105	91	124	121	85
TOTAL	GWh	10,245	10,798	10,435	9,648	9,216
Gross electricity generation	GWh	4,707	5,734	5,076	4,880	4,249
Electricity procured within the MP scheme**	GWh	1,457	1,520	1,339	1,199	1,144
Purchased electricity	GWh	4,081	3,544	4,020	3,569	3,823
TOTAL	GWh	10,245	10,798	10,435	9,648	9,216

* the amount of electricity generated at the Group's facilities which has been traded and procured on the electricity exchange for auxiliary consumption purposes is not included in the Group's electricity balance sheet

** excluding electricity generated by the Group

Generation

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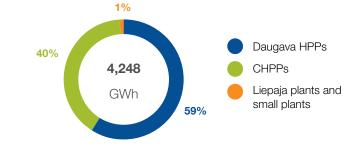
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Latvenergo Group has a balanced and environmentally friendly energy generation portfolio, consisting mostly of hydropower plants and highly efficient combined heat and power plants. Most of the electricity is generated by the three Daugava hydropower plants (HPPs) and two combined heat and power plants (CHPPs) of Latvenergo AS. The CHPPs also produce a significant part of the thermal energy required for the heat supply of the city of Riga. Energy is also generated by Liepājas enerģija SIA, Aiviekste HPP and Ainazi Wind Power Plant (WPP). The total installed electrical capacity at the Group's generation facilities is 2,605 MW and the thermal capacity is 1,838 MW. In 2020, 4.2 TWh of electricity and 1.7 TWh of thermal energy were generated.

Electricity output in 2020



Installed electrical capacity of generation facilities

	Units	2016	2017	2018	2019	2020
Daugava HPPs	MW	1,536	1,550	1,558	1,558	1,558
CHPPs*	MW	1,025	1,025	1,025	1,025	1,039
Liepaja plants and small plants	MW	8	8	8	8	8
TOTAL	MW	2,569	2,583	2,591	2,591	2,605

* installed capacity when CHPP-2 is in condensation mode

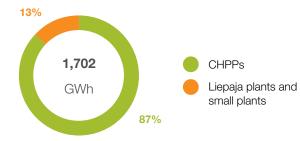
Installed thermal energy capacity of generation facilities

	Units	2016	2017	2018	2019	2020
CHPPs	MW	1,617	1,617	1,617	1,617	1,617
Liepaja plants and small plants	MW	225	225	221	221	221
TOTAL	MW	1,842	1,842	1,838	1,838	1,838

Electricity output

	Units	2016	2017	2018	2019	2020
Daugava HPPs	GWh	2,449	4,270	2,380	2,047	2,528
CHPPs	GWh	2,206	1,411	2,644	2,780	1,685
Liepaja plants and small plants	GWh	52	53	52	53	37
TOTAL	GWh	4,707	5,734	5,076	4,880	4,249

Thermal energy output in 2020



Thermal energy output

	Units	2016	2017	2018	2019	2020
CHPPs	GWh	2,417	2,349	2,004	1,603	1,475
Liepaja plants and small plants	GWh	258	263	270	239	227
TOTAL	GWh	2,675	2,612	2,274	1,842	1,702

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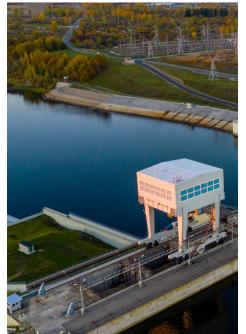
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Kegums HPP

Start of operations: 1939 Capacity: 248 MW Hydropower units: 7 Energy source: water

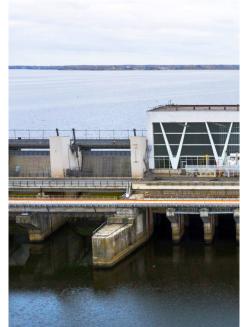
Kegums HPP is the oldest Daugava hydropower plant. It consists of two separate power plants built at different times on the right and left banks of the Daugava River.



Plavinas HPP

Start of operations: 1965 Capacity: 908 MW Hydropower units: 10 Energy source: water

Plavinas HPP is the largest hydropower plant by installed capacity in the Baltic states and one of the largest in the EU. It plays an important role in ensuring the stability of the Baltic power system in the event of unplanned outages or accidents at base plants. Plavinas HPP also serves as a synchronous compensator for voltage regulation in high voltage electricity networks.



Riga HPP

Start of operations: 1974 Capacity: 402 MW Hydropower units: 6 Energy source: water

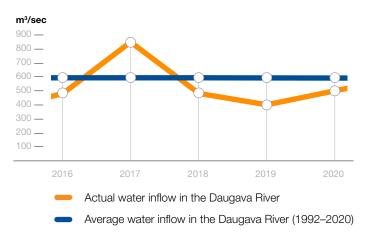
Riga HPP is the newest of the Daugava hydropower plants. It also serves as a synchronous compensator for voltage regulation in high voltage electricity networks.

Daugava HPPs

The Daugava HPPs are the biggest hydropower plants in the country, providing a large share of renewable energy not only in the Group, but also in Latvia as a whole. Their ability to generate electricity depends on the water inflow in the Daugava River. During the spring flooding, it is possible to cover the demand for electricity of all Latvenergo Group's customers and trade the excess on the Nord Pool exchange. Outside the flood season, the Daugava HPPs provide for the possibility to accumulate water and adjust generation of electricity when the demand and prices on the exchange are higher.

In 2020, the Daugava HPPs generated 2.5 TWh of electricity, which constituted 59% of the Group's total electricity output. In 2020, 23% more electricity was produced than a year earlier. The higher output of the Daugava HPPs was determined by the normalisation of the Daugava inflow compared to the atypically low inflow in 2019.

Water inflow in the Daugava River

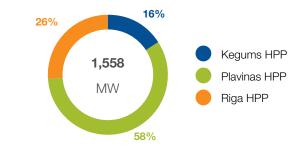


Source: Latvian Environment, Geology and Meteorology Centre

Installed electrical capacity at Daugava HPPs in 2020

Electricity output at Daugava HPPs in 2020







Investments in Daugava HPPs

In the reporting year, investments in the Daugava HPPs' assets amounted to EUR 21 million, including EUR 18.5 million invested in the programme for the reconstruction of hydropower units, which will ensure their operation for more than 40 years. The programme provides for the reconstruction of 11 hydropower units that have not been reconstructed yet, of which six were commissioned by the end of 2020. The total cost of the programme will exceed EUR 200 million. Investments of EUR 184.6 million were already made by the end of 2020.

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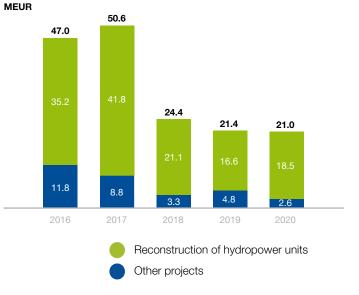
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Installed electrical capacity at Daugava HPPs

	Units	2016	2017	2018	2019	2020
Kegums HPP	MW	240	240	248	248	248
Plavinas HPP	MW	894	908	908	908	908
Riga HPP	MW	402	402	402	402	402
TOTAL	MW	1,536	1,550	1,558	1,558	1,558

Electricity output at Daugava HPPs

	Units	2016	2017	2018	2019	2020
Kegums HPP	GWh	475	825	457	402	493
Plavinas HPP	GWh	1,386	2,429	1,359	1,150	1,420
Riga HPP	GWh	588	1,016	564	495	615
TOTAL	GWh	2,449	4,270	2,380	2,047	2,528



Replacement of outdated hydro turbines contributes to an increase in their capacity, efficiency rate and electricity output. This promotes reliable, efficient and competitive operations of the Daugava HPPs within the overall energy system and in the electricity market. More efficient use of water resources mitigates the negative impact of the Group on climate change. Each megawatt hour of electricity generated by the Daugava HPPs reduces CO₂ emissions by 0.345 t/MWh, assuming that this energy would otherwise be generated in condensation mode at combined heat and power plants by using natural gas as fuel.



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CHPP-1

Start of operations: 1955 Electrical capacity: 158 MW

Thermal capacity: 493 MW Energy source: natural gas

In 2005, a completely new plant was commissioned in the territory of the CHPP-1 and the old plant was closed down. Two gas turbines, one steam turbine and three water boilers are operated at the CHPP-1. In 2020, the CHPP-1 gas turbines were modernised.



CHPP-2

Start of operations: 1973 Electrical capacity: 832 MW (in cogeneration mode) 881 MW (in condensation mode) Thermal capacity: 1,124 MW Energy source: natural gas

Reconstruction of two power units was carried out from 2006 to 2013. Currently, Riga CHPP-2 is the most efficient and advanced combined-cycle power plant in the Baltics. Two combined-cycle gas turbine units and five water boilers are operated at the plant. In 2019, the construction of the largest heat storage system in the Baltics started at CHPP-2 and it is expected to be commissioned in 2021.

Latvenergo AS CHPPs

The upgraded CHPPs of Latvenergo AS are mostly operated in the highly efficient cogeneration mode in accordance with the thermal energy demand, which in turn depends on weather conditions, the duration of the heating season and competition in the thermal energy market. Natural gas, the environmentally friendliest type of fossil fuel, is used as the primary fuel for the CHPPs. The operation of these plants can be flexibly adjusted to the electricity market conditions and guarantees a significant baseload electricity capacity for Latvia. Both CHPPs can cover Latvian electricity consumption almost completely in circumstances where, due to certain factors, electricity imports from foreign countries are limited.

In 2020, the construction of the largest heat storage system in the Baltics continued at CHPP-2 and it is expected to be commissioned in 2021. The heat storage tank of 17,800 m³ will make it possible to accumulate the thermal energy generated in cogeneration mode and optimise the adjustment of the CHPP operating modes to the changing market conditions and to cover peak loads. The heat storage system is expected to ensure storing of thermal energy (at least 65 GWh/year), primary energy savings (not less than 2.4 GWh/year), and reduction in CO₂ emissions (not less than 9,000 t/year). In addition, the CHPP-2 heat storage system will increase the security of heat supply of the Riga district heating system on the right bank of the Daugava.

In 2020, modernisation of the CHPP-1 gas turbines was also performed, as a result of which the installed electrical capacity of the plant was increased by 10% (14 MW) and the NO_x concentration in flue gases, depending on the chosen operating mode, was reduced by 15-25%.

In the reporting year, the HPPs generated 1.7 TWh of electricity, which constitutes 40% of the Group's total electricity output. Compared to previous years, the decrease in output was influenced by electricity market conditions and lower thermal energy demand. The amount of thermal energy generated by CHPP-1 and CHPP-2 in 2020 was 1.5 TWh, an 8% decrease compared to the previous year. The decrease was influenced by warmer weather. The thermal energy generated is sold to Rīgas siltums AS at regulated tariffs.

Electricity output at CHPPs

	Units	2016	2017	2018	2019	2020
CHPP-1	GWh	613	595	643	598	364
CHPP-2	GWh	1,593	816	2,001	2,182	1,321
TOTAL	GWh	2,206	1,411	2,644	2,780	1,685

Thermal energy output at CHPPs

	Units	2016	2017	2018	2019	2020
CHPP-1	GWh	1,110	1,195	1,105	883	729
CHPP-2	GWh	1,307	1,154	899	720	746
TOTAL	GWh	2,417	2,349	2,004	1,603	1,475

Investments in CHPPs of Latvenergo AS

	Units	2016	2017	2018	2019	2020
Investments	MEUR	11.3	22.5	2.5	10.1	17.8

Liepājas enerģija SIA and small plants

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Liepaja plants

Liepājas enerģija SIA was founded in 2005 Electrical capacity: 6 MW Thermal capacity: 221 MW Energy source: natural gas, woodchips

Latvenergo AS holds a 51% share in Liepājas enerģija SIA. The company ensures generation, transmission, distribution and trade of thermal energy in the city of Liepaja as well as generation of electricity in cogeneration mode.

In 2020, the company celebrated its 15th anniversary. During this time, EUR 22.5 million was invested in the reconstruction of heating networks and the construction of new connections, and approximately 100 kilometres, or 99.9% of the Liepaja heat supply system, were reconstructed. In the reporting year, the Liepaja plants generated 227 GWh of thermal energy and 34 GWh of electricity. Contracts have been concluded for the connection of 45 new objects to district heating networks with a total planned capacity of 5.3 MW.



Ainazi WPP

Start of operations: 1995 Electrical capacity: 1 MW Energy source: wind

In 2013, full renovation of both generators was completed. In 2020, 1.7 GWh of electricity were generated at Ainazi WPP.



Aiviekste HPP

Renovated: 1994 Electrical capacity: 0.8 MW Energy source: water

Aiviekste HPP was the first hydropower plant in Latvia; it started generating electricity back in 1925. The reconstruction of the hydropower plant started in the reporting year. Renovating two existing hydropower units and setting up two new ones is expected to increase the plant's capacity from 0.8 MW to 1.5 MW. In addition, the connection of Aiviekste HPP to the electricity network is also being rebuilt. The plant is expected to be commissioned in the first half of 2021.

In 2020, 0.7 GWh of electricity were generated at Aiviekste HPP.

GRI EU3

Latvenergo Group is one of the largest electricity traders in the Baltic states; it trades electricity and natural gas as well as an extensive range of related products and services under the *Elektrum* brand.

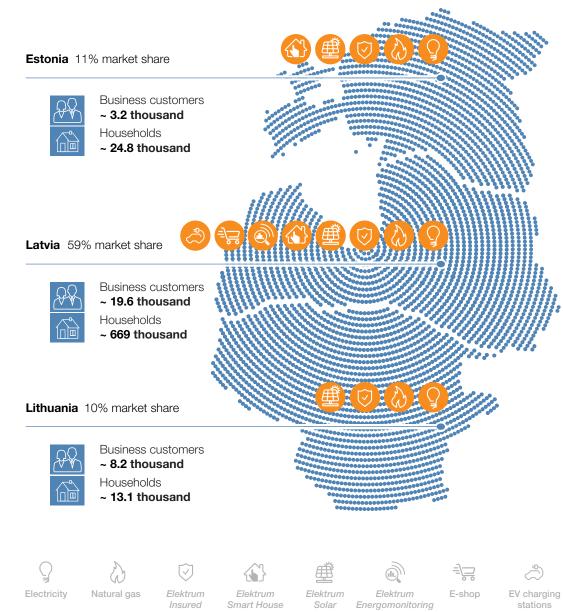
In 2020, the Group's market share accounted for 23% of the Baltic electricity market, where the total consumption is around 27.4 TWh, a decrease of approximately 2.4% compared to 2019. This was mainly affected by warmer weather conditions, as well as COVID-19 restriction measures and their impact on the Baltic economy.

6.4 TWh of electricity were sold to retail customers in the Baltics in the reporting year. The Group has strengthened its position in the Baltic household and micro-business customer segment and prepared for the partial opening of the Lithuanian household market to free competition in early 2021. By the end of the reporting year, more than 13,000 trade agreements were concluded in this segment. The Group has 743.7 thousand electricity customers in the Baltics, of which 5% are business segment customers and 95% are households. The number of customers outside Latvia amounts to almost 50 thousand.

In 2020, 516 GWh of natural gas was sold to customers, which is almost twice as much as in 2019. The Group has 13.5 thousand natural gas customers in the Baltics, of which 10% are business segment customers and 90% are households. In Lithuania and Estonia, natural gas is sold only to business customers, and approximately 1/3 of customers in this segment are outside Latvia.

Sales of other retail products and services were developed in the reporting year:

- More than 600 new solar panel sales contracts were signed in the Baltics, which is almost twice as many as in 2019. The total capacity of solar panels installed for customers reached 6.3 MW, which makes Latvenergo one of the leading providers of this service in the Baltics. 79% of the total capacity is installed for customers outside Latvia.
- The construction of two *Elektrum* solar panel parks with a total capacity of 1.75 MW started in Lithuania and Estonia. Approximately 4,400 solar panels will be installed in Klaipeda district, Lithuania, and 1,000 panels will be installed in Marjamaa municipality, Estonia. Lithuanian household customers will be able to purchase the capacity installed at the Lithuanian solar park within the remote net payment system. The customer will be able to purchase a part of this capacity and attribute the amount of electricity it produces to consumption on their own property on the same terms as if the solar panels were actually installed there. Both parks are expected to be commissioned in early 2021.
- The product range of the online shop elektrumveikals.lv has been expanded the shop now offers electric bicycles, electric car charging systems, solar garden lighting, and robotic lawn mowers and vacuum cleaners.
- Development of the electric car charging network continued as well. With 36 charging ports at the end of 2020, *Elektrum* is one of the largest electric car charging networks in Latvia. Some charging ports have been installed together with cooperation partners. Since the launch of the network in August 2019, *Elektrum* mobile app customers have made more than 8,000 charges at public charging stations in the amount of approximately 120 MWh, providing for kilometrage of more than half a million km.



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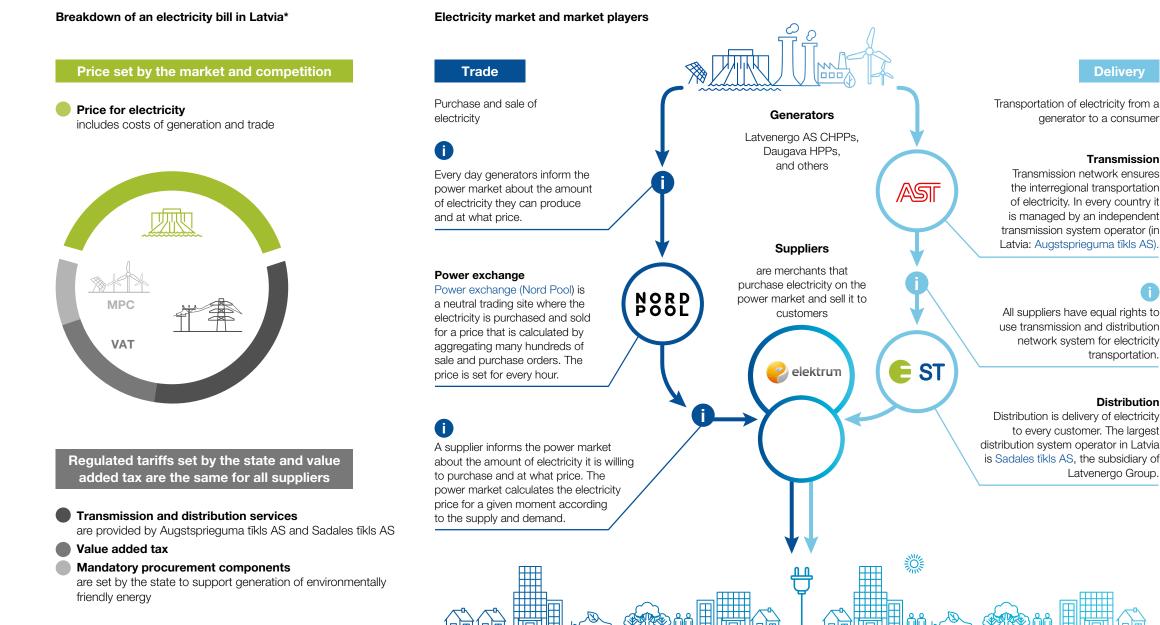
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* An estimate for a household customer who has 1-phase connection, consumes 100 kWh and uses the product *Elektrum Economical* as of 01.04.2021

Customers

generator to a consumer

Transmission

the interregional transportation of electricity. In every country it is managed by an independent transmission system operator (in Latvia: Augstsprieguma tikls AS).

use transmission and distribution network system for electricity transportation.

Distribution

Distribution is delivery of electricity to every customer. The largest distribution system operator in Latvia is Sadales tikls AS, the subsidiary of Latvenergo Group.

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Energy efficiency

The Energy Efficiency Directive 2012/27/EU sets out a series of measures aimed at promoting the energy efficiency of both generators and consumers and achieving total energy savings of 20% at the EU level by the end of 2020 (vs the base scenario for 2020 prepared in 2007). According to the Directive, each EU member state can establish an energy efficiency obligation scheme (EEOS), within which energy retailers must achieve cumulative savings of energy consumed by their customers.

An EEOS was established in Latvia in 2017, and its first period ran from 2018 to 2020. EEOS-obligated parties comprise electricity traders whose annual electricity retail sales exceed 10 GWh. These traders must achieve a certain amount of annual savings of the energy consumed by end users or make contributions to a dedicated national energy efficiency fund. Using the fund, energy efficiency measures will continue to be implemented to an appropriate extent.

The amount of the savings obligation is calculated after the publication of the lists of large electricity consumers and large enterprises prepared by the State Construction Control Bureau of Latvia. In 2019, Latvenergo AS sold 4,151 GWh of electricity to consumers in Latvia, and 2,030 GWh of this amount were sold to large electricity consumers and large enterprises. In 2020, 4,168 GWh were sold to consumers in Latvia, and 1,876 GWh of this amount were sold to large electricity consumers and large enterprises. Accordingly, the amount of savings to be achieved by Latvenergo AS amounted to 66 GWh and 100 GWh in 2019 and 2020, respectively.

Savings targets set for Latvenergo AS and savings achieved

	Target, %	Target, GWh	Savings achieved, GWh
2018	1.5% of the amount of electricity sold in 2018*	34 GWh	147 GWh
2019	1.5% of the amount of electricity sold in 2018 and 2019*	66 GWh	375 GWh
2020	1.5% of the amount of electricity sold in 2018, 2019 and 2020*	100 GWh	266 GWh

* Excluding the amount of electricity sold to large electricity consumers and large enterprises. Separate energy efficiency measures outside the EEOS have been established for these groups.

As energy efficiency is an important element of the Group's development and also of the entire energy sector, Latvenergo AS has been implementing measures to promote it since 2014. The following activities were implemented in the reporting year:

- seminars, webinars, lectures and other educational events organised by the *Elektrum* Energy Efficiency Centre;
- e-learning for *Elektrum* customer service specialists;
- individual remote consultations provided by both the *Elektrum* Energy Efficiency Centre and customer service specialists;
- informing customers about energy efficiency though the *Elektrum* mobile app and on elektrum.lv, where customers can also keep track of their hourly energy consumption. Energy efficiency tips are also provided in the publication for customers *Elektrum Tavām mājām* and on *Elektrum* social networks;
- keeping the public informed in mass media, including the creation of three special publications ("Zaļi un efektīvi" for subscribers of "Ir" magazine, "Saimnieko gudri" in cooperation with Latvijas Mediji, and "Dabas drauga klade" for subscribers of "Ilustrētā Junioriem" magazine), preparation and distribution of informative handouts, and the development of interactive exhibits and games;
- an electricity consumption assessment tool, *Energo Pulse*, has been developed, which allows the customer to compare the consumption of their home with similar households in Latvia and get personalised recommendations for increasing energy efficiency;
- participation of specialists of the *Elektrum* Energy Efficiency Centre in industry conferences, discussions and think tanks;
- carrying out an extensive study on electrical equipment and energy resource use habits in Latvian households and their energy efficiency.

For the next period until 2030, a target has been set at the EU level to reach total energy savings of 32.5% (vs the base scenario for 2030 prepared in 2007). The Green Deal provides for amendments to the Energy Efficiency Directive that could lead to a more ambitious energy efficiency target for 2030.

A national regulation is currently being developed for the next obligation period from 2021, which will define both the scope of the obligation and the range of parties responsible for the energy efficiency obligation scheme. Energy efficiency measures are an integral line of action of Latvenergo Group, and they will continue to be implemented.

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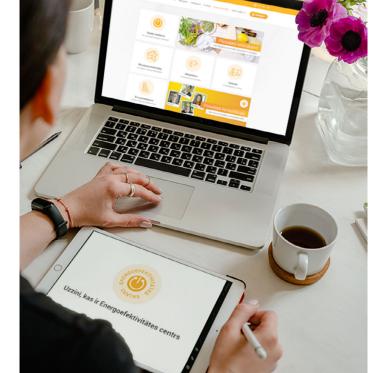
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Mandatory Procurement

Electricity mandatory procurement (MP) is a state-regulated support mechanism for electricity generators in Latvia. It is implemented as electricity procurement or guaranteed payments for the capacity installed at power plants.

Until 2012, the right to sell electricity generated within MP or receive guaranteed payments for the installed capacity at power plants was granted by the Ministry of Economics. The payments could be obtained by generators who generated electricity in efficient cogeneration or from renewable energy sources. Cogeneration plants with installed capacity above 4 MW receive support in the form of a payment for the guaranteed capacity. The provisions for electricity generation, the MP pricing and the amount of guaranteed capacity payments are governed by regulations of the Cabinet of Ministers. The amount of the MP support depends on the type of energy source used (wind, water, biomass, biogas or natural gas), the installed capacity, and, for natural gas cogeneration plants, the cost of natural gas.

The MP regulatory framework is constantly improved to strengthen the supervision of the beneficiaries, ensure the justification of the support provided and promote the reduction of the total MP costs.

- To prevent overcompensation of MP beneficiaries, from 1 July 2017, the internal rate of return on total capital investment of each supported power plant for the entire support period is assessed and in case of overcompensation a reduction of the electricity purchase price is applied.
- From 2018, the public trader must carry out a one-time inspection of all power plants included in MP and submit reports on the inspections performed and non-compliances found to the Ministry of Economics and the State Construction Control Bureau. These inspections were completed by 31 December 2019.
- From 1 July 2019, electricity within MP is purchased in accordance with the basic electrical circuit diagrams of power plants, to ensure that in case of several connections only the amount of electricity remaining after using the generated electricity to operate the power plant is sold within MP.
- From 1 January 2020, the supervision of energy policy has been transferred from the Ministry of Economics to the State Construction Control Bureau, ensuring effective functional separation of the implementation and supervision of energy policy.

- In 2020, amendments were made to the regulatory enactments governing MP, which strengthen the responsibility of electricity generators for the fulfilment of obligations imposed on them, as well as significantly increase the number of violations for which MP rights are revoked and the obligation to repay the support received is imposed.
- From 1 January 2021, only electricity recognised as generated in cogeneration is purchased within MP from the cogeneration plants from which all electricity transferred to the electrical network was purchased within MP.

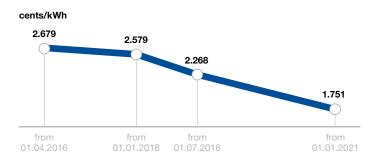


In compliance with the Electricity Market Law, the functions of the public trader in Latvia are performed by Energijas publiskais tirgotājs AS. The public trader is compensated for expenditures associated with MP and the support for energy-intensive processing industry companies through the mandatory procurement and capacity component (MPC) payments by electricity end users and state budget grants.

The MPC in end users' accounts consists of a variable part and a fixed part. The variable part is calculated in proportion to the electricity consumption and the fixed part (the capacity component) depends on the type of system service used. The amount of the MPC is set based on the MP costs of the preceding year and is approved by the PUC.

On 26 November 2020, the PUC approved the MPC rate, which came into force on 1 January 2021. The average MPC rate of 2.268 cents/kWh has been reduced by about 23% to 1.751 cents/kWh. Such a reduction in the MPC was possible because on 12 October 2020 the Cabinet of Ministers by Decree No. 595 approved larger state budget co-financing to cover MP expenditure, allocating a larger share of Latvenergo AS dividends for this purpose.

Changes in the average MPC value



To increase the competitiveness of Latvian energy-intensive manufacturing companies, since 2017 the MPC reduction support has been provided to companies of this category. Until 2019, the decision on the right to a reduced MPC payment was made by the Ministry of Economics, while as of 2020 it is made by the State Construction Control Bureau.

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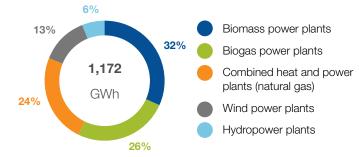
Mandatory procurement: key indicators

In the reporting year, 6% less electricity was procured within the MP process than in 2019. The decrease was mainly due to the end of the support period for several cogeneration plants in 2019 and 2020. In addition, in the reporting year, the State Construction Control Bureau revoked the permits of 18 power plants to sell electricity within MP. Despite the lower volume of electricity purchased within MP, the MP costs above the market price remained at the previous year's level, which was determined by the lower electricity sales price at the Nord Pool exchange. In the Latvian bidding area, the price of electricity was 26% lower than in 2019.

In 2020, the total MP and support costs provided to energyintensive manufacturing companies exceeded the MPC income received by Energijas publiskais tirgotājs AS from electricity end users by EUR 5.7 million. In December 2020, Energijas publiskais tirgotājs AS received a state grant of EUR 2.9 million to compensate for the excess costs; the difference in the remaining costs of EUR 2.8 million is expected to be received in 2021.

More information about MP can be found on the website of Enerģijas publiskais tirgotājs AS.

Electricity purchased within the MP in 2020



Mandatory procurement: key indicators

	Units	2016	2017	2018	2019	2020
Power plants	number	402	408	374	364	337
Installed capacity	MW	1,379	1,394	1,360	1,354	1,331
Electricity purchased within MP	GWh	1,503	1,567	1,385	1,246	1,172
MP costs above the market price (after SET)	MEUR	207.9	235.3	158.9	150.9	150.7
MPC reduction: state aid to energy-intensive processing industry companies	MEUR	_	3.0	4.8	6.2	3.0



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Among the operational segments of Latvenergo Group, the electricity distribution segment is the largest in terms of assets. It ensures the flow of electricity from the electricity transmission network and electricity generators connected to the distribution networks to electricity consumers.

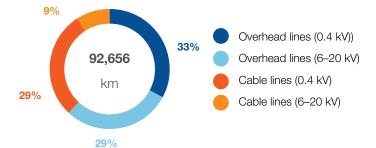
Sadales tīkls AS, a subsidiary of the Group, is the largest distribution system operator in Latvia, providing electricity distribution service to more than 800 thousand customers (for information on customer satisfaction, see the section Product Responsibility). The distribution system operator ensures equal access to electricity networks, which







Length of electricity distribution lines



is one of the prerequisites for ensuring competition in the Latvian electricity market. In 2020, maintenance and reconstruction work in electricity networks was planned and organised in accordance with COVID-19 restrictions to ensure that power supply interruptions had the least possible impact on the remote work and training process.

The distribution network consists of low-voltage and medium-voltage lines formed by cables and overhead lines. As a result of reconstruction of the network, the share of cable lines increases year by year: it has grown from 33% to 38% of the overall line length of power lines over the last five years. The use of cable lines has allowed for reducing both natural and human-induced damage to power lines. The volume of electricity not supplied to customers as a result of failures has decreased by 12% during the last five years, from 916 MWh in 2016 to 806 MWh in 2020. In turn, electricity losses in the distribution network have been reduced by 58 GWh or 17% during the last five years. The share of losses in 2020 is 4%, which is the lowest loss rate among the Baltic states. For more information on the efficiency and availability of the distribution service, see the section Economic Topics.

Distribution system service tariffs are approved by the PUC. Since 2017, the implementation of an extensive performance efficiency improvement programme has helped reduce the variable part of the tariff in bills of end-users by 8% and the total fee for electricity distribution by an average of 5.5% from 1 January 2020. Reduced tariffs for the distribution service were set for five years, i.e. until 2024.

Compared to 2019, the amount of distributed electricity has decreased by 4% or 247 GWh, mainly determined by the COVID-19 pandemic and warmer weather conditions. There has been a decrease in all user groups except households. The amount of electricity distributed in this segment has increased by 4%, which can mostly be explained by remote work and learning, as well as limited opportunities to spend free time outside the home. Electricity consumption of legal customers decreased by 7% in the reporting year. The largest decreases can be seen in the sectors significantly affected by COVID-19 restrictions: accommodation, catering, education, arts, entertainment, and trade and transport.

Electricity received in distribution network

	Units	2016	2017	2018	2019*	2020
From transmission network	GWh	5,304	5,225	5,520	5,531	5,334
From small generators	GWh	1,495	1,575	1,407	1,295	1,228
incl. microgeneration	GWh					2
TOTAL	GWh	6,799	6,800	6,927	6,825	6,563

Distributed electricity and losses

Units	2016	2017	2018	2019*	2020
GWh	6,465	6,463	6,600	6,532	6,286
GWh	334	337	327	293	277
GWh	6,799	6,800	6,927	6,825	6,563
%	4.57%	4.63%	4.43%	4.05%	3.99%
	GWh GWh	GWh 6,465 GWh 334 GWh 6,799	GWh 6,465 6,463 GWh 334 337 GWh 6,799 6,800	GWh 6,465 6,463 6,600 GWh 334 337 327 GWh 6,799 6,800 6,927	GWh 6,465 6,463 6,600 6,532 GWh 334 337 327 293 GWh 6,799 6,800 6,927 6,825

* in 2020, the transmission system operator recalculated the amount of electricity supplied in 2019; electricity losses in the distribution network were recalculated accordingly



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Efficiency programme

Improvement of the operational efficiency of the distribution segment is an important precondition for its balanced development and reduction of operational costs. Efficiency projects are implemented in three main directions:

- improvement of network management, customer service, dispatch control and support processes;
- revision of management and support processes and optimisation of resources required for operations;
- installation of smart electricity meters, which is scheduled for completion by 2022, thus reducing meter service and maintenance costs.

Within the efficiency programme, a reduction in the number of jobs at Sadales tikls AS of more than 800 is planned. From the launch of the efficiency programme in 2017 to the end of the reporting year, the number of jobs was reduced by 27% or 689 jobs and the number of vehicles was curtailed by 25% or 268 units. 32 of 70 technical bases have been closed by optimising their geographical location in the territory of Latvia. More than 850 thousand remotely read smart meters were installed by the end of 2020, accounting for 77% of the total fleet of meters and metering 90% of the total volume of electricity consumed by customers.

Investment and maintenance

According to the development plan of Sadales tikls AS, large investments are made in the maintenance and development of electrical networks every year. Their aim is to promote high-quality and reliable electricity supply, to reduce the frequency and duration of interruptions in electricity supply and to ensure efficient management of electricity networks. Digitalization and automation of the distribution network play an important role in achieving this goal. The main areas of investment in the distribution segment are as follows:

- an automation programme, which includes installation of remotely controlled circuit breakers and fault location detectors and gradual connection of the 20 kV network to the automatic fault location system. It provides for faster fault finding and restoration of the power supply, thus reducing the duration of power outages. In 2020, all technically suitable sections of the 20 kV network were connected to the automatic fault location system;
- introduction of smart electricity meters, which improves customer awareness of electricity consumption and promotes the efficiency of electricity consumption and cost reduction for the distribution system operator, customers and electricity traders;
- replacing overhead power lines with cable lines (mostly in forested areas), which helps to reduce the number of disruptions in the electricity supply system due to unfavourable weather conditions;
- renewal of power lines, 110 kV substation switchgear and transformer substations.

Investments in distribution assets

	=• • •	2017	2010	2019	2020
Investments MEUR	106.4	107.7	95.1	95.1	87.4

Reconstruction and construction

	Units	2016	2017	2018	2019	2020
Overhead lines (0.4 kV)	km	22	18	39	81	367
Cable lines (0.4 kV)	km	651	781	858	711	571
TOTAL low-voltage power lines	km	673	799	897	792	938
Overhead lines (6–20 kV)	km	628	522	692	621	885
Cable lines (6–20 KV)	km	348	326	295	199	149
TOTAL medium-voltage power lines	km	976	848	987	820	1,034
Transformer substations reconstructed	number	773	726	816	690	605
Connections constructed	number	9,353	8,907	9,445	11,079	12,410



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Until 10 June 2020, the operation of the segment was ensured by Latvijas elektriskie tikli AS (LET), which was the holder of the distribution system assets (330 kV and 110 kV power transmission lines, substations and distribution points) and leased them to Augstsprieguma tikls AS (AST), the transmission system operator. The most common model of management of transmission network systems in European countries is one in which network assets are owned by the transmission system operator. Therefore, on 8 October 2019 the Cabinet of Ministers of the Republic of Latvia decided to implement complete ownership unbundling of the electricity transmission system operator from Latvenergo Group by 1 July 2020 and transfer all assets of the electricity transmission system to transmission system operator AST. On 10 June 2020, transmission assets worth EUR 694.3 million were unbundled from Latvenergo Group and all LET shares worth EUR 222.7 million were transferred to the Ministry of Economics. The market value of the LET shares was assessed by KPMG Baltics AS.

With the unbundling of the transmission assets, all LET liabilities were also transferred to AST, thus reducing the investment financing required by the Group. On 7 August 2020 Moody's maintained the credit rating of Latvenergo AS at Baa2 with a stable outlook (also taking into account the unbundling of transmission assets).

In 2020, before the unbundling of transmission assets EUR 28.8 million was invested in transmission system development. EUR 17.9 million of this was invested in the project *The third Estonia–Latvia power transmission network interconnection*.



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Materiality Assessment

the topics and the relevant disclosures can be divided into four steps.

The content of the Latvenergo Group Sustainability Report is based on economic, social and environmental

topics important to the Group and its stakeholders. These material topics have been identified in compliance with the GRI Guidelines and the materiality assessment methodology developed by the Group. Identifying

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Step 1

Identifying relevant sustainability topics. Identifying priority stakeholders.

The list of potentially relevant topics initially comprised topics attributable to the operation of the Group that are potentially relevant to both the Group and its stakeholders. The list was based on the following sources of information:

- GRI Guidelines and Electric Utilities Sector Disclosures;
- information disclosed by similar companies in the energy sector;
- Latvenergo Group strategy and policies;
- stakeholder opinion;
- a study of the Group's communications, incl. information disclosed in previous sustainability reports, etc.

During this step, a total of 23 sustainability topics were identified as relevant to Latvenergo Group operations. The priority stakeholders were determined through a management survey of the Group and assessed by the responsible managers of the respective areas.

Step 2

Determining the most material sustainability topics.

Latvenergo Group organises stakeholder workshops on a regular basis to identify the key sustainability topics. They are attended by the management of the Group and representatives of priority stakeholders. The last workshop took place in 2018. During the workshop, participants assessed the materiality of the topics on a scale of 1 to 7 (from no material impact on the sustainability of the Group to a highly material impact on the sustainability of the Group). In addition, the participants split into working groups and discussed ideas and suggestions on how the Group could ensure sustainability for the topics which are most relevant to each working group. The results of the group discussions were presented in a panel discussion.

Step 3

Incorporating the most material topics into a matrix and verifying it. Selecting disclosures.

Within this step, the results of the stakeholder vote and the Latvenergo Group management vote were compiled, and a materiality matrix of sustainability topics was drawn up. The matrix was assessed and approved by the management of the Group.

The materiality matrix comprises 23 sustainability topics identified as relevant to Latvenergo Group. The vertical axis reflects the importance of the sustainability topics to the Group's stakeholders, and the horizontal axis reflects the importance of these topics from the Group's point of view. The matrix is divided into three parts: most material, moderately material and less material topics. The Sustainability Report covers the most material and moderately material topics. According to the GRI Guidelines, disclosures corresponding to these topics were identified. The report discloses information on 16 material sustainability topics for the Group and 31 specific standard disclosures (see the GRI Index).

Step 4

Reassessing sustainability topics and disclosures.

The preparation of the report included the annual re-evaluation of stakeholders' opinions, the topics identified and the relevant disclosures. This was done by the persons responsible for the relevant areas, considering changes in the operational environment and the Group's operations and the feedback received from stakeholders. During this process, the Group concluded that there was no need to change the sustainability topics in 2020.

In the reporting year, information on taxes paid in all three Baltic countries has been added to one of the most material topics, *Contribution to the economy*.

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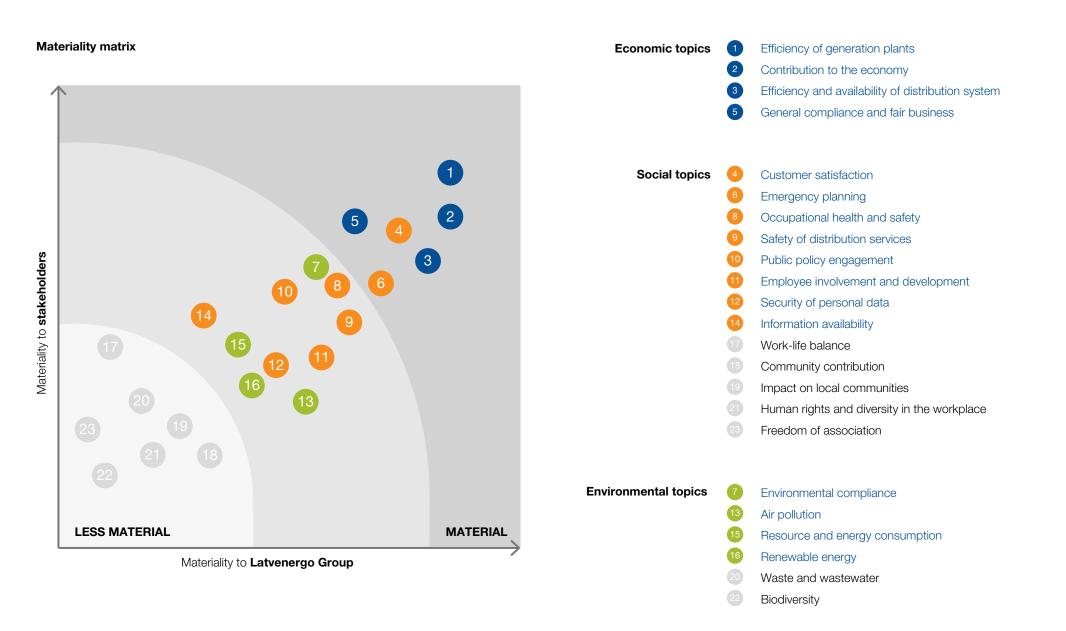
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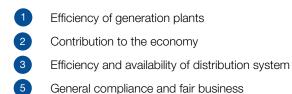
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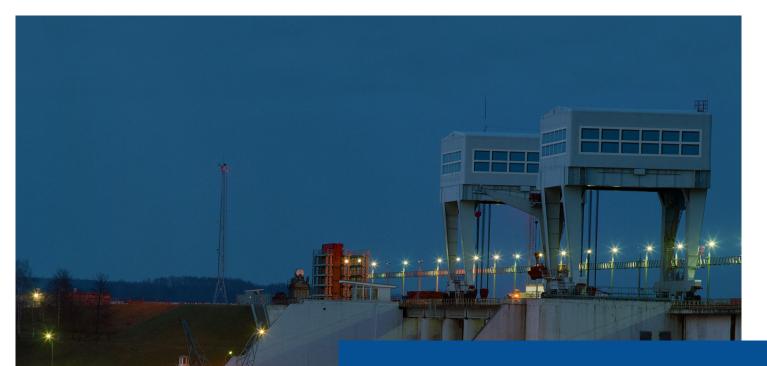
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Materiality to Latvenergo Group





Latvenergo Group is the largest provider of energy supply services in Latvia and plays a significant role in the national economy. The efficiency of generating facilities and the quality of the distribution service of the Group are ensured by the efficient use of resources and prudent long-term investments in the modernisation of generation facilities and electricity network infrastructure. Optimal use of power plant operating modes in accordance with market conditions is also important. In its activities, the Group complies with laws and regulations and high professional ethical standards and encourages its partners to comply with equivalent ethical principles.

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1 Efficiency of generation plants

The European Union is committed to ensuring a climate-neutral economy by 2050, and the energy sector and therefore Latvenergo Group have a key role to play in achieving climate goals. The most important development tasks in both Europe and Latvia are to reduce greenhouse gas emissions, increase the share of renewable energy sources and increase energy efficiency.

Maintenance and improvement of Latvenergo Group's facilities is very important in ensuring high generation efficiency. In the reporting year:

- the reconstruction of the Daugava HPPs hydropower units continued, which will ensure an increase in capacity of up to 5% and an increase in the hydropower turbine efficiency ratio of up to 4.5% and thus also increase the annual electricity output;
- an ambitious reconstruction of Aiviekste HPP was started, where the capacity of the plant is expected to be doubled from 0.8 MW to 1.5 MW;
- modernisation of the CHPP-1 gas turbines was performed, as a result of which the installed electrical capacity of the plant was increased by 10% (14 MW) and the NO_x concentration in flue gases, depending on the chosen operating mode, was reduced by 15–25%;
- the construction of the CHPP-2 heat storage system continued, which will ensure both primary energy savings (at least 2.4 GWh/year) and CO₂ emission reductions (at least 9,000 t/year).

For more information on plant modernisation and reconstruction projects, see the section Generation.

Efficiency indicators of facilities are affected by the chosen operation modes, which are adjustable according to market conditions. The CHPPs of Latvenergo AS can generate energy in condensation mode and in the highly efficient cogeneration mode, which allows for the most efficient use of fuel and significantly reduces emissions per unit of energy generated. Under unfavourable market conditions, generation at the CHPPs is reduced, using the opportunity of purchasing electricity at the Nord Pool exchange. However, electricity generation at the CHPPs increases in conditions of increased electricity market demand.

The output of the Daugava HPPs is planned considering the water inflow in the Daugava River and the possibility to accumulate water in the water reservoirs of the HPPs and generate electricity during periods when the demand and the exchange price are higher. Due to the optimal combination of the generation at the CHPPs and Daugava HPPs and the import opportunities from other Nord Pool bidding areas, consumers in the Baltics benefit from both price convergence to the Nordic price level and price stability in the long term.

GRI EU11

Average generation efficiency of power plants

Generation efficiency indicators are calculated as the ratio of electricity and thermal energy generated and the energy necessary for their generation. These indicators are affected by the operation modes chosen at the generation facility, which are adjusted to market conditions. For the CHPPs and Liepaja plants, a numerically higher indicator means higher generation efficiency, while in the case of the HPPs, the numerically lower the efficiency indicator, the more efficiently each cubic meter of water is used.

In 2020, the generation efficiency indicator of the Latvenergo AS CHPPs increased by five percentage points, which can be explained by the fact that, compared to 2019, more electricity was generated in cogeneration mode. The generation efficiency of the Daugava HPPs has not changed significantly.

Generation facility efficiency indicators

	Units	2016	2017	2018	2019	2020
Daugava HPPs	m³/kWh	18.9	18.6	18.6	17.9	18.1
CHPPs	%	83	88	77	72	76
Liepaja plants	%	90	91	90	90	90

GRI EU30

Average plant availability factor

The power plant availability factor for the generation facilities is calculated as the time period during which a plant provides its rated capacity. The remaining time is intended for scheduled and unscheduled repair work.

In the reporting year, the availability factor of the Daugava HPPs did not change significantly, while the availability factor for the CHPPs was slightly lower compared to the previous year, as the amount of repairs was higher. In 2020, the Daugava HPPs were operational for an average of 1,914 hours and on back-up for an average of 4,824 hours. The average annual duration of scheduled repair work per hydropower unit was 1,189 hours. Unscheduled repairs amounted to 2,842 hours in total. The CHPPs were operational for an average of 2,180 hours and on back-up for an average of 5,605 hours. The average annual duration of scheduled repairs amounted to 153 hours in total.

Average plant availability

	Units	2016	2017	2018	2019	2020
Daugava HPPs	%	81	76	76	85	84
CHPPs	%	82	80	88	85	81

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2 Contribution to the economy

Latvenergo Group provides sustainable and economically viable services in the energy sector, which is the basis for the functioning and development of all other sectors. Taxes paid to the state budget, dividends, jobs created and large investments strengthen the Latvian economy. Latvenergo operates in all energy trade segments in Latvia, Lithuania and Estonia, thus having a major impact on economic growth throughout the Baltics.

In 2020, the COVID-19 pandemic caused a decline in the Latvian economy, especially in the service sectors. Latvia's GDP decreased by 3.6% compared to 2019. The restrictions introduced in the Baltics to reduce the spread of COVID-19 reduced economic activity and also affected electricity consumption. In Latvia, electricity consumption decreased by 2.2% in 2020 due to both the spread of COVID-19 and warmer weather during the heating season.

In 2020, investments amounted to EUR 168.9 million, and they have exceeded EUR 1 billion over the past five years. Significant amounts have been invested in environmentally friendly energy generation

Tax payments by Latvenergo Group (by cash flow)

	Units	s Latvia		Lithu	iania	Esto	onia	TOTAL	
		2019	2020*	2019	2020	2019	2020	2019	2020
Taxes borne	MEUR	47.5	45.6	0.6	0.5	0.3	0.3	48.4	46.4
Corporate income tax	MEUR	10.4	10.6	0.0	0.1	0.1	0.1	10.5	10.8
Payroll taxes paid by employer	MEUR	18.7	19.1	0.0	0.0	0.2	0.2	18.9	19.3
Other taxes (excise, environmental, electricity, real estate taxes)	MEUR	18.4	15.9	0.6	0.4	0.0	0.0	19.0	16.3
Taxes collected	MEUR	105.0	93.1	13.8	12.1	7.4	7.1	126.2	112.3
Value-added tax	MEUR	82.9	70.2	13.5	11.7	7.3	7.0	103.7	88.9
Payroll taxes paid by employees	MEUR	22.1	22.9	0.3	0.4	0.1	0.1	22.5	23.4
TOTAL	MEUR	152.5	138.7	14.4	12.6	7.7	7.4	174.6	158.7

* Latvijas elektriskie tīkli AS was part of Latvenergo Group until 10 June 2020

Contributions to the pension fund

	Units	2016	2017	2018	2019	2020
Contributions	MEUR	2.3	2.2	2.2	2.1	3.5

and network development projects. The biggest investment project of 2020 was the Daugava HPPs hydropower unit reconstruction programme (see the annex Green Bond Report).

Latvenergo Group is one of the biggest taxpayers in Latvia. In the reporting year, the Group paid EUR 138.7 million to the state budget of Latvia; in addition to that, EUR 127.1 million were paid as dividends for the use of state capital. The amount of taxes paid in Lithuania and Estonia was EUR 12.6 and EUR 7.4 million respectively. Latvenergo Group is also one of the biggest employers in Latvia, with a total of 3,295 employees at the end of 2020. The Group provides its employees with competitive wages and contributions to their pension fund and training for improvement of professional skills.

At the end of the reporting year, the value of the Group's assets reached almost EUR 3.4 billion, and equity exceeded EUR 2.1 billion. Detailed information on the performance of the Group is available in the Latvenergo Consolidated Annual Report.



Defined benefit plan obligations and other retirement plans

In compliance with the Collective Bargaining Agreement, the Group makes contributions to a pension fund and pays termination benefits to employees upon their retirement. These benefits apply to 96% of the Group's employees.

Monthly contributions in the amount of 5% of the monthly remuneration are paid into Pirmais Slēgtais Pensiju Fonds SlA until the employee reaches pensionable age (until April 2020, employees could redirect part of this 5% towards endowment health insurance). The accumulated private pensions become available to employees employed at the Group after they reach the age of 60 and to employees no longer employed at the Group after they reach the age of 55 or in case of Group 1 disability. If the employee draws on the accumulated pension after reaching the age of 60, the Group suspends contributions. In 2020, EUR 3.5 million were paid into the pension fund. The operations of Pirmais Slēgtais Pensiju fonds AS are supervised by the Financial and Capital Market Commission.

Termination benefits upon retirement apply to employees who terminate employment and are eligible for a state old-age pension or disability pension. The amount of the benefits depends on the duration of service at the Group. Latvenergo Group grants a benefit in the amount of an average weekly wage for each year of employment. The amount of Latvenergo Group's obligation for the benefit plan is disclosed in Note 27 of the Annual Report.

GRI 201-1

Direct economic value generated and distributed*

In 2020, the economic value generated by Latvenergo Group corresponded to 3% of Latvia's GDP. Distributed economic value reached 85% of the economic value generated, and it is distributed among the following stakeholders:

- business partners remuneration for resources and services delivered to ensure the Group's operations;
 - employees direct and indirect remuneration for work;
 - state authorities taxes and duties paid, remuneration for the use of state capital (dividends);
 - providers of debt capital and investors remuneration for the use of borrowed capital;
- the local community donations and support.

Latvenergo Group is a significant payer of dividends for the use of state capital in Latvia, and retained earnings brought forward from previous years were also used for the distribution of dividends. Over the last five years, nearly EUR 600 million was paid as dividends into the state budget. Latvenergo AS dividends are also used as a source of funding for the state budget programme Electricity User Support, making it possible to reduce the MPC value by about 23% from 1 January 2021 and by 35% since 2017.

The Group's retained economic value amounts to EUR 119.8 million or corresponds to approximately 15% of the economic value generated in the reporting year. In 2020, EUR 168.9 million was earmarked for investment.

Economic value generated and distributed*

	Units	2019	2020
Economic value generated	MEUR	844.7	780.2
Revenue and other income	MEUR	843.5	778.1
Income from financial activities	MEUR	1.2	2.1
Economic value distributed	MEUR	764.7	660.4
Resources, materials, operational and other costs	MEUR	501.9	396.5
Employee remuneration	MEUR	101.3	106.0
Payments for the use of state capital	MEUR	132.9	127.1
Payments to providers of debt capital	MEUR	9.5	10.8
State imposed payments	MEUR	18.5	19.3
Charity and sponsorships	MEUR	0.6	0.7
Retained economic value	MEUR	80.0	119.8

* excluding discontinued operations and the CHPPs' compensation recognized in the profit or loss statement

GRI 201-4

Funding received from the state

Latvenergo Group also raised EU co-funding for individual investment projects. In 2020, EUR 1.4 million were raised for the establishment of a heat storage system at CHPP-2 of Latvenergo AS. The project is expected to be commissioned in the first half of 2021, and the total planned EU co-funding amounts to EUR 2.6 million. In turn, EUR 0.2 million were raised for the establishment of a pan-European energy system IT platform, OneNet, at Sadales Tikls AS. The project is implemented in cooperation with Augstsprieguma tikls AS and partners from 21 European countries. Participation in the OneNet project will help ensure coordinated and automated cooperation between power supply system operators and promote the development of innovative network services. The OneNet IT platform is expected to be developed by the end of 2023, and the total planned EU co-funding amounts to EUR 0.3 million.

In compliance with the Electricity Market Law, the functions of the public trader in Latvia are performed by Enerģijas publiskais tirgotājs AS, a subsidiary of the Group, which receives a targeted grant from the state budget for restriction of the MPC. Its main funding comprises revenues from dividends paid by Latvenergo AS. In 2020, Enerģijas publiskais tirgotājs AS received a EUR 3.8 million targeted grant.

Funding received from the state and the EU

	Cofunding source	Units	2016	2017	2018	2019	2020
Liepaja plants	EU	MEUR	0	0	0	0.3	0.0
Energy IT platform	EU	MEUR	0	0	0	0.0	0.2
Heat accumulation system at CHPP-2	EU	MEUR	0	0	0	0.2	1.4
Grant for limiting MPC*	state	MEUR	59.2	69.9	92.7	5.5	3.8
TOTAL		MEUR	59.2	69.9	92.7	6.1	5.3

* as of 2017, includes payments to energy-intensive processing industry companies

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3 Efficiency and availability of the distribution system

Sadales tikls AS is developing a customer-oriented smart power grid, which improves the continuity and stability of electricity supply and its resilience to the effects of nature. This is done through an ever-expanding range of smart technologies and remote-controlled devices, the introduction of new digital solutions and the improvement of automated network management.

The key performance indicators for quality of electricity supply are the System Average Interruption Duration Index (SAIDI) and the System Average Interruption Frequency Index (SAIFI). Both indicators are calculated as an average indicator on a per-customer-per-year basis. Over the last five years, SAIFI has been reduced by 26% and SAIDI has been reduced by 24%. Sadales tikls AS conducts regular detailed analysis of these indicators and takes measures to improve them. Major actions implemented during the reporting year:

- nearly 2,000 km of power lines were reconstructed, including the replacement of more than 700 km of overhead lines with cable lines and construction or reconstruction of more than 600 transformer substations;
- clearance work on power line routes totalling approximately 4,500 km;
- 120 remote-controlled circuit breakers were built, separating power lines in densely populated places and forested areas.

When performing work in the power grid, a set duration of scheduled interruptions is largely observed – up to 5 hours during winter and 6 hours during the rest of the year. In addition, Sadales tikls AS has introduced an automatic fault localisation system, and methods of working in the power grid without voltage disconnection for the customer are being developed. To reduce electricity losses in the distribution network, older transformers are replaced with more energy-efficient equipment, monitoring of electricity consumption is continuously improved, and the technical capabilities of smart meters are used.

Sadales tikls AS takes care of the quality of services provided and continuously improves its customer service-related processes. If electricity supply services are found to be inconsistent with quality requirements, customers are compensated for the losses incurred. More information in the section Distribution.

GRI EU12

Distribution losses as a percentage of total energy

One of the most important indicators describing the efficiency of the distribution segment is distribution losses as a percentage of total electricity received in the grid. In 2020, Latvenergo Group reached the historically lowest electricity loss rate of 3.99%.

At the beginning of 2020, the Council of European Energy Regulators (CEER) published the latest report on distribution losses in power grids of European countries. The report includes indicators for 2018 and these show that Latvia has reached the lowest level of losses in Eastern Europe.

Distribution losses

	Units	2016	2017	2018	2019*	2020
Distribution losses	%	4.57	4.63	4.43	4.05	3.99

* In 2020, the transmission system operator recalculated the amount of electricity supplied in 2019; electricity losses were recalculated accordingly.

GRI EU26

Percentage of the population unserved in licensed distribution or service areas

The service area specified in the electricity distribution licence covers 98% of the territory of the Republic of Latvia. Electricity distribution services are ensured to over 800 thousand customers. The distribution service is provided to 773.7 thousand private persons and 26.7 thousand business customers that have concluded agreements on electricity supply within the service area specified in the licence.

GRI EU27

Number of residential disconnections for non-payment

In 2020, electricity supply was disconnected for 8,719 households due to failure to pay in a timely manner. 57% of disconnections lasted up to 48 hours. Cases where disconnections were longer than one month (13%) were mainly related to connections used by customers irregularly or rarely. In the reporting year, 90% of households had their electricity connection restored within 24 hours after payment.

Number of residential disconnections for non-payment

	Units	2017	2018	2019	2020
Up to 48 hours	number	3,164	4,123	4,513	4,968
From 48 hours to 1 week	number	1,219	971	1,726	1,428
From 1 week to 1 month	number	1,460	1,297	1,451	1,149
From 1 month to 1 year	number	2,415	1,747	1,184	1,140
More than 1 year	number	3	0	13	34
TOTAL	number	8,261	8,138	8,887	8,719

Length of time between arrangement of payment and reconnection

	Units	2017	2018	2019	2020
Up to 24 hours	number	8,069	7,217	7,799	7,820
From 24 hours to 1 week	number	192	921	1,082	887
More than 1 week	number	0	0	6	12
TOTAL	number	8,261	8,138	8,887	8,719

GRI EU28, EU29

Power outage frequency (SAIFI) and average power outage duration (SAIDI)

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on power line routes has contributed to substantially reduced SAIFI and SAIDI. Part of the power line in the maintenance and repair work was carried out without cutting voltage for consumers. by 2

Well-targeted investment in the reconstruction of distribution networks and intensive clearance work

Compared to 2019, when storm damage caused the greatest impact on the amount of power outages in the last five years, such impacts decreased in the reporting year. If massive damage caused by natural disasters is disregarded, both indicators are constantly improving. Over the last five years, SAIFI decreased by 26% and SAIDI decreased by 24%.

System Average Interruption Frequency Index (SAIFI)

Units number	2016	2017	2018	2019	2020
number	0.0				
	0.2	0.2	0.0	0.3	0.2
number	2.2	2.0	1.9	1.8	1.5
number	0.7	0.6	0.6	0.6	0.6
number	3.1	2.8	2.5	2.7	2.3

System Average Interruption Duration Index (SAIDI)

	Units	2016	2017	2018	2019	2020
Unscheduled: weather conditions (massive damage)	min	26	18	3	33	25
Unscheduled: damage (incl. by third parties)	min	104	100	102	90	83
Scheduled: network maintenance and overhaul	min	156	143	123	123	111
TOTAL	min	286	261	228	246	219





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5 General compliance and fair competition

Latvenergo Group has introduced the Fraud and Corruption Risk Management Policy, which sets out the main principles for managing such risk. It aims to reduce the risk of fraud and corruption, potential losses, reputational damage, and the possibility of legal obligations or sanctions being imposed.

The Fraud and Corruption Risk Management Policy is related to the Group's Code of Ethics, which prohibits corrupt activities, fraud and conflict of interest situations. The Code defines the corporate values and the high professional conduct and ethical standards for ensuring that all employees of the Group perform their responsibilities and take decisions in an unbiased manner and prevent fraud, corruption and illegitimate or dishonest conduct in their activities.

A whistleblowing system has been introduced to prevent fraud and corruption in the Group. Any employee of the Group may report a potential violation. The whistleblower gets protection under regulatory enactments, the identity of the whistleblower is not disclosed, and the whistleblower cannot be punished, fired, or demoted or face unfavourable consequences in any other way. The whistleblower's report form is available on the website of the Group.

The Group is constantly improving understanding of the main principles and actions set out in the Code of Ethics. In 2021, training of the Group's employees for the identification of conflicts of interest is planned, along with additional measures to promote reporting or whistleblowing, i.e. employees will be encouraged to actively report ethical violations within the Group.

GRI 205-2

Communication and training on anti-corruption policies and procedures

All Latvenergo Group's employees have access to the Fraud and Corruption Risk Management Policy and the Code of Ethics. Both documents can be found in the Group's internal document system. The Code of Ethics is also available on the Group's website, where it can be viewed by any third party, including all cooperation partners of the Group. To implement ethical actions in cooperation with the Group, when concluding a cooperation agreement, the Group's capital companies encourage their contractual partners to observe high principles of professional ethics in mutual cooperation.

In the reporting year, e-learning on the requirements of the Code of Ethics, prevention of conflicts of interest, and prevention of fraud and corruption was organised for all employees of Latvenergo Group. By 31.12.2020, 3,088 or 96% of the Group's employees covered by the Group's Code of Ethics mastered this programme. Employees of Elektrum Lietuva UAB and Elektrum Eesti OÜ will have e-training in 2021, while Liepājas enerģija SIA has its own Code of Ethics, which also includes the most important principles from the Group's Code.

GRI 205-3

Confirmed incidents of corruption and actions taken

No cases of corruption were identified within Latvenergo Group in the reporting year. The Group implements fraud and corruption risk management and continuously improves risk mitigation measures.

GRI 206-1

Legal actions for anti-competitive behaviour and monopoly practices

Latvenergo Group has approved the Competition Law Compliance Policy prohibiting activities that violate the restrictions specified in the competition law. In 2020, no cases of anti-competitive behaviour or misuse of the dominant position by Latvenergo Group were identified, and no court proceedings against Latvenergo Group were initiated or were ongoing.

GRI 419-1

Non-compliance with laws and regulations in the social and economic area

No significant fines or non-monetary sanctions were applied in 2020 for any failure by the Group to comply with laws and regulations in the social and economic area.



Social Topics

Product responsibility

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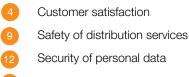
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Latvenergo Group's brand *Elektrum* offers competitive products and services related to electricity, natural gas, electricity consumption and energy efficiency that meet customer needs. Distribution services are based on the provision of high-quality and secure electricity supply in Latvia. The Group's goal is to build long-term and mutually beneficial relationships with customers, and the Group uses the principles of cost-effectiveness and operational excellence to achieve this goal. Thanks to the purposeful digitalisation of customer service in previous years, both *Elektrum* and Sadales tikls AS were able to provide excellent service to their customers in 2020 as well, when digital solutions and remote communication were especially important due to the spread of COVID-19.

Information availability



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Trade

Since 2018 Latvenergo AS has been implementing a digital transformation programme to improve the availability of products and services and the quality of customer service at *Elektrum*. It includes new solutions and improvements in the customer portal elektrum.lv, the *Elektrum* mobile app and other customer service channels. Key achievements in 2020:

- a new energy efficiency assessment tool, *Energo Pulse*, was developed, which allows customers to compare their electricity consumption with data from similar households and receive tailor-made advice on how to improve energy efficiency;
- the functionality of concluding contracts was improved at the *Elektrum* customer portal, and interactive functionality of frequently asked questions was introduced. The home view of the portal was customised with important notifications, for example, about changes in electricity consumption, non-compliance of the balanced payment with actual consumption, etc.;
- notification options on stock exchange price fluctuations were supplemented in the *Elektrum* app – now customers can receive a notification not only about a price increase, but also about a fall;
- digital authorisation solutions were introduced in telephone communication which identify the customer by the contract number or using the *Smart ID* app. *Smart ID* was also added to the existing authorisation options on the customer portal.

Latvenergo Group extends its range of products and services on a regular basis to strengthen customer relations and competitiveness. In 2020, a new service, *SOS Kit*, was introduced, which, in addition

Customer service key performance indicators in Latvia





of customer service transactions are completed digitally

to household energy risk insurance, includes assistance from a carpenter, plumber or key service in emergency situations. The range of products at elektrumveikals.lv was supplemented with a number of new products for home climate control and security.

To assess the quality of customer service and identify opportunities for its improvement in a timely manner, a number of customer service key performance indicators have been defined at the Group. In general, in 2020, a high level of availability and service quality was ensured in all service channels, which is also reflected in the customer satisfaction rating. The share of e-mails answered within 24 hours was relatively lower, corresponding to the availability of staff resources.

	Units	2016	2017	2018	2019	2020
Calls answered	%	87	89	83	91	91
Calls answered within 30 seconds	%	73	76	64	79	82
E-mails answered within 24 hours	%	54	90	58	87	73
Claims answered within 3 days	%	n/a	n/a	80	90	85
First call resolution for the household segment	%	91	90	91	90	91

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The Group conducts regular customer satisfaction and loyalty surveys in the household and business customer segments in Latvia. These surveys measure customer satisfaction with the services, customer service, payment options and the availability and content of information. To evaluate customer satisfaction with service in more depth, the net promoter score (NPS) is monitored in all customer service channels. In 2020, customers most appreciated the suitability of the customer portal elektrum.lv to their needs, convenient payment options, customer service staff and the quality of services provided.

Elektrum customer satisfaction index

Measurement on a scale from 1 to 6.

business customer segments.

2016

Business

customers

• Shows customer satisfaction with the service provider.

• In 2020, customer satisfaction increased in the household and

3.7 3.8

2018

3.8 3.9

2019

Households

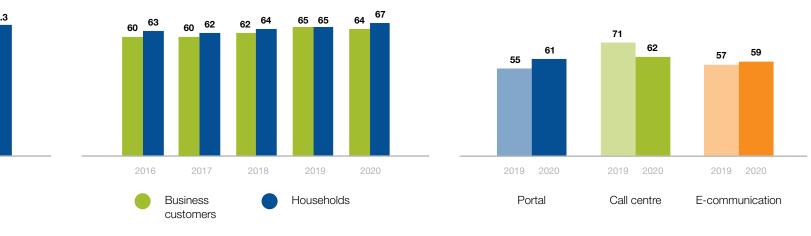


Elektrum customer loyalty index

- Shows the level of customer loyalty commitment to the service provider and readiness to continue cooperation in the long term.
- Measurement on a scale from 1 to 100.
- In 2020, customer loyalty increased slightly in the household segment and decreased slightly in the business customer segment.

Elektrum net promoter score

- Shows readiness of customers to recommend the service provider based on their service experience.
- Measurement on a scale from -100 to +100 (according to the international NPS methodology).
- The NPS is consistently high for all customer service channels.





Distribution

During the reporting year, Sadales tikls AS continued to develop digital and automated services, which improved the availability of services and reduce manual operations in customer service processes. Multichannel communication capabilities have made it possible to ensure continuous and full-fledged availability of services and high-quality customer service even during the COVID-19 pandemic. All self-service opportunities are available to customers remotely and at any time:

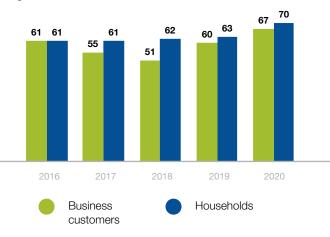
- on sadalestikls.lv extensive information on services, several e-calculators and digital maps, as well as e-consultations and online chat;
- on self-service portals, customers may at any time do everything from a service application to conclusion of a contract; they can coordinate projects and plans and get permits for construction, forestry and excavation work.

In 2020, customer satisfaction with Sadales tikls AS increased significantly in both the business customer and the household segment. The overall customer satisfaction index has reached the European utilities benchmark of 67 index points. European Distribution System Operators (*E.DSO*) has recognized Sadales tikls AS as an example of good practice for customer service solutions in Europe. This acknowledgement also confirms the success of the company's e-services and centralised data exchange solutions.

Household customers and businesses appreciated the availability and timeliness of information and the self-service opportunities in the e-environment. The quality of the electricity supply was also highly evaluated in the household and small business segment. Meanwhile, large enterprises cited continuity of the electricity supply and more flexible possibilities to adjust the connection capacity and tariff to the needs of the company as aspects to be improved.

Customer satisfaction index of Sadales tikls AS

- Shows customer satisfaction with the service provider.
- In 2020, customer satisfaction continued to increase, with a significant increase in both the business and the household segment.



9 Safety of distribution services

Safe electricity supply is a priority for Sadales tikls AS. The company reminds the public about electrical safety regulations and the dangers of electricity on a regular basis and educates children, young people and adults about electrical safety and the proper use of electrical appliances in everyday life.

Sadales tikls AS organises and supports informative and educational programmes and campaigns which aim to reduce the number of electrical accidents due to negligent use of electrical appliances and performing business activities in the vicinity of the electrical network. Employees of the company – in their capacity as Ambassadors of Electrical Safety – go to schools and participate in activities dedicated to safety. In the reporting year, the Ambassadors of Electrical Safety conducted 129 classes in 74 Latvian educational institutions and eight summer camps. Over 134 thousand children and young people have been educated on electrical safety since 2013. Partial lockdown was one of the most important factors that caused the increase in the number of electrical injuries at home; therefore, in 2020 Sadales tikls AS was particularly active in its social network accounts in educates people engaged in business operations, logging and agricultural work and urges them to take care of their own safety and the safety of those around them and to follow electrical safety rules near electricity lines.

It is possible to learn about the dangers of electricity and how to act properly in dangerous situations on the website arelektribuneriske.lv. For more information on raising public awareness of electrical safety, see the section Corporate Social Responsibility.

GRI EU25

Number of injuries and fatalities to the public (involving company assets)

There were no accidents involving third parties in electrical installations of Sadales tikls AS in 2020.

Number of accidents to third parties involving company assets

	Units	2016	2017	2018	2019	2020
Fatal	number	0	1	0	1	0
Serious	number	1	0	0	1	0
Not serious	number	2	5	3	1	0
TOTAL	number	3	6	3	3	0
Legal cases	number	0	0	0	0	0

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12 Security of personal data

To ensure compliance with the requirements of the General Data Protection Regulation (EU) 2016/679, Latvenergo Group constantly improves its personal data processing and introduces measures to reduce the risks of personal data processing. Employees whose duties involve working with personal data have workshops, knowledge tests and e-training on a regular basis.

The processing and maintenance of personal data stored in the information systems of the Group is carried out in accordance with the requirements of the laws and regulations for the security of personal data and confidentiality. Personal data processing in *Elektrum* customer portals, the e-st.lv portal and direct communication activities is adjusted so as to ensure the confidentiality of personal data.

GRI 418-1

Complaints regarding breaches of customer privacy and losses of customer data

In 2020, no complaints were received at Latvenergo Group from supervisory authorities or other institutions about personal data breaches, and no incidents involving theft or loss of personal data were registered. No incidents causing high risk to the rights and freedoms of natural persons were identified.

14 Information availability

In communication with customers as well as in marketing and advertising activities, Latvenergo Group ensures compliance of the information with the law, fair competition standards, the Group's Code of Ethics and internal policies.

Trade

A number of customer service channels are offered to maintain a high level of customer satisfaction and service quality and availability. The following service channels are available for customers in Latvia:

- the elektrum.lv customer portal, incl. online customer service;
- the *Elektrum* mobile application;
- customer service by phone;
- an option to submit questions via e-mail;
- social networks.

To ensure the safety of both customers and employees in COVID-19 conditions, on-site customer service centres were closed from March 2020. As the Group had purposefully developed self-service options on customer portals and other digital service channels in previous years, the quality and availability of customer service was maintained at a high level. The most popular customer service channel is the elektrum.lv portal with around 808 thousand visits per month, of which more than a half are unique users. The popularity of the *Elektrum* mobile application continues to grow: it is used by more than 109 thousand customers, which is 16% of the total number of customers. The use of other service channels has been decreasing every year.

In Lithuania and Estonia, customer service is ensured via the elektrum. It and elektrum. ee customer service portals as well as by phone. To facilitate access to information, customer service is also provided in Russian and English.

Latvenergo Group also informs customers and the public about energy efficiency and electrical safety. Advice on these issues is regularly published in the customer newsletter *Elektrum tavām mājām* and on the *Elektrum* social network accounts. The *Elektrum* Energy Efficiency Centre holds informative activities and campaigns on energy efficiency.

Distribution

All services of Sadales tikls AS are available electronically at any time. Thanks to purposeful informing of customers about the possibilities of the company's e-environment, 96% of the activities performed by customers in the reporting year took place electronically.

A digital map shows information on scheduled and unscheduled disconnections, cleaning of protection zones of power lines, and ongoing and scheduled reconstruction work. Power network faults may be reported 24/7 by calling the toll-free number 8404.

GRI 417-3

Incidents of non-compliance concerning marketing communications

No cases of non-compliance of Latvenergo Group's marketing activities with legal or voluntary provisions were identified in 2020.

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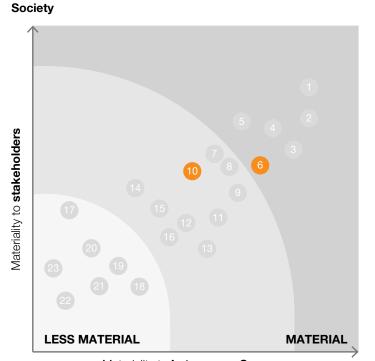
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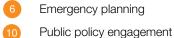
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Materiality to Latvenergo Group





Latvenergo Group follows energy sector development trends, informs stakeholders about its activities and states its position on policy documents and legislative acts relevant to the Group and its stakeholders in the energy sector and related sectors. Emergency and crisis management and prevention plans have been developed for the Group's critical infrastructure. The Group carries out corporate social responsibility activities to support different groups of society.

6 Emergency planning

Latvenergo Group has created an emergency and crisis management system. Its purpose is a common approach for resolving such situations to ensure continuous and reliable operations of the Group or their prompt and efficient recovery. Actions in crisis situations provide for cooperation with the Crisis Management Council, the Energy Crisis Centre, local governments, the Department of Management and Operations of the State Fire and Rescue Service (SFRS), the National Armed Forces and Augstsprieguma tikls AS. The emergency plan has been coordinated with the Ministry of Economics, which is responsible for the development of the national energy policy and for the planning and management of energy crisis recovery measures.

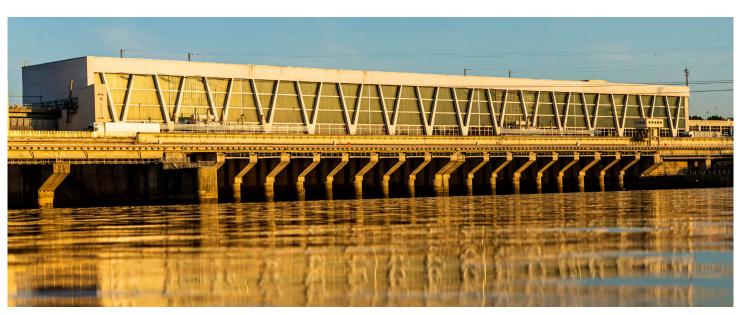
Every year, practical fire safety classes are organised in the largest generation facilities and administrative buildings of Latvenergo Group. They are attended by employees of the Group, contractors, and specialists and operational staff of SFRS firefighting departments. At the end of the classes the training process is analysed and preventive measures are determined to quickly reduce potential consequences and material losses, and to improve fire safety.

10 Public policy engagement

Latvenergo Group participates in shaping energy sector policy to promote sustainable development of the Group, the sector and the economy. The Group's representatives participate in various forums and, in line with the Group's strategy, engage in drafting statements and opinions on Latvian and EU-level studies, guidelines, standards, policy documents and legal acts pertaining to the energy sector and related sectors.

The Group's experts make recommendations for the development of various Latvian regulatory and policy planning documents for the energy sector. The most important activities in 2020:

- in the field of mobility proposals for the draft law on transport energy and support in the development of the charging policy for electric cars in the city of Riga;
- in the regulation of the natural gas market proposals for the improvement of the regulations for the use of the Inčukalns underground gas storage;
- in the field of the electricity market involvement in developing the regulation of the system of guarantees of origin for electricity and in developing regulations of the Cabinet of Ministers on the production of electricity in cogeneration and from renewable sources.



The Group's involvement in shaping energy sector policy is ensured through its participation in the union of the European electricity industry *Eurelectric* and the association for power and heat generation *VGB PowerTech e.V.* During the reporting year, the Group's experts participated in the development of *Eurelectric* positions on:

- increasing the EU's climate target for 2030;
- the renewed EU sustainable finance strategy;
- EU strategy on offshore renewable energy;
- Europe's Ten-Year Network Development Plan.

In 2020, experts of the Group discussed innovations in electricity generation at the centennial *VGB* Congress online and at other online conferences, meetings of technical committees and working groups. In collaboration with *VGB*:

- the first VGB standard in Latvian Interaction of conformity assessment and occupational safety in hydropower plants was adopted;
- the project group *Performance Analytics of Run-of-River Power Plants* was established at the request of the Group, which will improve the *VGB* database;
- translation of the VGB standard Technical and Commercial Key Indicators for Power Plants into Latvian started;
- at the initiative of the Group, a new classification of combined cycle power plants was introduced in the *VGB*'s technical report on the readiness and safety of power plants.

Latvenergo Group participates in energy and energy efficiencyrelated forums and conferences to promote exchange of opinions on the future of the industry. The most important issues discussed in 2020 were the development of electromobility, incl. availability of charging points in Latvia, innovative thermal energy and electricity generation solutions, security of energy supply in the Baltic region, decarbonisation of the economy and the future of solar electricity generation in Latvia.

GRI 415-1

Political contributions

In compliance with the requirements of the laws and regulations of the Republic of Latvia, the Latvenergo AS Donation Strategy and the Group Corporate Social Responsibility Policy, Latvenergo Group does not make any monetary or non-monetary contributions to political organisations.

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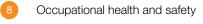
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Employee involvement and development



Latvenergo Group's priorities include strengthening employee engagement, motivation and development and providing a safe work environment that promotes innovation. Motivated, loyal and satisfied employees are an essential precondition for the Group's sustainable development. In the context of the spread of COVID-19, it has been particularly important to ensure work-life balance, well-being and a high level of employee engagement in order to jointly achieve the Group's goals and increase its competitiveness.



Personnel management policy and basic principles

The purpose of Latvenergo Group's personnel management is to promote employee engagement, motivation, and compliance of actions with the values of the Group (responsibility, efficiency and openness). The Personnel Management Policy is subject to the strategy of the Group and covers the following areas of personnel management:

- employee engagement to promote growth, productivity and innovation;
- management of excellence-oriented skills and competences and leadership development;
- comprehensive diversity management, achieving full engagement of all employees and their ability to fulfil their potential, regardless of any constraints;
- a balanced motivation system that supports excellence and leadership.

The key principles characterising the Group's personnel management philosophy and attitude towards employees:

- social responsibility, which includes a safe working environment as well as equal treatment and employment conditions for all employees;
- social dialogue with employees and their representatives;
- competence development, knowledge sharing and knowledge transfer;
- engagement and responsibility for the performance of work to ensure achievement of goals;
- support for diversity, new knowledge and innovation;
- honesty and mutual respect in the relationship between the employer and employees: the employer and employees are equal partners who build their relationship adhering to ethical principles and preventing conflict of interest situations.

In all areas of its operation, the Group respects fundamental human rights, which are enshrined in the Constitution, in applicable laws and in international treaties binding on Latvia. The work environment and processes are created so as to prevent the possibility that the human rights of the employees of the Group and its subcontractors are infringed or violated, insofar as the Group is able to influence this. Respect for the human rights of the Group's employees and its cooperation partners is stipulated in the Code of Ethics.

GRI 102-8,102-41

Number of employees and the Collective Bargaining Agreement

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

The energy industry is characterised by its high number of technical positions; therefore, the workforce structure of the Group has a relatively high proportion of male individuals: 71% of all employees in 2020 were male and 29% were female. This figure remained unchanged from the previous year and has not changed significantly in recent years.

Most employment contracts are concluded as full-time open-ended contracts. In 2020, only 7 employees or 0.2% of the workforce had part-time agreements (0.1% of male and 0.1% of female employees). 1.8% of the workforce had employment contracts for a fixed term (0.6% of male and 1.2% of female employees). These figures did not change significantly compared to previous years.

The Group's companies Latvenergo AS, Sadales tīkls AS and Enerģijas publiskais tirgotājs AS have signed a Collective Bargaining Agreement with the trade union *Enerģija*. In addition to meeting the requirements of laws and regulations, the Collective Bargaining Agreement provides protection for employees' economic and social interests; it was applicable to 96% of the Group's employees in 2020. The Collective Bargaining Agreement applies not only to trade union members, but also to all employees of capital companies.

Number of employees by operating segments

	Units	2016	2017	2018	2019	2020
Generation and trade	number	987	949	877	880	875
Distribution	number	2,521	2,344	2,019	1,957	1,876
Lease of transmission system assets*	number	10	9	8	6	0
Corporate functions	number	613	606	604	580	544
TOTAL	number	4,131	3,908	3,508	3,423	3,295

* On 10 June 2020, transmission system assets were unbundled from Latvenergo Group



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8 Occupational health and safety

GRI 403-1, 403-2, 403-3, 403-4, 403-5, 403-6, 403-7

A safe work environment is one of Latvenergo Group's priorities, which are constantly monitored and improved. In accordance with the requirements of Latvian legislation, an annual occupational health and safety action plan is drafted in companies of the Group. The Group provides its employees with workspace suitable for their needs, personal protective equipment and technical resources, and it trains employees on occupational safety and safety measures were introduced to protect employees from contracting COVID-19 and to prevent the spread of the disease in the Group's facilities.

Occupational health and safety management system

The Group has introduced and maintains occupational health and safety (OHS) systems that meet the requirements of regulatory enactments and the needs of each capital company. The systems ensure internal monitoring of the work environment, which includes effective work environment risk management and employee awareness of hazards and risks in daily work; they also ensure the Group's resource savings in the long run.

The OHS management system of Latvenergo AS has been introduced on a voluntary basis and since 2020 it has been maintained in accordance with the requirements of the international standard ISO 45001. The system is externally certified, which provides an independent third-party assessment. Until the beginning of 2020, Sadales tikls AS maintained a voluntarily implemented and externally certified OHS system in accordance with OHSAS 18001:2007. Following the decision not to proceed with the external certification of the system, the company continues to monitor internally developed occupational safety and health processes and maintain all the necessary documentation as well as the information technology systems implemented.

Management of OHS processes and internal documents allows for identifying risks and non-conformities in a timely manner. Employees may report dangerous situations or non-compliances to occupational safety specialists, heads of the organisational units or trustees. Job instructions include clauses about situations where starting work is prohibited. In accordance with the Labour Protection Law, an employee may refuse to perform work in dangerous conditions by informing the head of the organisational unit or the trustee orally or in writing.

Exchange of information is also ensured in cooperation with the trustees elected by the employees, who are involved in the assessment of work environment risks and provide recommendations for the improvement of the work environment. In 2020, 28 trustees were working in Latvenergo Group. Employees can also turn to trustees in situations where direct communication with the employer is difficult. Occupational safety specialists work with trustees regularly to report on changes in the work environment and receive feedback on their impact on employees.

Accidents are investigated in accordance with the procedure set forth by regulatory enactments. In addition, near-accidents are listed and analysed. Any conclusions and insights are used for the improvement of the OHS management system.

Assessment of work environment risks

Assessment of the work environment risks and identification of dangers is one of the stages of Latvenergo Group's internal supervision of the work environment, on which the occupational safety measures are based. The assessment of these risks is performed by the responsible function, involving the heads of organisational units, trustees elected by employees, and employees themselves. The Group's occupational safety specialist identifies changes in legislation and verifies the information provided by employees on working environment conditions or inconsistencies that may affect the work environment and risk assessment.

In accordance with the work environment risk assessment plan, all workplaces and employees are considered and possible work environment risk factors are identified. The annual work environment risk assessment takes into account:

- the probability of occurrence of the risk and the impact of the risk;
- the specifics of the work to be performed (work with a computer, work at height and/or electrical installations, etc.);
- the presence of other persons at the workplace;
- accidents at work, near-accidents and occupational diseases diagnosed.

Based on the work environment risk assessment, employee occupational safety cards are created. Employees are informed about risk factors and safe work practices on a regular basis. Where necessary, corrective action and preventive measures are taken to mitigate these risks.

The COVID-19 pandemic has created new challenges in the field of occupational health – work environment risks for remote work should be identified and epidemiological safety measures for on-site work should be implemented. Identification of work environment risks for remote work was performed in cooperation with remote employees by considering workplace conditions that may affect the safety and health of the employee. Recommendations have been developed for employees on the basic principles of remote work. At the suggestion of employees, occupational safety specialists provide individual consultations on the correct arrangement of the workplace.

The Group provides training to employees on both general occupational safety and specific professional knowledge. Such training is organised both internally and in cooperation with external service providers. In 2020, renewal and improvement of professional knowledge was ensured remotely as far as possible. Training which could not be held remotely was attended by employees in person, in accordance with the precautionary requirements defined by the state. After training, employees evaluate the knowledge acquired, and such feedback allows the training to be improved according to the needs of the employees.

Employee health

According to the profession and the work environment risk assessment, each employee is sent for mandatory health checks. These checks are included in the employees' health insurance policy and can be performed during working hours. Information about the health condition of employees and its compliance with the work being performed is processed in accordance with the Personal Data Processing Law, respecting confidentiality and employee privacy.

In 2020, ensuring the health of employees also included a number of epidemiological safety measures at the Group's facilities. If the specifics of the work allow it and the employee can work fully remotely, Latvenergo Group provides remote work opportunities. At the Group's generating facilities, work is planned in shifts in which employees do not meet each other, specially equipped premises for shift work are arranged, and movement in the facilities is organised in such a way that movement routes do not intersect. Personal protective equipment is available for work on site: face masks, work clothes and disinfectants. In addition, the Group provides the opportunity to perform COVID-19 tests both at test delivery points and at the Group's generating facilities. Up-to-date information on epidemiological safety measures is available both on the internal communication portal and in the format of signs and posters on the Group's premises.

Health insurance is provided to Latvenergo Group's employees, which includes specialist services, rehabilitation, vaccination, and mandatory health checks corresponding to occupation. Additional health promotion measures for employees of the Group include:

- accident insurance;
- the Collective Bargaining Agreement includes additional guarantees in case of disease;
- there are several gyms for sports activities, where it is possible to actively participate both individually and in group classes (in 2020, the availability of these premises was limited due to COVID-19);
- bicycle parking spaces at generating facilities and offices so that employees can go to work by bike;
- joint hiking or other activities that promote team spirit and a healthy lifestyle;
- kitchens have been built and equipped on the work premises, where it is possible to prepare and heat food.

Contractors

The Group also provides briefing on safe work performance to all employees of contractors who work at the Group's facilities and are exposed to work environment risks. The briefing process is easily accessible and efficient, as contractors can read the briefing remotely. Latvenergo Group provides information on specific risks at the Group's facilities. In turn, the contractor, as an employer, is obliged to assess and acquaint its employees with the risks of the work environment, to train employees in occupational safety, and to provide personal protective equipment and collective protection measures.

The Group supervises the work of contractors, which facilitates the creation and maintenance of a safe working environment for contractors and Group employees. Briefing and training materials are updated in accordance with changes in work facilities and the needs of each company of the Group.

GRI EU18

Percentage of contractor and subcontractor employees that have undergone relevant health and safety training

The Group's occupational safety specialists provide contractors' employees who perform work in the Group's facilities with occupational safety briefings. Briefing is conducted in accordance with Latvian laws and regulations, energy standards and agreements signed with contractors. The instructions and applicable documents on safe performance of work with which contractors' employees must familiarise themselves are also available in electronic form.

GRI 403-8

Workers covered by the OHS management system

Since 2018, internally audited OHS management systems have covered all operating segments and employees of the Group, and they were also externally certified. In 2020, Sadales tikls AS decided to discontinue the external certification of the OHS system, but to continue its internal maintenance and supervision.

	Units	2016	2017	2018	2019	2020
Workers covered by OHS management system	number	4,131	3,908	3,508	3,423	3,295
	%	100	100	100	100	100
Workers covered by an internally-audited OHS management system	number	537	515	3,508	3,423	3,295
	%	13	13	100	100	100
Workers covered by an externally-audited or	number	537	515	3,508	3,423	1,419
externally-certified OHS management system	%	13	13	100	100	43

GRI 403-9

Work-related injuries*

Accidents at the Group are registered and investigated in compliance with the laws and regulations of the Republic of Latvia.

	Units	2016	2017	2018	2019	2020
Recordable work-related	number	8	8	10	8	8
injuries	index**	0.23	0.23	0.33	0.28	0.28
Low-consequence	number	7	6	7	5	7
work-related injuries	index**	0.20	0.18	0.23	0.17	0.25
High-consequence	number	1	2	3	3	1
work-related injuries	index**	0.03	0.06	0.10	0.10	0.04
Fatalities	number	0	0	0	0	0
	index**	0	0	0	0	0
Number of hours worked	number	7,058,181	6,842,263	6,037,998	5,772,056	5,636,983

* data on Elektrum Eesti, OÜ and Elektrum Lietuva, UAB are not included

** Rate of injuries =
$$\frac{\text{number of injuries}}{\text{number of hours worked}} * 200,000$$

The index is calculated using 200,000 hours, as this is the total number of hours worked by 100 employees in one year (100 employees * 40 hours * 50 weeks).

In 2020, the Group received information on four accidents that occurred among employees of contractors (4 in 2019).

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11 Employee involvement and development

Employee involvement

Employee involvement is a prerequisite for the Group's growth, development and achievement of goals. Performance and productivity also depend on whether employees feel motivated and have a sense of belonging to the company. The Group conducts an anonymous employee survey every year to find out employees' views on various factors of the work environment. In 2020, a comprehensive employee survey was conducted using the TRI*M methodology, which, along with involvement, also evaluated employee satisfaction, loyalty, resilience and motivation, as well as a number of work environment factors: training and development, internal communication, remuneration, cooperation with colleagues, content and quality of work, line manager's working style, etc.

Almost 2,300 respondents or 75% of the Group's employees participated in the survey. Compared to 2019, the level of employee involvement (*TRI*M* index) increased by 13 index points, reaching 66 index points. The indicator increased significantly in all capital companies of the Group, in all age groups, and among both employees and managers and is evidence of a good and stable working environment in the Group. Employees provided the highest evaluations for the content of their work (they enjoy the work they are doing), the attitude and support of the line manager, and cooperation with colleagues. Management communication, management action as an example for other employees, and communication on the adequacy of remuneration for work performance and the labour market situation in the country were identified as areas for improvement.

In the survey, employees were also able to express comments and objections about the work environment, as well as make proposals for its improvement. Employees can easily submit their proposals for improvements in working processes, new products and services to the Group's intranet, where they can also follow the progress of these proposals.

To inform employees about current developments in the Group, achievements and plans for the future, in 2020 a remote conversation between the Chairman of the Management Board of Latvenergo AS and employees was held, and a meeting of the management of Sadales tikls AS with employees was organised. During the reporting year, the Group's employees were also able to engage in a number of activities to maintain mutual communication and cooperation, bring the Group's values to life in their daily work and strengthen their sense of belonging to the company. During the reporting year, these activities were of particular importance in view of the significant changes that COVID-19 and the full or partial reorientation to remote work brought to the daily lives of each employee and company.

Latvenergo AS employees shared stories on the intranet about their daily work rhythm during the pandemic. Employees also had the opportunity to participate in self-organised outdoor team building events, the Latvian Cycling Union Race and a year-end virtual gingerbread campaign, *Thank your colleague*.

Within the framework of the Value Year of Sadales tikls AS, employees created value stories, competed in a value challenge game and, by filling in the questionnaire *What you have in you*, evaluated their special contribution to the company. Various interdepartmental measures and internal communication projects were also implemented, for example, the first Technical Interdepartmental Forum, and Managers' Digital Interdepartmental Forum *We learn to accept change and new challenges*. Employees of Sadales tikls AS kept fit in summer sports games, a bowling tournament, the Latvian Cycling Union Race and virtual sports club activities. To promote a work-life balance for more employees, remote work opportunities were also created for non-office employees, such as foremen.

Employee development

Latvenergo Group's employees can improve their skills and knowledge both on the recommendation of managers and on their own initiative. In 2020, considering the epidemiological situation caused by COVID-19, both internal and external training was mostly organised remotely, incl. using the Group's e-learning platform. During annual interviews, employees and managers can agree on any necessary training and the methods of its implementation.

Educating managers and developing leadership skills play an important role in employee development. In 2020, cooperation was identified as a priority competence. To agree on the definition and assessment of this competence, practical workshops were organised with the participation of 54 managers and specialists from various functions of Latvenergo AS. Issues of cooperation were also included in the development talks in 2020.

More than 60 training courses have been developed in Latvenergo Group's e-learning environment, on the Group's internal processes and regulations and on various professional fields. In 2020, a module on occupational safety and fire safety instructions was created, which also includes gauging knowledge by means of tests. For employees without a computerised workplace, e-learning materials are available on smart devices that provide the opportunity to learn at a convenient place and time. Several organisational units of the Group also create e-learning and webinars relevant to their field of activity.

During the reporting year, the employee self-service portal of Latvenergo Group also introduced a module for the management of internal training and knowledge tests, which is an important tool for maintaining the professional qualifications of staff working in electrical installations.

Excellence Programme

For the third year, the Excellence Programme strengthened employee engagement and willingness to implement innovative ideas, its main objectives being:

- developing and using the potential of employees to address matters important to the company;
- involving and motivating employees;
- promoting cross-department collaboration and a culture of excellence at the company.

In parallel to developing their competences, participants of the programme implement projects promoting openness, exchange of knowledge and more efficient processes, and they create innovative solutions and services, increasing the competitiveness of the company. In 2020, the programme had 60 participants working in areas such as the promotion of good project management practices, the organisation of internal training and exchange of experience, the introduction of gaming elements in customer service channels and other areas. The *SmartEnerGo* project implemented within the framework of the Excellence Programme was awarded 3rd place in the internal communication category in the Baltic communication competition *Mi:t&links: Baltic Communication Awards 2020*. The campaign *Thank your colleague*, in which employees could send each other a thank you, linking it with one of the company's values, also gained popularity among the employees of Latvenergo AS.

Knowledge continuity

Ensuring knowledge continuity is essential for the sustainability of Latvenergo Group's operations. The Group encourages employees to accumulate knowledge and transfer it to colleagues and facilitates timely preparation of successors at workplaces that require specific technical knowledge. One of the priorities in terms of knowledge transfer is provision of quality practical training to students of higher and secondary vocational educational institutions. In 2020, this opportunity was used by 71 students, even though internships were done remotely. The Group cooperates with educational institutions in Latvia to encourage young people's interest in the exact sciences and engineering professions and foster the development of the future workforce in Latvia in general.

GRI 404-1

Average hours of training per year

In 2020, nearly 65,000 hours were dedicated to face-to-face training, which was attended by 2,112 employees of the Group. An average of 20 hours per employee was devoted to training. Male employees spent an average of 20 hours in training, while female employees spent an average of 22 hours in training.

To facilitate the acquisition of the latest technologies, the Group provides both internal courses and training by equipment suppliers for technical personnel. In 2020, 61 technical specialists were trained for a total of over 1,500 hours. A total of 19 employees obtained professional qualifications through training financed by the employer, devoting 9,400 hours to training.

Average hours of training (TH) per employee

Profession group (PG)	Units	2017	2018	2019	202
Managers					
Average number of TH	number	29	32	25	
% of employees who have undertaken training	%	93	78	64	(
Specialists					
Average number of TH	number	17	23	17	
% of employees who have undertaken training	%	60	58	56	ł
Craft and related trades workers					
Average number of TH	number	18	56	33	÷
% of employees who have undertaken training	%	76	97	88	8
Other professions					
Average number of TH	number	13	6	13	1
% of employees who have undertaken training	%	59	42	66	(
Average number of hours, TOTAL	number	18	28	20	1
Percentage of all employees who have					
undertaken training	%	67	66	64	(

GRI 402-1

Minimum notice period regarding operational changes

The Group regularly notifies employees and the trade union about current business activities, developments and planned structural changes. The Collective Bargaining Agreement provides that the employer must give no less than one month's notice to the trade union before a request for consent to terminate an employment contract. If collective redundancies are planned, consultations with the trade union must be started no later than one month before notifying the State Employment Agency. Employees must be informed about organisational changes leading to redundancies no later than five days following the decision.

GRI EU15

Percentage of employees eligible to retire in the next 5 and 10 years

The Group maintains a balanced succession and generational replacement according to the specifics of its working environment, and the share of pension-age employees in the Group has been decreasing gradually.

Expected retirement rate

Profession group	5 years	S	10 years		
	Units	women	men	women	men
Managers	%	0.2	0.6	0.4	1.3
Specialists	%	1.8	4.1	3.9	8.6
Craft and related trades workers	%	0.1	2.2	0.1	4.6
Other professions	%	0.5	0.6	1.3	1.0
TOTAL	%	2.6	7.5	5.7	15.5



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The priorities of Latvenergo Group in the field of environmental protection are the careful and efficient use of natural resources, movement towards greater use of renewable energy sources and the preservation of biological diversity, which is in line with the objectives of the European Green Deal. Modernisation of generating facilities with the best technologies and energy efficiency improvements plays an important role in reducing the Group's impact on climate change. As regards environmental protection, the Group plans its activities in accordance with the basic principles of sustainable development, environmental legislation and the ISO 14001 standard.

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Environmental policy and management

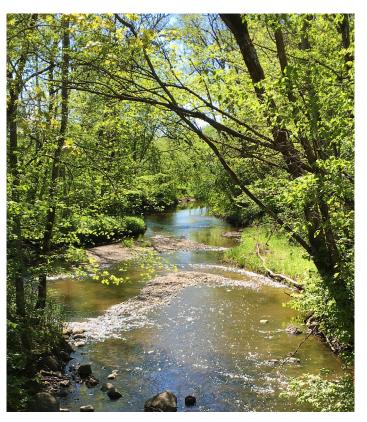
The year 2020 in Europe was marked by new initiatives in the field of climate and environmental protection. At the end of 2019, the European Commission presented the European Green Deal, whose main objective is to make Europe the first climate-neutral part of the world by 2050. The Green Deal covers all sectors of the economy, but pays particular attention to energy, transport and agriculture. During the reporting year, the European Commission prepared several draft documents: the Green Deal Investment Plan, the proposal for the European Climate Law, and proposals for a Circular Economy Plan and Biodiversity Strategy for 2030. At the end of the year, European countries agreed to reduce CO_2 emissions by 55% by 2030 compared to the levels of 1990. The involvement of countries, companies and citizens will be important in achieving the set objectives.

Latvenergo Group is certain that a balanced approach to resolution of economic, environmental and social responsibility matters increases competitiveness of the company and benefits all the stakeholders. The key principles of the Group's Environmental Policy are:

- reducing emissions of pollutants into the environment, the Group's impact on climate change and the amount of waste it generates;
- ensuring effective management of environmental risks and industrial accident risks;
- promoting continuous improvement of environmental performance and efficient use of natural resources;
- promoting the implementation of balanced and economically sound technologies and measures that reduce or prevent climate change impacts or ensure adaptation to them;
- assessing the impact of investment projects on the environment and society and ensuring maximum reduction of potential damage;
- fostering preservation of biodiversity;
- developing employees' environmental competence and their understanding of the environmental topics relevant to the Group's operations;
- integrating the key principles of green procurement into procurement procedures;
- providing regular and open information to stakeholders about environmental activities of the Group.

In 2021, the Group plans to revise and update its Environmental Policy according to the orientations of the European Green Deal in the field of sustainability economics and environmental protection.

The sound environmental management practices of Latvenergo Group are confirmed by its certified environmental management system meeting the requirements of ISO 14001. The Group's commitment to the efficient use of energy sources is set out in the Energy Management Policy, which is implemented at Latvenergo AS and Liepājas enerģija SIA through an ISO 50001-compliant energy management system. Systematic work on environmental protection is also confirmed by the Sustainability Index determined by the Institute for Corporate Sustainability and Responsibility every year. In 2020, Latvenergo AS scored 96.4% in environmental performance and Sadales tīkls AS scored 91.1%.



Environmental compliance

In its operations, the Group complies with the environmental requirements set out in EU and Latvian legislation and in installation operation permits. Compliance of operations is ensured by modernisation of equipment and introduction of the best available technologies as well as professional activities of employees. The Group actively cooperates with state environmental institutions, providing information related to environmental protection, fulfilling the conditions of permits for polluting activities and consulting on the application of environmental requirements. In 2020, no warnings from environmental protection authorities or substantiated complaints from the public were received.

Reduction of industrial pollution and sustainable management of chemicals are also important elements of the European Green Deal. Latvenergo Group takes care that the risk of pollution from the storage and use of chemicals at its generating facilities is properly managed. During the reporting year, the chemicals not used in the operation of CHPP-2 were removed and transferred for waste management, and the cleaning, dismantling and transfer of former CHPP-2 heavy fuel oil management equipment was started in accordance with the requirements of regulatory enactments.

In compliance with applicable law, the Group makes annual contributions to replenish fish stocks in the Daugava River basin to minimise the impact of the Group's activities on biodiversity. In the reporting year, 1.3 million salmon, sea trout, pike perch, whitefish, vimba and pike fry and 5.8 million lamprey larvae were released into the Daugava River basin. In addition, the Group also implements other projects to improve fish habitats and migration – placement of fish spawning nests in the Daugava River and cleaning of small rivers in the Daugava River basin. In 2020, the clearing of 41 km of the Pērse River from felled trees and beaver dams was completed.

GRI 307-1

Non-compliance with environmental laws and regulations

In 2020, the Group welcomed six scheduled thematic inspections from the State Environmental Service. No significant warnings or sanctions were issued by the regulatory bodies.

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13 Air pollution

In addition to water and wind energy sources, Latvenergo Group also uses natural gas and biomass for generation of energy, and their combustion process emits NO_x , CO and particulate matter into the air. The Group monitors and records these emissions and ensures that they do not exceed the levels defined in the laws and permits. In 2020, modernisation of the CHPP-1 gas turbines was also performed, as a result of which the installed electrical capacity of the plant was increased by 10% and the NO_x concentration in flue gases, depending on the chosen operating mode, was reduced by 15-25%. This is an important contribution to improving air quality in the CHPP-1 impact area.

Involvement of the Group in climate change mitigation

Climate change caused by greenhouse gases is a global environmental issue, and it is significantly affected by the energy sector. Latvenergo Group works in line with Latvian and EU activities for the achievement of climate targets. The EU has set the achievement of climate neutrality by 2050 as one of its objectives, and new, effective technologies and solutions will be required for the achievement of this objective. Latvia's energy and climate policy objectives and targets have been set in the National Energy and Climate Plan of Latvia 2021-2030.

The Emissions Trading System (ETS) is an important EU climate policy tool which aims to foster GHG emissions reduction and investments in low-carbon solutions. The fourth ETS period began on 1 January 2021 and will continue until 2030. It envisages significantly and more rapidly reducing the total amount of emission allowances, phasing out free allowances (after 2026), allocating allowances according to generation volume and establishing several financing mechanisms, incl. the Modernisation Fund, to support industry and the electricity sector in terms of innovation and investment. No free CO₂ for electricity generation will be allocated, but around 20-30% of the required allowances will be allocated free of charge to heat generation. The decision on the number of allowances to be allocated for thermal energy generation in 2021-2025 will be adopted by the European Commission in Q2 2021.

Fuel combustion plants with total rated thermal input above 20 MW must participate in the ETS, and CHPP-1 and CHPP-2 of Latvenergo AS meet this criterion. During the reporting year, the Group started preparing the necessary information to obtain GHG emission permits and justify the allocation of free emission allowances for thermal energy generation.

Although Latvenergo Group is already one of the greenest electricity producers in Europe, the Group is making targeted investments to develop a zero-emission and low-emission generation portfolio and contribute to climate change mitigation. The main areas of investment are:

- increasing the efficiency of energy generation and maximising the use of renewable energy sources (including reconstruction of the Daugava HPPs);
- reducing losses in the electricity distribution system;
- developing products and services aimed at energy efficiency and allowing customers to generate their own low-emission electricity, such as *Elektrum Solar*.

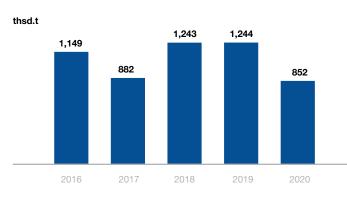
GRI 305-1, 305-4

Direct greenhouse gas emissions and emission intensity

The amount of direct greenhouse gas emitted by Latvenergo Group is determined by fuel consumption, the amount of energy generated and the operating modes of the generation plants. CO₂ emission intensity is calculated per unit of electricity (MWh) generated at the Group and is influenced by the share of renewable energy sources in the consumption of primary energy sources as well as the CHPPs' generation efficiency. The lower this indicator, the more electricity generated from renewable energy sources and the more efficient the CHPPs.

During the reporting year, total CO_2 emissions fell by 31% and were among the lowest in the last five years. CO_2 intensity also decreased

CO₂ emissions from cumbustion plants



significantly per unit of electricity produced, determined by several factors. Due to the normalization of the Daugava River inflow, significantly more electricity was generated at the Daugava HPPs; according to market conditions, less electricity was generated by the CHPPs (moreover, almost twice less electricity was generated in condensation mode); and due to warm weather conditions, heat generation at the CHPPs also decreased.

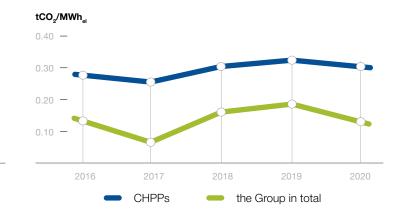
CO₂ emissions are calculated in compliance with the requirements of the emissions permits and legislation of the Republic of Latvia and the EU. The total amount of the Group's emissions is composed of:

- emissions from installations that participate in the EU Emissions Trading System (combustion plants with total rated thermal input exceeding 20 MW);
- emissions from non-participating installations, which emitted about 12.6 tonnes of CO_2 in the reporting year, corresponding to 1.5% of total emissions.

The total amount also includes emissions associated with supporting the energy generation process. In addition to the amount specified, CO_2 is emitted by transport fuel. In 2020, CO_2 emissions from road vehicles amounted to 7.9 thousand tonnes.

The Group also operates equipment that contains sulphur hexafluoride (SF₆) gas and cooling equipment that contain gases with an insignificant global warming potential. These are closed installations where no gas leakage has been detected; therefore, these gases are not included in the calculation.

CO₂ emissions per unit of electricity generated



GRI 305-7

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NO_v, SO₂ and other significant air emissions

The emissions of harmful substances into the atmosphere depend directly on the amount of energy generated, the type of fuel used, the efficiency of its consumption and the technology.

- Natural gas is the most environmentally friendly type of fossil fuel and is used by the Latvenergo AS CHPPs and some Liepaja plants. However, apart from carbon dioxide, combustion of natural gas emits nitrogen oxides (NO_v) and carbon monoxide (CO) into the atmosphere.
- Latvenergo AS uses diesel as the back-up fuel at the CHPPs. When burning diesel fuel, insignificant amounts of sulphur dioxide (SO₂) and particulate matter emissions are produced. Diesel fuel emits hydrocarbons during storage.
- Use of wood at the Liepaja plants produces NO_x, CO and particulate matter emissions.

Emissions amounts from combustion plants that comply with the provisions of the Industrial Emissions Directive are determined on the basis of emissions measurement results. Emissions from small and medium-sized combustion plants (up to 50 MW installed capacity) are calculated using the emissions factors specified by laws and regulations.

NO_x, CO, SO₂ and other emissions

	Units	2016	2017	2018	2019	2020
NO _x	t	803	613	904	912	648
NO _x from combustion plants	kg/MWh	0.16	0.15	0.18	0.20	0.19
NO_{x} for the Group combined	kg/MWh	0.11	0.07	0.12	0.14	0.11
CO	t	361	318	426	427	319
CO from combustion plants	kg/MWh	0.07	0.08	0.09	0.09	0.09
CO for the Group combined	kg/MWh	0.05	0.04	0.06	0.06	0.05
SO ₂	t	4	5	5	4	5
Other*	t	17	19	15	14	15

* incl. emissions of solid particles and hydrocarbons

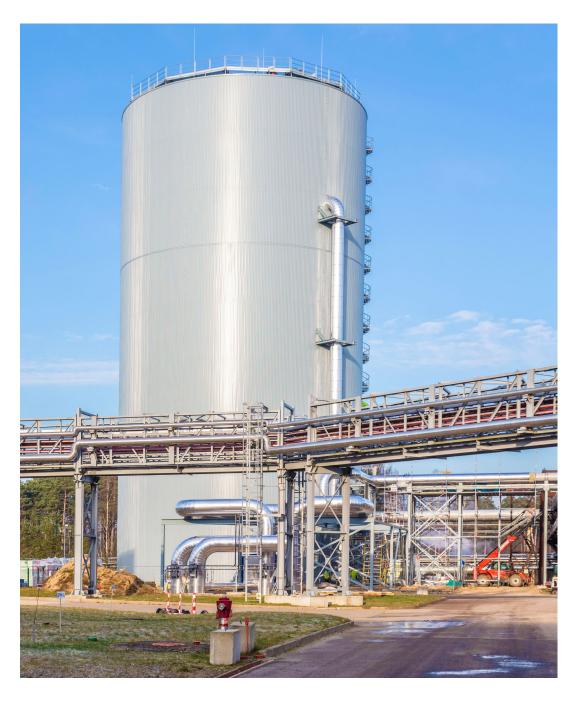
GRI EU5

Allocation of CO, emissions allowances in the allowances trading system

The EU Emissions Trading System sets forth that free emissions allowances are granted only for thermal energy generation. The number of allowance units granted will be gradually reduced to 30% of the necessary amount by 2020. One allowance unit is equivalent to one tonne of CO₂ emitted. See Note 13b to the Annual Report for the allowance units purchased, used and sold.

CO, emission allowances granted

	Units	2016	2017	2018	2019	2020
Latvenergo AS CHPPs	number	343,330	295,942	250,091	205,721	112,760
Liepaja plants	number	21,158	18,218	15,374	12,624	12,334





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15 Resource and energy consumption

The Group has a balanced and environmentally friendly generation portfolio, consisting mostly of hydropower plants and highly efficient combined heat and power plants. Efficiency of the use of energy sources at the CHPPs is significantly affected by the operating mode selected:

- cogeneration, when both thermal energy and electricity are generated simultaneously;
- condensation, when only electricity is generated.

Operating a CHPP in cogeneration mode allows for the most efficient use of fuel and significantly reduces emissions per unit of energy generated. In 2020, the construction of the largest heat storage system at CHPP-2 continued and it is expected to be commissioned in 2021. It will make it possible to accumulate the thermal energy generated in cogeneration mode and optimise the adjustment of the CHPP operating modes to the changing market conditions and peak load coverage. The heat storage system will ensure:

- primary energy savings (not less than 2.4 GWh/year);
- reduction in CO₂ emissions (not less than 9 thousand t/year);
- storing of thermal energy (at least 65 GWh/year).

In the reporting year, the fuel utilisation factor in the CHPP cogeneration mode ranged from 86% to 91%, while in condensation mode it averaged 53%. Using the cogeneration potential, CHPP-1 saved 26% of primary energy sources and CHPP-2 saved 13%.

To minimise wasteful consumption of energy, Latvenergo AS and Liepājas enerģija SIA have implemented an energy management system, while the principles of energy management of Sadales tīkls AS have been integrated into the environmental management system.

Most important energy r	management improvements of 2020
Latvenergo AS	 reconstruction of generation equipment at CHPP-1 construction of a heat storage system at CHPP-2 optimisation of performance of generating capacities modernisation of lighting and ventilation systems in office buildings
Sadales tīkls AS	 renovation and insulation of office buildings and garages installation of adjustable electric heaters modernisation and optimisation of special machinery units
Liepājas enerģija SIA	 reconstruction of district heating networks optimisation of generation and control modes of heat sources





GRI 301-1, 302-1

Material and energy consumption

In 2020, renewable energy sources accounted for 40% of the total consumption of primary energy sources for generation of electricity and thermal energy, while fossil fuel accounted for 60%. The proportion of renewables and fossil fuels is different for electricity generation and thermal energy generation. By consumption of primary sources, the share of renewables in electricity generation was 50% and the share of sources in thermal energy generation was 12%. The share of renewables in overall energy source consumption largely depends on the amount of energy generated at the HPPs, which is mainly determined by hydrological conditions and market factors (see the section Generation and Trade).

Consumption of primary energy resources

In 2020, electricity consumption for the Group's own use to ensure generation processes was 136 GWh or 2.3% of the energy generated. In 2020, the fuel used for vehicles comprised 0.6 million litres of petrol and 2.4 million litres of diesel fuel. Compared to the previous year, petrol consumption decreased by 25%, while diesel consumption remained unchanged.

Accounting and calculation of energy sources is carried out based on measurement or according to fuel suppliers' documentation and internal records and in compliance with the requirements of the greenhouse gas emissions permits and the legislation of the Republic of Latvia and the EU.

	Units	2016	2017	2018	2019	2020
Water, wind*	TJ	8,834	15,391	8,584	7,386	9,109
Wood	TJ	759	767	842	752	905
Renewable energy resources	TJ	9,593	16,158	9,426	8,138	10,014
Natural gas	TJ	20,185	15,607	22,440	21,784	14,958
Diesel fuel	TJ	1	1	1	1	1
Fossil energy resources	TJ	20,186	15,608	22,441	21,785	14,959
TOTAL	TJ	29,779	31,766	31,867	29,922	24,973

Consumption of primary energy resources for electricity generation

Units	2016	2017	2018	2019	2020
TJ	8,834	15,391	8,584	7,386	9,109
TJ	193	189	61	1	145
ΤJ	9,027	15,580	8,645	7,387	9,254
TJ	10,583	6,477	14,300	15,864	9,438
ΤJ	10,583	6,477	14,300	15,864	9,438
TJ	19,610	22,057	22,945	23,251	18,692
	TJ TJ TJ TJ TJ	TJ 8,834 TJ 193 TJ 9,027 TJ 10,583 TJ 10,583 TJ 10,583	TJ8,83415,391TJ193189TJ9,02715,580TJ10,5836,477TJ10,5836,477	TJ8,83415,3918,584TJ19318961TJ9,02715,5808,645TJ10,5836,47714,300TJ10,5836,47714,300	TJ8,83415,3918,5847,386TJ193189611TJ9,02715,5808,6457,387TJ10,5836,47714,30015,864TJ10,5836,47714,30015,864

Consumption by primary energy resources for thermal energy generation

Units	2016	2017	2018	2019	2020
TJ	566	578	781	751	760
TJ	566	578	781	751	760
TJ	9,602	9,130	8,141	5,920	5,520
TJ	1	1	1	1	1
TJ	9,603	9,131	8,142	5,921	5,521
TJ	10,169	9,709	8,923	6,672	6,281
	TJ TJ TJ TJ TJ TJ	TJ 566 TJ 566 TJ 9,602 TJ 1 TJ 9,603	TJ566578TJ566578TJ9,6029,130TJ11TJ9,6039,131	TJ566578781TJ566578781TJ9,6029,1308,141TJ111TJ9,6039,1318,142	TJ566578781751TJ566578781751TJ9,6029,1308,1415,920TJ1111TJ9,6039,1318,1425,921

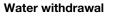
GRI 303-3

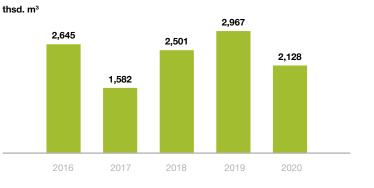
Water consumption

The Group uses water resources mainly for the support of generation processes. A small amount of water is used for other business needs and also for water supply to external users. In accordance with the data of the water risk atlas of the World Resources Institute, Latvia is located in a low to low-medium water stress area, and there are therefore no specific water consumption restrictions and no areas with high water stress are indicated in water consumption data. The amount of surface and/or underground water consumption is determined in the permits for each installation.

The Group's water consumption includes surface, underground and supply system water. In 2020, 2.1 million m³ of water was consumed, of which 98% was surface and underground water obtained in low to low-medium stress areas. Of the water used for operational needs in 2020, 94% was surface water, 4% was underground water and 2% was supply system water. The largest consumer of surface water is CHPP-2, which consumed 2 million m³ of water in the reporting year, of which 87% was cooling water. The consumption of water resources at CHPP-2 is mainly affected by the operating modes of the generation units and the amount of energy generated. The largest consumers of underground water are CHPP-1 and CHPP-2, which consumed 25.4 and 24.3 thousand m³ of underground water to feed the heating networks, respectively.

The data on water consumption are based on meter readings.





 * the amount of resources evaluated as the amount of energy generated using these resources (3.6 GJ=1 MWh)



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16 Renewable energy

Increasing the share of renewable sources in energy generation is one of the milestones in achieving climate targets, and the strategy of Latvenergo Group provides for this as well. The Group already generates a substantial proportion of electricity and thermal energy using renewable energy sources: water, wood and wind. In 2020:

- renewable energy sources accounted for 40% of the consumption of primary energy sources, amounting to nearly 25 thousand TJ (for more information, see GRI Indicators 301-1 and 302-1);
- of 5.9 TWh of energy generated, 46% was produced from renewable sources (for more information, see the section Generation).

Maintenance and renovation of the Daugava HPPs' capacities plays a vital role in maintaining a high proportion of renewable energy. The Group also promotes the use of renewable energy by offering products to customers. The service *Elektrum Solar*, which provides for the possibility to use independently generated electricity from solar light, is available to customers in all three Baltic states. In 2020, the construction of *Elektrum* solar parks also started in Lithuania and Estonia. For more information, see the section Trade.

In addition, the Group identifies opportunities for energy storage and use of wind energy.



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The green bond programme was launched in June 2015, with the first tranche of EUR 75 million. Thus, Latvenergo AS became the first state-owned company in Eastern Europe to issue green bonds. In April 2016, Latvenergo AS issued additional green bonds in the amount of EUR 25 million, completing the bond programme of EUR 100 million. The green bonds issued by Latvenergo AS are listed on the Nasdaq Riga AS Baltic Bond List.

So far, Latvenergo AS has issued bonds within two bond issues. At the end of the reporting year, the amount of outstanding bonds was EUR 100 million, constituting 14% of the Group's total

ISIN code:	LV0000801777
Bond issuance organised by:	SEB banka AS
Maturity date:	10 June 2022
Fixed annual interest rate (coupon):	1.9%
Moody's rating:	Baa2 with a stable outlook (corresponds to the Latvenergo AS credit rating)

borrowings. Continuing to use the advantages of the capital market and diversification of borrowing sources, in April 2020 the base prospectus of the third bond programme of Latvenergo AS in the amount of EUR 200 million was registered. The Group plans to issue the bonds as green bonds. The bond issuance is organised by Luminor Bank AS and Swedbank AB (publ.). During 2020, no bond issues were made under the new programme.

The main requirement for green bonds is that the funds raised are used exclusively for environmentally friendly projects. The Green Bond Framework, which was updated in 2020, sets out the selection procedure and criteria for eligible projects, the creation of a special account, and regular reporting until the bonds are fully repaid. In addition, the framework stipulates that Latvenergo AS undertakes to perform an internal audit on the compliance of cash management and selection of eligible projects with the framework.

Both the initial Green Bond Framework which was approved in 2015 and the one updated in 2020 were awarded the highest possible rating – Dark Green – by CICERO, an independent environmental expert. This indicated the compliance of the planned eligible projects with long-term environmental protection and climate change reduction targets as well as good corporate governance and transparency. In 2017, an internal audit was conducted on the management of proceeds from the bond issue of 2015 and 2016 and the compliance of the selection of eligible projects with the Green Bond Framework. The audit concluded that the processes had been implemented appropriately.

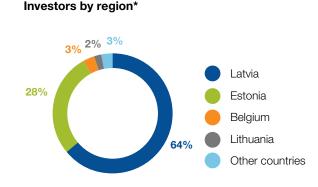
The funds raised within the green bond programme were invested in generation and distribution projects. The largest eligible projects are the Daugava HPP hydropower unit reconstruction programme and the building and reconstruction of distribution power lines and transformer points. Since the transmission assets were unbundled from Latvenergo Group in June 2020, the transmission infrastructure project *Kurzeme Ring* has been replaced by other eligible projects corresponding to the Green Bond Framework.

According to the updated Green Bond Framework, the projects are divided into three groups:

- renewable energy and related infrastructure reconstruction of existing hydropower units, as well as construction of new bioenergy and wind energy capacities and reconstruction of existing capacities;
- energy efficiency building and reconstruction of distribution networks, including smart grid projects, and development of low emission transport infrastructure;

environmentally sustainable management of living natural

resources and land use – research and development in the field of nature protection and biodiversity, as well as protection of ecosystems and biodiversity.



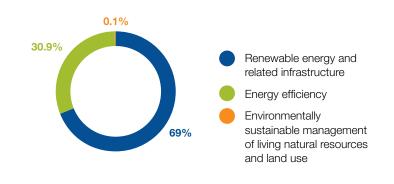
* according to the coupon payment of June 2020

5% 3% 1% Pension funds Asset managers Banks Insurers Individuals Others

Investors by type*

* according to the coupon payment of June 2020

Investment by project group



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Eligible projects of the green bond programme

3	Group operating segment (share of total eligible costs)	Eligible projects	Eligible costs, MEUR	Project objectives and benefits
out Latvenergo Group porate Governance erating Segments		Reconstruction of hydropower units and technological equipment at the Daugava HPPs	50.9	Extending the service life of the hydropower units and increasing their capacity and efficiency ratios. Maintaining a high share of renewables in energy generation. Increasing the safety of operation of the Daugava HPPs. Reducing the oil leakage risk. Implementation of the programme allows for a reduction of CO ₂ emissions of up to 16,000 tons per year. In 2020, the share of electricity generated from renewable energy sources by the Group was 60%.
inability Indicators tes to ustainability Report	GENERATION 69%	Renovation of hydroengineering structures at the Daugava HPPs and Aiviekste HPP	18.1	Improving the resilience and safety of hydroengineering structures and dams and extending their service life. Reducing accident risk probability at dams and managing flood risk more efficiently, thus diminishing the potential impact on the public, property and the environment.
en Bond Report Index ns and Abbreviations		Study of migratory fis replenishment in the Daugava River	h 0.07	Reducing the impact on biodiversity. Potential measures to offset the impact of the Daugava HPPs on fish stocks more efficiently and to reduce the impact on biodiversity in the Daugava River and in the Daugava River basin have been identified and explored.
pendent Practitioner's rance Report Report	DISTRIBUTION	Building and reconstruction of electricity lines and transformer points	29.1	Reducing the duration of power interruptions and electricity losses. Extending the service life of the distribution grid. Since 2014, interruption duration and interruption frequency indexes have been reduced substantially (SAIFI by 39% and SAIDI by 53%). The reduction of CO ₂ emissions resulting from the decrease in distribution losses is 23,000 tons compared to 2014.
	31%	Smart meters	1.9	Reducing the duration of power interruptions and electricity losses. Opportunities for more efficient electricity consumption and use of smart energy efficiency products and services. Since 2014, 850 thousand smart meters have been installed; these account for around 77% of the total fleet of electricity meters and measure 90% of the total amount of electricity consumed by customers.
		Annual monitoring of white storks	0.004	Reducing the impact on biodiversity. Data on the stork population and the proportion of their nests located on electricity line poles have been obtained.
		ΤΟΤΑΙ	. 100.0**	

* The potential reduction in CO₂ emissions resulting from the reconstruction of the Daugava HPP hydropower units is up to 15,964 tonnes per year (at specific CHPP-2 emissions in the condensation mode of 0.376 t CO₂/MWh). Compared to 2014, the reduction in CO₂ emissions resulting from the decrease in distribution losses is 22,937 tons. ** 100% of the proceeds from green bonds are used to finance projects completed within one year prior to the issue or later.



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ፌ		Generation and Trade	Distribution				mal ass
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			Electric Utilities Sector Disclosures	EU15 Percentage of employees eligible to retire in the next 5 and 10 years	
Personal data security	\checkmark	\checkmark	103 Management Approach 2016		
			418 Customer Privacy 2016	418-1 Complaints concerning breaches of customer privacy and losses of customer data	
Information availability	\checkmark	\checkmark	103 Management Approach 2016		
			417 Marketing and Labeling	417-3 Incidents of non-compliance concerning marketing communications	



	ENVIRONMENTAL TOPICS						
	Environmental compliance	\checkmark	\checkmark	103 Management Approach 2016		76	\checkmark
				307 Environmental Compliance 2016	307-1 Non-compliance with environmental laws and regulations	76	\checkmark
<u>~</u> ገ	Air pollution	\checkmark		103 Management Approach 2016		77	\checkmark
				305 Emissions 2016	305-1 Direct (Scope 1) GHG emissions	77	\checkmark
bout Latvenergo Group					305-4 GHG emissions intensity	78	\checkmark
					305-7 NO_x , SO_x , and other significant air emissions	78	\checkmark
orporate Governance	Resource and energy consumption	\checkmark		103 Management Approach 2016		79	\checkmark
perating Segments				301 Materials 2016	301-1 Materials used by weight or volume	80	\checkmark
perating beginents				302 Energy 2016	302-1 Energy consumption within the organization	80	\checkmark
ustainability Indicators				303 Water 2018	303-3 Water withdrawal	80	\checkmark
	Renewable energy	\checkmark		103 Management Approach 2016		81	\checkmark

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AST	Augstsprieguma tīkls AS	credit
autotransformer	transformer with one winding, which is the highest voltage winding, but part of this winding forms the lowest voltage winding	critica
auxiliary consumption (of electricity)	the part of electricity consumed by auxiliary equipment of the main energy generating or converting equipment	CSR
biodiversity	the diversity of all living things – plants, animals, fungi, microorganisms, their genes and ecosystems	deriva instrui
bioenergy	energy from biomass	direct
biogas	gas from the decomposition of organic matter which can be used as fuel	gas ei
biomass	the biodegradable fraction in products and waste of agriculture, forestry and related industries, as well as the biodegradable fraction in industrial and municipal waste	distrib
bonds	a security that gives its holder an income in the form of pre-determined interest	EBITC
cable line	a power line created with a special insulated wire (cable) and installed in the ground, on the walls of a building, in cable ducts, pipes, etc.	EC EEOS
CHPP	see combined heat and power plant	electri
CICERO	Center for International Climate and Environmental Research	sheet
climate neutrality	maintaining a balance between carbon emissions and carbon absorption from the atmosphere through carbon sequestration systems	electro
cogeneration	cogeneration of heat and electricity in one energy installation; significantly	energ
	reduces fuel consumption compared to separate heat and electricity generation	energ
combined heat and power plant	a power plant that produces electricity from thermal energy obtained by burning fossil fuels; thermal power plant	energ
condensation	electricity generation mode in which heat is not generated	mana
COSO	Committee of Sponsoring Organizations of the Treadway Commission	energ
coupon (bond	the amount of interest on a security for a predetermined period of time	ETS
coupon)		FU

credit rating	assessment of a borrower's creditworthiness, which is expressed by a special index or combination of letters and which indicates the degree of risk
critical infrastructure	facilities and systems, the destruction or malfunction of which would significantly affect the implementation of state functions
CSR	corporate social responsibility
derivative financial instruments	bilateral agreements, the value of which depends on and changes according to fluctuations in the value of the guarantee (shares, currency, bonds, interest rates) underlying the instrument
direct greenhouse gas emissions	greenhouse gas emissions from sources owned or controlled by the organisation
distribution system	system which ensures the flow of electricity from the electricity transmission network and electricity generators connected to the distribution networks to electricity consumers
EBITDA	earnings before interest, taxes, depreciation, and amortization
EC	European Commision
EEOS	energy efficiency obligation scheme
electricity balance sheet	an overview of the electricity produced, sold and purchased by the company as well as consumed by its auxiliary equipment
electromobility	an integral part of the transport sector, consisting of environmentally friendly electric motor vehicles
energy efficiency	more optimal and efficient use of energy
energy infrastructure	the set of material objects, communication and service possibilities necessary for ensuring the operation of the energy sector
energy management	a set of energy consumer actions aimed at reducing energy consumption
energy sources	fuel stocks and energy sources that can be used for direct use or energy generation
ETS	Emissions Trading System
EU	European Union

	European Green Deal	the growth strategy aspiring to transform the EU into a climate-neutral, fair and prosperous society with a modern, resource-efficient and competitive economy	low voltage	voltage ratings for use in electricity distribution, the maximum value of which in alternating voltage networks does not exceed 1000 V
ŵ	fossil energy sources	non-renewable energy sources, the use of which results in the release of greenhouse gas emissions into the atmosphere, which have a significant impact on climate change (oil products, natural gas, peat and coal)	mandatory procurement	the support mechanism established by the Latvian state for electricity generators, which until 2012 could be obtained by generators that produce electricity in efficient cogeneration or from renewable energy sources
About Latvenergo Group	futures	standardised contracts to buy or sell something at a certain price at some point	medium voltage	voltage rating (6kV–20kV) between low voltage and high voltage
		in the future	MP	mandatory procurement
Corporate Governance	Global Reporting Initiative	international guidelines for reporting on the organisation's economic, environmental and social impacts	MPC	mandatory procurement component
Operating Segments	global warming potential	the value (coefficient) that shows how much heat is absorbed into the atmosphere by a given greenhouse gas compared to the same amount of \rm{CO}_2	National Energy and Climate Plan	a document for long-term energy and climate policy planning, which sets the basic principles, goals and action lines of the national energy and climate policy of Latvia
Sustainability Indicators	green bonds	bonds used to finance projects that have a positive impact on the environment and/or the climate	NGO	non-governmental organisation
Annexes to the Sustainability Report	green energy	energy from renewable sources	OECD	Organization for Economic Cooperation and Development
	green procurement	procurement which includes criteria for the purchase of goods and services	OHSAS	Occupational Health and Safety Assessment Series
– Green Bond Report	groon production one	with the least possible impact on the environment	overhead line	power line, the wires of which are fixed in supports on insulators at a certain
– GRI Index	greenhouse gases	gases that absorb and re-emit infrared radiation and whose accumulation in the		height above the ground (there may also be overhead lines with insulated wires
- Terms and Abbreviations		atmosphere contributes to the acceleration of climate change (the main GHGs are CO_2 , CH_4 , N_2O , SF_4 , HFC, PFC)		or aerial cables)
- Independent Practitioner's			peak load	maximum electricity demand
Assurance Report	GRI	see Global Reporting Initiative	plant availability	the condition of the installation/plant in which it can perform its intended
Annual Report	high voltage	electrical voltage greater than 1000 volts; in Latvia, it is defined as 110 kV–330 kV voltage		functions
	HPP	see hydropower plant	power exchange	an electricity trading site where electricity exchange participants buy and sell electricity through supply and demand
			primary energy	energy sources (e.g. fossil, renewable, nuclear) from which electricity and heat
	hydropower plant	a power plant in which energy from the movement of water is converted into electricity	sources	are derived
	hydropower unit	equipment for converting water stream energy into electrical energy	PUC	Public Utilities Commission
	IFRS	International Financial Reporting Standards	renewable energy	energy sources available indefinitely that regenerate faster than their
	ISIN	International Securities Identification Number	SOURCES	consumption rate (wind, water, solar radiation, biomass, geothermal energy, waves, tides)
	ISO	International Organization for Standardization	RTU	Riga Technical University
	LET	Latvijas elektriskie tīkli AS	SET	subsidised electricity tax
	LLU	Latvia University of Life Sciences and Technologies	SFRS	State Fire and Rescue Service

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	smart meter	an electricity meter that records hourly consumption and can be served remotely
	solar collector	equipment designed to convert solar radiation into heat
	solar panel	equipment designed to convert solar radiation into electricity
energo Group Governance	Sustainability Index	assessment of corporate sustainability and responsibility, which is carried out annually by the Institute for Corporate Sustainability and Responsibility in Latvia, based on an internationally recognised methodology
Segments	sustainability indicator	an indicator that describes the economic, environmental or social topic significant for the company and/or its stakeholders
ity Indicators	sustainability topic	an economic, environmental or social topic significant for the company and/or its stakeholders
	Sustainable Development Goals	global development goals set by the UN that are to be achieved by 2030
ability Report	targeted grant	state budget funds allocated for a defined, specific purpose
nd Report	transformer	electrical equipment for increasing (step-up transformer) or decreasing (step- down transformer) alternating voltage
d Abbreviations	transmission system	330 kV and 110 kV power transmission lines, substations and distribution points that ensure electricity transmission
ent Practitioner's e Report	water stress	set of risks related to freshwater availability (pollution, consumption, impact of climate change)
port	WPP	wind power plant

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Independent Practitioner's Assurance Report on the Sustainability Report

To the Management Board of Latvenergo AS

We have undertaken a limited assurance engagement in respect of the Sustainability report of Latvenergo AS ('the Company') and its subsidiaries ('Latvenergo Group') for the year ended 31 December 2020 on pages 4 to 91 of the 2020 Sustainability and Annual report of Latvenergo AS ('the 2020 Sustainability report').

Management's Responsibility

The Management of the Company is responsible for the preparation and presentation of the 2020 Sustainability report, in accordance with the requirements of the Core level application of Global Reporting Initiative Guidelines ("GRI Guidelines"), issued by Global Reporting Initiative, a network-based non-profit organization with secretariat based in Amsterdam, the Netherlands (the "reporting criteria"). This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation of the 2020 Sustainability Report that is free from material misstatement, whether due to fraud or error.

Our Responsibility

Our responsibility is to express a limited assurance conclusion, based on our limited assurance procedures, on whether anything has come to our attention to indicate that the 2020 Sustainability report is not prepared, in all material respects, in accordance with the reporting criteria.

We conducted our limited assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000, 'Assurance engagements other than audits or reviews of historical financial information', issued by the International Auditing and Assurance Standards Board. This Standard requires that we comply with ethical requirements and plan and perform the assurance engagement to obtain limited assurance about whether the 2020 Sustainability report is free from material misstatement.

This report, including the conclusion, has been prepared solely for the Management of the Company, to assist the Management in reporting on the Company's and Latvenergo Group's sustainability performance and activities. We permit the disclosure of this report within the 2020 Sustainability and Annual report.

To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Management of the Company, and the Company for our work or this report.

Independence and Quality Control

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

Our firm applies International Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Summary of the Work Performed

Our procedures included examination, on a test basis, of evidence relevant to the 2020 Sustainability report. It also included an assessment of the significant estimates and judgements made by the Management in the preparation of the 2020 Sustainability report in accordance with the GRI guidelines. Our work consisted of:

- Interviewing the management and senior executives to evaluate the application of the GRI guidelines and to obtain an understanding of the control environment related to sustainability reporting;
- Obtaining an understanding of the relevant processes for collecting, processing and presenting data included in the 2020 Sustainability report;
- Verifying the information included in the 2020 Sustainability report through inquiries to the relevant management personnel of the Company and its subsidiaries;
- Testing data included in the 2020 Sustainability report on a selective basis;
- Inspecting documentation to corroborate statements of management and senior executives in our interviews;
- Comparing the financial data included in the 2020 Sustainability report to the 2020 financial statements of Latvenergo Group; and
- Evaluating the overall format and content of the 2020 Sustainability report, taking into account the compliance of the disclosed information with the applicable criteria.



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A limited assurance engagement is substantially less in scope than a reasonable assurance engagement in relation to both the risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks.

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

Inherent Limitations

Non-financial data is subject to more inherent limitations than financial data, given both the nature and the methods used for determining, calculating, sampling or estimating such data. Qualitative interpretations of relevance, materiality and the accuracy of data are subject to individual assumptions and judgments.

We have not carried out any work on data reported for prior reporting periods nor in respect of future projections and targets included in the 2020 Sustainability report.

Limited Assurance Conclusion

Based on our work performed, nothing has come to our attention that causes us to believe that the 2020 Sustainability report is not prepared, in all material respects, in accordance with the reporting criteria.

PricewaterhouseCoopers SIA Certified audit company Licence No. 5

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

Riga, Latvia 13 April 2021

Independent Practitioner's Assurance Report is signed electronically with a secure electronic signature and contains a time stamp.



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

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Financial figures					EUR'000
	2020	2019	2018	2017	2016
Revenue	773,391	841,636	838,805	881,212	885,740
EBITDA ¹⁾	277,894	243,526	281,947	497,731	347,312
Operating profit ²⁾	121,350	100,365	81,983	214,462	151,101
Profit before tax ³⁾	112,699	92,072	74,734	224,114	148,945
Profit	116,309	94,359	75,955	322,021	130,593
Dividends ⁴⁾	127,071	132,936	156,418	90,142	77,413
Total assets	3,358,835	3,864,941	3,798,819	4,415,725	3,901,231
Non-current assets	2,976,192	2,798,712	3,364,534	3,343,404	3,388,954
Total equity	2,118,242	2,265,487	2,320,065	2,846,891	2,418,713
Borrowings	743,199	882,671	814,343	826,757	791,566
Net debt (adjusted) ⁵⁾	555,876	563,959	505,419	496,730	528,980
Net cash flows from operating activities	291,194	315,433	302,869	338,209	341,186
Investments	168,855	229,427	220,607	243,811	200,677

Financial figures and ratios are presented by excluding discontinued operation (unbundling transmission system asset ownership)- see Note 30 to the Financial Statements.

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

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

³⁾ Profit before tax– earnings before income tax ⁴⁾ Dividends paid to the equity holder of the Parent Company. (see Note 21 b)

³ Dividends paid to the equity holder of the Parent Company. (see Note 21 ⁵) Net debt (adjusted):

Net debt (until 2019) = (borrowings at the end of the year minus Latvijas elektriskie tikli AS borrowings at the end of the year) minus (cash and cash equivalents at the end of the year minus Latvijas elektriskie tikli 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 tikls AS at the end of the year) minus cash and cash equivalents at the end of the year

In order to ensure an objective and comparable presentation of the financial results, Latvenergo Group and Latvenergo AS uses various financial figures and ratios that are derived from the financial statements. Based on the most commonly used financial figures and ratios in the industry, the Latvenergo Group Strategy for 2017-2022 (see also the Management Report– section Further development, and Sustainability Report), as well as the binding financial covenants set in the Group's loan agreements, Latvenergo Group has set here and therefore uses the following financial figures and ratios:

profitability measures – EBITDA¹; EBITDA margin⁶; operating profit margin⁷; profit before tax margin⁸; profit margin⁹; return on assets (ROA)¹⁴; return on equity (ROE)¹⁵; return on capital employed (ROCE)¹⁶;

• capital structure measures- net debt⁵; equity-to-asset ratio¹⁰; net debt / EBITDA¹¹; net debt / equity¹²; current ratio¹³;

• a dividend policy measure- dividend pay-out ratio¹⁷⁾.

These financial figures and ratios have not changed since the previous period, excluding the Net debt calculation. With the separation of the transmission assets, starting from 2020, loans of Latvijas elektriskie tikli AS included in the calculation are replaced by loans to Augstsprieguma tikls AS.

		2020	2019	2010	2017	2010
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 1 10
	0	0,004	9,209	3,304	10,071	10,140
- Retail*	GWh	6,394	6,505	6,954	6,923	7,665
- Retail* - Wholesale**				,	,	
	GWh	6,394	6,505	6,954	6,923	7,665
- Wholesale**	GWh GWh	6,394 2,460	6,505 2,754	6,954 3,030	6,923 3,448	7,665
- Wholesale** Retail natural gas	GWh GWh GWh	6,394 2,460 516	6,505 2,754 303	6,954 3,030 147	6,923 3,448 33	7,665 2,474 -
- Wholesale** Retail natural gas Electricity generated	GWh GWh GWh GWh	6,394 2,460 516 4,249	6,505 2,754 303 4,880	6,954 3,030 147 5,076	6,923 3,448 33 5,734	7,665 2,474 - 4,707

2020

2019

2018

2017

2016

6) EBITDA margin = EBITDA / revenue

⁷⁾ Operating profit margin = operating profit / revenue

 $^{\rm 8)}$ Profit before tax margin = profit before tax / revenue

9) Profit margin = profit / revenue

Financial ratios

^{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)

 $^{\mbox{\tiny 12)}}$ 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)

¹⁰ 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 tikli AS + borrowings at the end of the year without Latvijas elektriskie tikli AS + borrowings at the end of the year without Latvijas elektriskie tikli AS + borrowings at the end of the year without Latvijas elektriskie tikli AS + borrowings at the end of the year without Latvijas elektriskie tikli AS + borrowings at the end of the year without Latvijas elektriskie tikli AS + borrowings at the end of the year without Latvijas elektriskie tikli AS + borrowings at the end of the year without Latvijas elektriskie tikli AS + borrowings at the end of the year without Latvijas elektriskie tikli AS + borrowings at the end of the year without Latvijas elektriskie tikli AS + borrowings at the end of the year without Latvijas elektriskie tikli AS + borrowings at the end of the year without Latvijas elektriskie tikli AS + borrowings at the end of the year without Latvijas elektriskie tikli AS + borrowings at the end of the year without Latvijas elektriskie tikli AS + borrowings at the end of the year without Latvijas elektriskie tikli AS + borrowings at the end of the year without Latvijas elektriskie tikli AS + borrowings at the end of the year without Latvijas elektriskie tikli AS + borrowings at the end of the year without Latvijas elektriskie tikli AS + borrowings at the end of the year without Latvijas elektriskie tikli AS + borrowings elektriskie tikli AS +

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

* Including operating consumption

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

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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

 $^{\mbox{\tiny 2)}}$ Operating profit– earnings before income tax, finance income and costs

³⁾ Profit before tax- earnings before income tax

 $^{\scriptscriptstyle 4)}$ Dividends paid to the equity holder of the Parent Company. (see Note 21 b)

^(a) Net debt (adjusted): Net debt (until 2019) = (borrowings at the end of the year minus Latvijas elektriskie tikli AS borrowings at the end of the year) minus (cash and cash equivalents at the end of the year) minus Latvijas elektriskie tikli 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 tikls AS at the end of the year) minus cash and cash equivalents

Net debt (as from 2020) = (corrowings at the end of the year minus loans to Augstsprieguma tikis 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 tikli AS included in the calculation are replaced by loans to Augstsprieguma tikls AS.

		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)1	5)	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)				

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6) EBITDA margin = EBITDA / revenue

 $^{7)}$ Operating profit margin = operating profit / revenue

 $^{\scriptscriptstyle (8)}$ Profit before tax margin = profit before tax / revenue

9) Profit margin = profit / revenue

Financial ratios

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)

¹³ 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))

 $^{\rm 16}$ Dividend pay–out ratio = dividends / profit of the Parent Company

* Including operating consumption

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



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 Independent Auditor's Report Latvenergo Group (the Group) is one of the largest power supply providers in the Baltics operating in electricity and thermal energy generation and trade, natural gas trade, electricity distribution services and, until 10 June 2020, lease of transmission system assets.

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

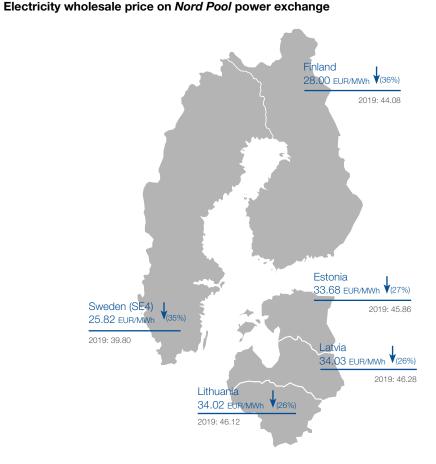
The parent company of Latvenergo Group is Latvenergo AS which is a power supply utility operating in electricity and thermal energy generation and trade, as well as natural gas trade in Latvia.

Operating Environment

In 2020, electricity spot prices in the Nordics and the Baltics were lower compared to the previous year due to the normalization of the Nordic hydro balance and lower demand for electricity due to warmer weather in winter season and COVID-19. In 2020, the electricity spot price in Latvia decreased by 26% compared to the previous year.

Energy prices declined

Due to lower demand, the average price of Brent crude oil in 2020 was 43.2 USD/bbl, which was 33% lower than in the previous year, while the average price of coal (API2 Rotterdam Coal Futures Cal 21) decreased by 19% compared to the year 2019, reaching 57.9 USD/t. Due to the decrease in oil and coal prices, there was a decline in the price of natural gas. In the reporting year, the average Front Month price of natural gas at GASPOOL (the German natural gas virtual trading point) and the TTF (the Dutch natural gas virtual trading point) was 35% lower than in the previous year. The average natural gas (Front Month) price was 9.7 EUR/MWh at the GASPOOL and 9.5 EUR/MWh at the TTF. The average price of CO₂ emission allowances (EUA DEC.20) in the reporting year decreased by 3%, declining to 24.5 EUR/t. Lower economic activity and raw material prices were reducing CO₂ prices, however, the decline in CO₂ prices was restricted by the European Commission's announcements of the new goals of the European Climate Act or the "Green Deal" to achieve climate neutrality by 2050.



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 tikls 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 tikli 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 tikls 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.

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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, customers of the Elektrum mobile application have made more than 8,000 public charges.

Distribution

Distribution segment provides electricity distribution services in Latvia. Sadales tikls 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 tikls AS provides electricity distribution services to more than 800 thousand customers. During the reporting year, the customer satisfaction of Sadales tikls 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 tikls 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 the efficiency improvement programme contributed to a 5.5% reduction in the average distribution system service tariff as of 1 January 2020.

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

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

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Financial Results

In 2020, Latvenergo Group's revenue reached EUR 773.4 million, which was EUR 68.2 million or 8% less than in 2019. This was mainly affected by:

• EUR 30.7 million lower energy sales revenues due to lower electricity prices and 13% less electricity generated. In addition, 2.4% decrease in electricity consumption in the Baltics was due to warmer weather and COVID-19;

• EUR 23.7 million lower revenue from electricity distribution service due to the lower amount of distributed electricity and the reduced average electricity distribution service tariff;

EUR 14.8 million lower heat sales due to warmer weather conditions.

Latvenergo Group's EBITDA increased by 14% compared to 2019, reaching EUR 277.9 million. This was positively affected by lower electricity purchase prices and 23% or 480 GWh higher electricity output at the Daugava HPPs. In 2020, the electricity spot price in Latvia decreased by 26% compared to 2019. EBITDA was negatively affected by lower distribution segment revenue.

Group's EBITDA increased by 14%

The Group's profit for the reporting year reached EUR 116.3 million, which is by 23% more than in 2019. The Group's ROE in 2020 reached 5.3% which is by 1.2 basis points more than in 2019. The financial indicators of the capital structure ensured achievement of the set goals, exceeding average industry indicators as well. For information on achievement of the financial goals, see the Sustainability Report section "Group Strategy".

Investments

In 2020, the total amount of investment comprised EUR 168.9 million which was EUR 60.6 million or 26% less than in the previous year. The decrease in the amount of investment was due to EUR 58.6 million lower investments in transmission system assets than in 2019.

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

To ensure high-quality power network service, technical parameters and operational safety, a significant amount is invested in the modernization of the power network. In the reporting year, the amount invested in power network assets represented 69% of total investment. EUR 28.8 million of this was invested in transmission system assets. In the reporting year, investments in the distribution system assets amounted to EUR 87.4 million, which is 8% less than in 2019.

Contributing to environmentally friendly projects, in 2020, EUR 18.5 million was invested in the Daugava HPPs' hydropower unit reconstruction. The Hydropower unit reconstruction programme for the Daugava

HPPs envisages the reconstruction of 11 hydropower units in order to ensure environmentally safe, sustainable and competitive operations and efficient water resource management. As of 31 December 2020, six reconstructed hydropower units have been put into operation within the programme. Latvenergo Group is proceeding with a gradual overhaul of five Daugava HPPs' hydropower units with estimated total reconstruction costs exceeding EUR 200 million. As of 31 December 2020, work completed within the scope of the contract reached EUR 184.6 million. Reconstruction will ensure functionality of the hydropower units for another 40 years.

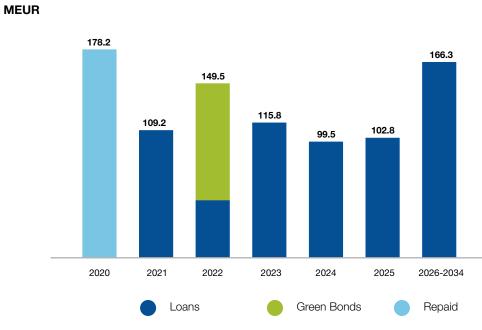
Funding

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

As of 31 December 2020, the Group's borrowings amounted to EUR 743.2 million (31 December 2019: EUR 882.7 million), comprising loans from commercial banks, international investment banks, and EUR 100 million green bonds.

Latvenergo Group's debt repayment schedule

Total borrowings as of 31 December 2020: 743.2 MEUR



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Latvenergo AS again receives the award for Best Investor Relations on the Bond Market

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In 2020, the Financial and Capital Market Commission has registered the base prospectus of the third bond programme of Latvenergo AS, allowing it to make a public offering of bonds. The total amount of the bond programme in nominal value is up to EUR 200 million and the maturity of the bonds is up to 10 years. The bonds will be issued in the format of green bonds, for which the Green Bond Framework of Latvenergo AS was developed. The independent research centre CICERO Shades of Green has rated the updated Latvenergo AS green bonds framework as Dark Green (the highest category), indicating the compliance of the planned projects with long-term environmental protection and climate change mitigation objectives, as well as good governance and transparency.

After the reporting year, on 3 February 2021, Latvenergo AS has for the second time received the award for the best investor relations among all bond issuers on the Nasdaq Baltic regulated markets in the Baltic countries. When granting the award for the best investor relations, the stock exchange has especially appreciated the sustainability reports prepared by Latvenergo Group, its informative and investor-friendly website, as well as timely disclosure of information.

On 7 August 2020, the international credit rating agency Moody's Investors Service renewed the Latvenergo AS credit analysis. The rating of Latvenergo AS remained unchanged: Baa2 with a stable outlook. On 11 February 2021 Moody's completed a periodic review of the rating of Latvenergo AS. Credit rating Baa2 for Latvenergo AS has been stable for six years in a row, confirming the consistency of operations and financial soundness of Latvenergo Group.

Corporate Governance

Along with the financial results of Latvenergo Group, also the Corporate Governance Report of Latvenergo AS for 2020 is published. For detailed information see the Sustainability Report 2020.

Non-financial Report

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

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

For detailed information on Corporate Social Responsibility (CSR) activities, description of the policies and procedures in relation to those matters, the outcome of application of the policies, risks and risk

management, and non-financial key performance indicators, please see the Sustainability Report 2020 which is available on the Latvenergo website: http://www.latvenergo.lv. The report is prepared in accordance with the GRI Standards – Core option requirements.

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

Further Development

Latvenergo Group's strategy for 2017–2022 foresees:

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

Comprehensive Efficiency Programme

Taking into consideration the defined development directions of the Group, Latvenergo AS approved the Strategic Development and Efficiency Programme in 2017. While the strategic development section includes major strategic projects, the efficiency section provides for the revision, centralization and digitalization of the Group's processes in order to maintain the Group's profitability in the long term considering the increase in costs due to inflation. The estimated efficiency potential for the Group's EBITDA is up to EUR 40 million. This is the Group's largest optimization plan in the last decade, and it will allow the Group to increase its value in the long run and to remain competitive in an open market and a changing energy industry.

The activities planned in the strategy have been successfully implemented in 2020. For more information please see the Sustainability Report section "Group Strategy".

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

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

The financial targets are set to ensure: • ambitious, vet achievable profita

- 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.

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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:

Guntars Baļčūns Chairman of the Management Board Kaspars Cikmačs Member of the Management Board Arnis Kurgs Member of the Management Board Uldis Mucinieks Member of the Management Board

13 April 2021



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			6 773,391 841,636 385,612 437,5		ompany	
Companyla Companya		Notes	2020	2019	2020	2019
Corporate Governance	Revenue	6	773,391	841,636	385,612	437,529
	Other income	7	28,732	25,863	63,177	23,558
Operating Segments	Raw materials and consumables	8	(369,261)	(477,660)	(173,884)	(271,069)
opolating obginente	Personnel expenses	9	(105,971)	(101,349)	(45,657)	(45,039)
	Other operating expenses	10	(48,997)	(44,964)	(31,359)	(32,328)
Sustainability Indicators	EBITDA		277,894	243,526	197,889	112,651
	Depreciation, amortisation and impairment of intangible assets, property, plant and equipment and right-of-use	13 a,14 a,				
Annexes to	assets	15	(156,544)	(143,161)	(86,259)	(67,543)
	Operating profit		121,350	100,365	111,630	45,108
the Sustainability Report	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
Annual Report	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
– Key Figures	Profit for the year from discontinued operations	30	9,844	10,232	-	-
Manager	Profit for the year		116,309	94,359	154,848	101,227
 Management Report 	Profit attributable to:					
- Financial Statements	 Equity holder of the Parent Company 	21 c	114,513	92,660	154,848	101,227
- I maneial Otatements	- Non-controlling interests	21 c	1,796	1,699	-	-
Statement of Profit or Loss	Basic earnings per share (in euros)	21 c	0.144	0.111	0.195	0.121
Statement of Comprehensive Income	Diluted earnings per share (in euros)	21 c	0.144	0.111	0.195	0.121
	Diluted earnings per sinale (in euros)	210	0.144	0.111	0.190	0.121

Statement of Comprehensive Income

EUR'000

Arnis Kurgs

Member of the Management Board

				EUR'000
	Gre	oup	Parent Co	ompany
Not	es 2020	2019	2020	2019
Profit for the year	116,309	94,359	154,848	101,227
Other comprehensive loss to be reclassified to profit or loss in subsequent periods:				
- losses from change in hedge reserve 21 a,	24 (7,774)	(11,771)	(7,774)	(11,771)
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods	(7,774)	(11,771)	(7,774)	(11,771)
Other comprehensive income / (loss) not to be reclassified to profit or loss in subsequent periods:				
- gains on revaluation of property, plant and equipment 14 a, 2	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	-	-

Uldis Mucinieks

Member of the Management Board

The notes on pages 108 to 154 are an integral part of these Financial Statements

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The Management Board of Latvenergo AS:

Guntars Balčūns

Chairman of the Management Board

Kaspars Cikmačs Member of the Management Board

Liāna Keldere Accounting director of Latvenergo AS

13 April 2021

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						EUR'000
			Gro	up	Parent C	ompany
\land		Notes	31/12/2020	31/12/2019	31/12/2020	31/12/2019
ហ	ASSETS					
	Non-current assets					
About Latvenergo Group	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
Corporate Governance	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
Operating Segments	Other non-current receivables	18 b	429	433	417	421
	Derivative financial instruments	24	291	-	291	-
Quatainala ilitu kadi aatawa	Other financial investments	22	2,693	16,885	2,693	16,885
Sustainability Indicators	Total non-current assets		2,976,192	2,798,712	2,307,985	2,615,113
	Current assets					
A management of the	Inventories	17	68,754	104,927	50,471	89,522
Annexes to	Current intangible assets	13 a	3,157	-	3,157	-
the Sustainability Report	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
Annual Report	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
– Key Figures	Other financial investments	22	14,143	-	14,143	-
, 0	Cash and cash equivalents	19	100,703	122,422	98,261	121,261
 Management Report 	Current assets excluding assets held for distribution	tion	382,643	425,836	452,170	521,845
- Financial Statements	Assets held for distribution	30	-	640,393	-	-
	Total current assets		382,643	1,066,229	452,170	521,845
Statement of Profit or Loss	TOTAL ASSETS		3,358,835	3,864,941	2,760,155	3,136,958

		Gro	au	Parent C	ompany
Not	es	31/12/2020	31/12/2019	31/12/2020	31/12/2019
EQUITY AND LIABILITIES					
EQUITY					
Share capital	20	790.348	834,883	790.348	834.883
•	1 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	1,949,28
Non-controlling interests		7,855	7,878	-	
Total equity		2,118,242	2,265,487	1,746,436	1,949,28
LIABILITIES					
Non-current liabilities					
	23	634,077	702,129	626,408	696,86
Lease liabilities	15	6,783	4,349	3,734	3,12
Deferred income tax liabilities	12	6,401	8,327	-	
Provisions	27	17,317	18,491	8,402	8,48
Derivative financial instruments	24	9,672	6,149	9,672	6,14
Deferred income from contracts with customers 28	la	139,613	143,330	863	87
Other deferred income 28 l b	, C	170,413	194,033	163,480	186,29
Total non-current liabilities		984,276	1,076,808	812,559	901,80
Current liabilities					
Borrowings	23	109,122	180,542	106,984	176,03
Lease liabilities	15	1,561	1,216	806	37
Trade and other payables	26	100,912	115,708	63,704	78,38
Deferred income from contracts with customers 28	ll a	15,091	13,764	813	6
Other deferred income 28 II b	, C	24,799	24,857	24,021	24,03
Derivative financial instruments	24	4,832	6,983	4,832	6,98
Current liabilities excluding liabilities held for distribution		256,317	343,070	201,160	285,87
Liabilities directly associated with the assets held for distribution	30	-	179,576	-	
Total current liabilities		256,317	522,646	201,160	285,87
Total liabilities		1,240,593	1,599,454	1,013,719	1,187,67
TOTAL EQUITY AND LIABILITIES		3,358,835	3,864,941	2,760,155	3,136,95

The notes on pages 108 to 154 are an integral part of these Financial Statements

Arnis Kurgs Member of the Management Board **Uldis Mucinieks**

Member of the Management Board

E Latvenergo

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This document is signed with a secure digital signature and contains a time stamp The Management Board of Latvenergo AS:

Kaspars Cikmačs

Member of the Management Board

Guntars Baļčūns

Chairman of the Management Board

Liāna Ķeldere Accounting director of Latvenergo AS

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		Group						Parent Co	ompany			
		Attribu	table to equity	y holder of th	e Parent Com	bany						
	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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The Management Board of Latvenergo AS:

Guntars Balčūns

Chairman of the Management Board

Kaspars Cikmačs Member of the Management Board

Liāna Keldere Accounting director of Latvenergo AS

13 April 2021



Arnis Kurgs Member of the Management Board **Uldis Mucinieks**

Member of the Management Board

EUR'000

Statement of Cash Flows

						EUR'000
			Grou	p	Parent Co	mpany
∕∿		Notes	2020	2019	2020	2019
ស	Cash flows from operating activities					
	Profit before tax		112,699	92,072	154,848	101,227
About Latvenergo Group	Profit before tax from discontinued operation	30	9,946	12,667	-	-
	Profit before tax, total		122,645	104,739	154,848	101,227
	Adjustments:				-	-
Corporate Governance	- Depreciation, amortisation and impairment of intangib	le 13 a.				
	assets, property, plant and equipment (PPE) and right-of-use assets	14 a. 15	168.146	167.918	86.259	67.543
Operating Segments	- Loss from disposal of non-current assets	14 0, 10	22,284	26,980	17,007	21,965
opolating obginerite	- Interest expense	11	10,355	9,346	10,963	11,590
	- Interest income	11	(2,137)	(1,034)	(12,780)	(12,842)
Sustainability Indicators	- Fair value (income) / loss on derivative financial		(2,101)	(1,001)	(12,100)	(12,012)
	instruments	8	(1,242)	293	(1,242)	293
	- Dividends from subsidiaries	16	_	-	(41,743)	(54,858)
Annexes to	- Decrease in provisions	27	(1,434)	(3,691)	(531)	(1,283)
	- Unrealised loss / (income) on currency translation			(, ,	· · /	(, , , , , , , , , , , , , , , , , , ,
he Sustainability Report	differences	11	105	(54)	105	(54)
	- Gain from distribution of assets / non-current financial					
A manual Data ant	investment of Parent Company		(5,001)	-	(36,246)	
Annual Report	Operating profit before working capital adjustment	nts	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		(0,1,00,1)			
- Key Figures	customers and other receivables		(31,821)	41,083	69,643	45,110
- Management Report	(Decrease) / increase in trade and other liabilities		(6,659)	11,757	(28,311)	(38,789)
- Management Report	Impact of non-cash offsetting of operating receivables and liabilities from subsidiaries, net				200,140	270.009
- Financial Statements	Cash generated from operating activities		311.446	324.347	457.173	378.799
	Interest paid		(11,517)	(9,483)	(12,195)	(11,741)
Statement of Profit or Loss	Interest paid Interest paid on leases	15	(11,517) (87)	(9,483) (54)	(12,195) (8)	(11, 741)
Statement of Comprehensive Income	Interest paid on leases	10	2.118	1.084	(o) 1,192	- 1,084
	Paid corporate income tax		(10,766)	(461)	1,192	10,000
Statement of Financial Position	Net cash flows from operating activities		291.194	315,433	446.162	378.142
Statement of Changes in Equity	Net cash nows nom operating activities		231,134	515,455	440,102	570,142

Statement of Cash Flows (continued)					EUR'000
		Grou	up	Parent Co	mpany
	Notes	2020	2019	2020	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 108 to 154 are an integral part of these Financial Statements

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The Management Board of Latvenergo AS:

Guntars Baļčūns

Chairman of the Management Board

Kaspars Cikmačs Member of the Management Board Arnis Kurgs Member of the Management Board

Uldis Mucinieks

Member of the Management Board

Liāna Ķeldere Accounting director of Latvenergo AS

13 April 2021



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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 tikls 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.

• Energijas 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 tikli AS with 100% interest held in the company.

Latvenergo AS and its subsidiaries Sadales tikls AS and Energijas 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 Balčūns (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 Balčūns (Chairman of the Board), Kaspars Cikmačs, Arnis Kurgs and Uldis Mucinieks.

The Supervisory Board of Latvenergo AS:

Since 9 October 2019 until 10 June 2020 the Supervisory Board of Latvenergo AS was comprised of the following members: Edmunds Valantis (Chairman), Edijs Šaicāns (Deputy Chairman) and Irēna Bērziņa;

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

The Supervisory body– Audit Committee:

Since 9 October 2019 Audit Committee was comprised of the following members: Torbens Pedersens (Torben Pedersen), Svens Dinsdorfs, Marita Salgrāve;

Since 11 June 2020 Audit Committee was comprised of the following members: Torbens Pedersens (Torben Pedersen), Svens Dinsdorfs, Marita Salgrāve, Toms Siliņš and Gundars Ruža;

Since 20 November 2020 Audit Committee was comprised of the following members: Torbens Pedersens (Torben Pedersen), Svens Dinsdorfs, Toms Siliņš and Gundars Ruža;

Since 3 February 2021 Audit Committee was comprised of the following members: Torbens Pedersens (Torben Pedersen), Svens Dinsdorfs, Ilvija Grūba, Toms Siliņš and Gundars Ruža.

The Management Board of Latvenergo AS has approved the Latvenergo Group and Latvenergo AS Financial statements 2020 on 13 April 2021. The Financial Statements are subject to Shareholder's approval on the Shareholder's Meeting.

2. Summary of significant accounting policies

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

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

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

The Financial Statements for 2020 include the financial information in respect of the Latvenergo Group and Latvenergo AS for the year ended 31 December 2020 and comparative information for 2019. Where it has been necessary, comparatives for 2019 are reclassified using the same principles applied for preparation of the Financial Statements for 2020.

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

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 Independent Auditor's Report 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

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

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

to the Statement of Profit or Loss as incurred. Identifiable assets acquired and liabilities and contingent

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 derecognition 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 cooperation 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 Management Board.

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

			Group			Parent Company	
	Notes	Financial assets at amortised cost	Derivatives used for hedging	Financial instruments at fair value through profit or loss	Financial assets at amortised cost	Derivatives used for hedging	Financial instruments at fai 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	-	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	1,05
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	2,03
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 Group Parent Company Financial liabilities Derivatives used for hedging Financial instruments at fair Financial liabilities Derivatives used for hedging Financial instruments at fair value through profit or loss Notes at amortised cost at amortised cost value through profit or loss Financial liabilities as of 31 December 2020 23 743,199 733,392 Borrowings Derivative financial instruments 24 I 14,504 14,504 _ 15 8,344 4,540 Lease liabilities Trade and other financial current payables 26 76,429 51,664 _ 14,504 827,972 14,504 _ 789,596 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 26 Trade and other financial current payables 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.

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During 2020 if euro interest rates had been 50 basis points higher with all other variables held constant, the Group's income from the cash reserves held at bank for the year would have been EUR 488 thousand higher (2019: EUR 633 thousand) and the Parent Company's income from the cash reserves held at bank for the year would have been EUR 476 thousand higher (2019: EUR 621 thousand).

The Group's and the Parent Company's cash flow interest rate risk mainly arises from long-term borrowings at variable rates. They expose the Group and the Parent Company to a risk that finance costs might increase significantly when interest rates rise up. The Group's policy is to maintain more than 35% of its borrowings as fixed interest rates borrowings (taking into account the effect of interest rate swaps) with duration between 1–4 years (2019: 2-4 years).

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

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

To hedge cash flow interest rate risk, the Group and the Parent Company have entered into interest rate swap agreements with total notional amount of EUR 193.8 million (2019: EUR 229.4 million) (Note 24 II). 38% of the total Group's and 39% the Parent Company's borrowings as of 31 December 2020 (31/12/2019: 45% and 45% respectively) had fixed interest rate (taking into account the effect of the interest rate swaps) and average fixed rate duration was 1.6 years for the Group and the Parent Company (2019: 1.8 years for the Group and the Parent Company).

If interest rates on euro denominated borrowings at floating base interest rate (after considering hedging effect) had been 50 basis points higher with all other variables held constant over the period until the next annual report, the Group's profit for the year would have been EUR 661 thousand lower (over the next 12 months period after 31/12/2019: EUR 2,297 thousand), the Parent Company's profit for the year would have been EUR 654 thousand lower (over the next 12 months period after 31/12/2019: EUR 2,255 thousand).

As of 31 December 2020, if short and long term euro interest rates had been 50 basis points higher with all other variables held constant fair value of interest rate swaps would have been EUR 3,698 thousand higher (31/12/2019: EUR 4,634 thousand higher), which would have been attributable to the Statement of Comprehensive Income as hedge accounting item. However, if short and long term euro interest rates had been 50 basis points lower with all other variables held constant fair value of interest rate swaps would have been EUR 3,832 thousand lower (31/12/2019: EUR 4,815 thousand lower), which would have been attributable to the Statement of Comprehensive lncome 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 tikls 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).

		Gro	oup	Parent C	ompany
	Notes	31/12/2020	31/12/2019	31/12/2020	31/12/2019
Receivables from contracts with customers	18 a	108,178	111,530	75,856	82,973
Other current financial receivables	18 b	84,864	76,891	29,328	13,221
Loans to related parties	29 e	86,620	-	742,229	794,256
Cash and cash equivalents	19	100,703	122,422	98,261	121,261
Derivative financial instruments	24	1,557	6,717	1,557	6,717
Other financial investments	22	16,836	16,885	16,836	16,885
		398,758	334,445	964,067	1,035,313

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

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

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

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

				EUR'000
	Gro	Group		ompany
	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
	Gro	oup	Parent C	ompany
	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.

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Liquidity analysis (contractual undiscounted gross cash flows)

				Group				Pa	rent Company		
	Notes	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:

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Statement of Comprehensive Income

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.

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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 tikls 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.

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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 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 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 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 tikls 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).

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The following table presents revenue, financial results and profit information and segment assets and liabilities of the Group's and the Parent Company's operating segments. Inter-segment revenue is eliminated on consolidation and reflected in the 'adjustments and eliminations' column. All transactions between segments are made based on the regulated tariffs, where applicable, or on an arm's length principle.

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ស					-								EUR UUU
					Group						arent Company		
About Latvenergo Group		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												
Corporate Governance	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)	
perating Segments	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
untain ability Indiantaya	Results												
ustainability Indicators	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												
nnexes to	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)
e Sustainability Report	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
5	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
nnual Report	Capital expenditure	40,560	87,431	28,796	12,144	168,931	(76)	168,855	38,851	12,148	50,999	-	50,999
<u> </u>	2019												
	Revenue												
Key Figures	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)	
Management Report	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
Financial Statements	Results												
Statement of Profit or Loss	EBITDA	103,347	125,093	39,798	12,729	280,967	-	280,967	92,550	20,101	112,651	-	112,651
Statement of Profit or Loss	Depreciation, amortisation and impairment												
Statement of Comprehensive Income	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)
Statement of Financial Position	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
Statement of Changes in Equity	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
Statement of Changes in Equity	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
Statement of Cash Flows	Capital expenditure	32,823	95,139	87,406	14,763	230,131	(704)	229,427	31,484	16,785	48,269	-	48,269

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

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The Group's and the Parent Company's revenue from external customers (Note 6)

				Grou	р				Parent Co	mpany	
		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
3	2020										
1	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
ut Latvenergo Group	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
orate Governance	Other revenue	3,280	16,029	-	5,647	24,956	24,956	1,414	26,789	28,203	28,203
Jorale Governance	Total revenue from contracts with customers	471,247	294,832	-	5,673	771,752	771,752	354,876	26,815	381,691	381,691
rating Segments	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
tainability Indicators	Other revenue		-	336	-	336	336	-	-	_	-
	Total other revenue	-	95	15,967	1,544	17,606	17,606	-	3,921	3,921	3,921
exes to	TOTAL revenue, including	471,247	294,927	15,967	7,217	789,358	789,358	354,876	30,736	385,612	385,612
Sustainability Report	Latvia	319,542	294,926	15,967	6,917	637,352	637,352	303,461	29,330	332,791	332,791
Sustainability Report	Outside Latvia	151,705	1	-	300	152,006	152,006	51,415	1,406	52,821	52,821
	2019										
ual Report	Revenue from contracts with customers recognised over time:	145.000	0.000			440.450	440.450	007.444		007 444	007 444
	Trade of energy and related supply services	445,390	3,063	-	-	448,453	448,453	337,441	-	337,441	337,441
	Distribution system services Heat sales	ا 68,148	299,332 75	-	- 12	299,333 68,235	299,333 68,235	- 56,842	- 12	- 56,854	- 56,854
ey Figures	Other revenue	3,087	15,532	-	5,731	24,350	24,350	56,842 1,444	31,826	33,270	33,270
, ,	Total revenue from contracts with customers		318,002		5,743	840,371	840,371	395,727	31,838	427,565	427,565
anagement Report		510,020	010,002	_	3,740	040,071	0-10,071	033,727	01,000	427,505	421,505
nancial Statements	Other revenue:										
	Lease of transmission system assets (Note 30)	-	-	36,116	-	36,116	36,116	-	-	-	-
atement of Profit or Loss	Lease of other assets	-	103	-	1,162	1,265	1,265	-	9,964	9,964	9,964
tatement of Comprehensive Income	Other revenue		_	527	_	527	527	-	_	-	-
atement of Financial Position	Total other revenue	-	103	36,643	1,162	37,908	37,908	-	9,964	9,964	9,964
latement of Financial Position	TOTAL revenue, including	516,626	318,105	36,643	6,905	878,279	878,279	395,727	41,802	437,529	437,529
tatement of Changes in Equity	Latvia	339,153	318,091	36,643	6,565	700,452	700,452	395,727	40,509	362,650	362,650
tatement of Cash Flows	Outside Latvia	177,473	14	- 30,043	340	177,827	177,827	73,586	1.293	74,879	74,879
	Guida Lavia	11,410	14		040	111,521	11,021	10,000	1,200	14,019	14,013

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Adjustments and eliminations

Finance income and expenses, fair value gains and losses on financial assets, interest rate swaps (derivative financial instruments) and deferred taxes are not allocated to individual segments as the underlying instruments are managed on a group basis. Taxes and certain financial assets and liabilities, including loans and borrowings are not allocated to those segments as they are also managed on a group basis.

Capital expenditure consists of additions of property, plant and equipment, intangible assets and investment properties including assets from the acquisition of subsidiaries.

		Grou	qu	Parent Co	mpany
	Notes	2020	2019	2020	201
EBITDA		294,448	280,967	197,889	112,65
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	45,10
Finance income	11	2,125	1,187	12,768	12,99
Finance costs	11	(10,783)	(9,480)	(11,293)	(11,734
Dividends received from subsidiaries	16		_	41,743	54,85
Profit before tax		117,644	104,757	154,848	101,22

Reconciliation of assets				EUR'000				
		Gro	oup	Parent Company				
	Notes	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	16,88			
Prepayment for income and other taxes		44	141	-	140			
Cash and cash equivalents	19	100,703	122,722	98,261	121,26			
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

		Gro	oup	Parent Company		
	Notes	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.

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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	Grou	qu	Parent Co	mpany
	applied	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
	Gro	up	Parent Co	mpany
	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 Energijas 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 lectricity 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".

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

Distribution system and transmission system services (Parent Company)

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

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

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

	Group		Parent Company	
	2020	2019	2020	2019
Mandatory procurement PSO fees	84,665	88,082	88,177	90,605
Distribution system services	12,641	11,181	184,915	198,092
Transmission system services	1,654	1,557	1,686	1,596
TOTAL revenue recognised applying agent accounting principle	98.960	100.820	274.778	290.293

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

EUR'000

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

					LOITOUU
		Gro	oup	Parent C	ompany
	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)

		Grou	ıp	Parent Con	npany
	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

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		Gro	and	Parent C	ompany
	Notes	2020	2019	2020	2019
Compensation from the state on state support for the					
installed capacity of CHPPs	4 h	23,990	23,990	23,990	23,990
Profit from distribution of non-current financial investments	16	-	-	36,246	-
Fines and penalties		2,060	(175)	1,483	(1,135)
Net gain on sale of assets held for sale and property, plant					
and equipment		1,123	378	1,026	378
Compensations and insurance claims		535	745	238	232
Other operating income		1,024	925	194	93
TOTAL other income		28,732	25.863	63.177	23.558

8. Raw materials and consumables

					EUR'000
		Grou	ıp	Parent Co	mpany
	Notes	2020	2019	2020	2019
Energy costs:					
Electricity and costs of related supply services		154,667	168,699	50,433	56,701
(Gains) / losses on fair value changes on electricity forwar	rds				
and futures	24 I	(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 I	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
	Gro	•	Parent Cor	
	2020	2019	2020	2019
Wages and salaries	79,457	77,075	34,603	34,081
State social insurance contributions	18,733	18,370	8,182	8,152
Expenditure of employment termination	1,783	(265)	275	162
Pension costs – defined contribution plan	3,612	2,066	1,571	919
Other benefits defined in the Collective Agreement	1,040	1,108	370	420
Life insurance costs	1,613	3,161	656	1,326
Capitalised personnel expenses	(267)	(166)	-	(21)
TOTAL personnel expenses, including remuneration to the				
management of continuing operations	105,971	101,349	45,657	45,039
Remuneration to the management including discontinued operation:				
Wages and salaries	2,153	2,183	861	763
State social insurance contributions	516	513	208	183
Expenditure of employment termination	90	-	90	-
Pension costs- defined contribution plan	25	11	13	6
Life insurance costs	17	21	1	4
TOTAL remuneration to the management*	2,801	2,728	1,173	956

* Remuneration to the Group's management includes remuneration to the members of the Management Boards of the Group entities, including management of discontinued operation (2020: EUR 160 thousand; 2019: EUR 135 thousand), the Supervisory Board and the Supervisory body (Audit Committee) of the Parent Company, Remuneration to the Parent Company's management includes remuneration to the members of the Parent Company's Management Board, the Supervisory Board and the Supervisory body (Audit Committee).

The Group and the Parent Company make monthly contributions to a closed defined contribution pension plan on behalf of their employees. The plan is managed by the non-profit public limited company Pirmais Slēgtais Pensiju Fonds, with the participation of the Group companies amounting for 48.15% (Parent Company– 46.30%) of its share capital. A defined contribution plan is a pension plan under which the Group and the Parent Company pay contributions into the plan. The Group and the Parent Company have no legal or constructive obligations to pay further contributions if the plan does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior periods. The contributions amount to 5% of each pension plan member's salary. The Group and the Parent Company recognise the contributions to the defined contribution plan as an expense when an employee has rendered services in exchange for those contributions.

			Number o	f employees
	Gro	oup	Parent Co	mpany
	2020	2019	2020	2019
Number of employees at the end of the year	3,295	3,423	1,267	1,328
Average number of employees during the year	3,362	3,476	1,281	1,342

10. Other operating expenses

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	Gro	Group		mpany		
	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

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a) Finance income				EUR'000	
	Gro	ир	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
	Gro	up	Parent C	ompany
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

EUR'000

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	
	Gro	up	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				Pa	arent 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 tikli 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

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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 Number of Number of Number of allowances allowances allowances allowances 1.805.556 1.661.313 At the beginning of the year 1.784.364 1.688.912 218.345 205.721 Allowances allocated free of charge* 125.103 112.769 1.040.552 1.035.000 Purchased allowances 375.000 375.000 Written off verified allowances (1.227.142)(1.229.089)(1.218.559)(1.213.122)Sold allowances (80,000) (51,000) 1.688.912 At the end of the year 977.325 1.784.364 958.122 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

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* 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

	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.

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		nounts and movements of property, plant and equipment by groups, including groups of revalued categories are as Group								Parent Company EU					
₩		Land, buildings and facilities	Assets of Hydro Power Plant	Distribution system electricity lines and electrical	Transmission system electricity lines and electrical	•	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	Propert plant ar equipme TOTA
				equipment	equipment										
About Latvenergo Group	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	3,191,63
	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)	(2,057,74
Corporate Governance	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	1,133,88
	Year ended 31 December 2019														
perating Segments	Additions	-	-	-	-	-	-	226,986	226,986	-	-	-	-	45,941	45,94
	Invested in share capital (Note 20)	87	-	-	-	5	-	-	92	87	-	5	-	-	ģ
	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)	
Sustainability Indicators	Reclassified to investment property	(135)	-	-	-	-	-	_	(135)	304	-	-	-	(2,243)	(1,93
	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)	(6,97
Annexes to	Reversed impairment charge	3,781		_	-	15,982	_	7	19,770	3,781	-	15,982	_	_	19,76
he Sustainability Report	Depreciation	(15,154)	(25,864)	(65,465)	(23,439)	(40,630)	(12,747)	-	(183,299)	(10,118)	(25,864)	(39,067)	(6,717)	-	(81,76
	Assets attributable to the discontinued operation (Note 30)	(33,538)	_	_	(512,315)	-	(202)	(55,120)	(601,175)	_	_	-	-	_	
nnual Report	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	1,109,00
		,		, , , ,			,		, , , , ,			,		,	, ,
Key Figures	As of 31 December 2019														
Key Figures	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	3,186,04
- Management Report	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)	(2,077,04
0	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	1,109,00
- Financial Statements	Year ended 31 December 2020														
Chatamant of Durfit and and	Additions	(966)					(80)	164,997	164,051					46,730	46,73
Statement of Profit or Loss	Transfers	(866) 5,480	 21,119	- 78,177	2,923	26,262	(80)	(149,007)	104,051	2,585	21,120	 26,097	6,198	(56,000)	40,73
Statement of Comprehensive Income	Reclassified (to) / from investment property, net	(477)	21,119		2,920	20,202	13,040	(149,007)	_ (477)	2,303	21,120	20,097	0,190	(50,000)	2,42
Statement of Financial Position	Reclassified to non-current assets for sale	(477)	-			(21)	(22)	_	(477)	2,427	_	_	(1)	_	2,42
	Disposals	(364)	(4)	(5,340)	(33)	(201)	(22)	(417)	(43)	(299)	(4)	(195)	(236)	(741)	(1,47
Statement of Changes in Equity	Investment in share capital of other company	(004)	(4)	(0,040)	(00)	(201)	(+2)	(417)	(0,+01)	(2,449)	(4)	(195)	(503)	(7 + 1)	(2,96
Statement of Cash Flows	Increase of assets as a result of revaluation	_	_	96,264	_	_	_	_	- 96,264	(2,449)		(13)	(000)		(2,30
Notes to the Financial Statements	Reversed impairment charge as a result of			,					8.660						
Indopondant Auditor's	revaluation	- (2027)	_	8,660	-	(4.465)	_		- ,	- (2021)	-	(4.465)	_	- 386	(7 1 1
Independent Auditor's	Impairment charge	(3,037)	(25,612)	(65,945)	- (10,958)	(4,465) (34,552)		373	(7,129)	(3,037) (9,667)	(05.610)	(4,465)	(6,589)		(7,11 (75,02
Report	Depreciation Changes in value of eccets attributable to the	(14,051)	(20,012)	(05,945)	(10,956)	(34,002)	(12,439)	-	(163,557)	(9,007)	(25,612)	(33,161)	(0,569)	-	(15,02
	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				0,000	0	(1,020)	(20,001)	(10,001)						
	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	1,071,57
	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	3,177,84
	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)	(2,106,27
	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	1,071,57

* Until 10 June 2020, Latvijas elektriskie tikli 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
	Grou	ıp			Parent Co	ompany		
	Investment pro capital app		Investment pr leas		Investment pro capital app		TOTAL Investme	ent 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.

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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
		Gro	oup	
	Revalu	ed property, plan	t and equipment g	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 tikls 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 tikls 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'.

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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	Labou	r costs	Materia	al costs	Usefu	l lives
	revaluation	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		n of labour ts (%)	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 cest, 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 cashgenerating 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) (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 2029.

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 discount rate would have an

impact of EUR 0.8 million (2019: EUR 1.4 million) on the recoverable amount of the assets. If the annual electrical capacity payments for cogeneration power plant CHPP-2 would be discontinued, then impairment of approximately EUR 80 million would be recognised. Impairment is estimated by assuming that capacity payment revenue decrease would be partly offset by a higher revenue from electricity production.

The accumulated impairment as of 31 December 2020 amounted to EUR 242,136 thousand (31/12/2019: EUR 234,634 thousand).

15. Leases

a) Right-of-use assets and lease liabilities

Accounting policy

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

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- 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'I				
	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
\sim	As of 1 January 2019		8,075	3,870
ហ	Of which are:			
	- Non-current		6,839	3,500
About Latvenergo Group	- Current		1,236	370
	Recognised changes in lease agreements		(222)	3
Corporate Governance	Excluded lease liabilities of discontinued operation	30	(1,107)	-
	Decrease of lease liabilities		(1,277)	(428)
	Recognised interest liabilities		96	57
Operating Segments	As of 31 December 2019		5,565	3,502
	Of which are			
	- Non-current		4,349	3,126
Sustainability Indicators	- Current		1,216	376
	Recognised changes in lease agreements		4,178	1,746
Annexes to	Decrease of lease liabilities		(1,530)	(777)
the Sustainability Report	Recognised interest liabilities		131	69
	As of 31 December 2020		8,344	4,540
	Of which are			
Annual Report	- 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	
	Gro	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
		Group		Parent Con	npany
	Notes	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)

	Grou	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	Business activity held	31/12	/2020	31/12	/2019
	incorporation	-	Interest held, %	EUR'000	Interest held, %	EUR'000
Investments in subsidiaries:						
Latvijas elektriskie tīkli AS	Latvia	Lease of transmission system assets	_	_	100%	186,432
Sadales tīkls AS	Latvia	Electricity distribution	100%	641,450	100%	641,150
Enerģijas publiskais tirgotājs AS	Latvia	Administration of mandatory electricity procurement process	100%	40	100%	40
Elektrum Eesti OÜ	Estonia	Electricity and natural gas trade	100%	35	100%	35
Elektrum Lietuva, UAB	Lithuania	Electricity and natural gas trade	100%	98	100%	98
Liepājas enerģija SIA	Latvia	Thermal energy generation and trade, electricity generation	51%	3,556	51%	3,556
TOTAL				645,179		831,311
Other non-current financial in	vestments:					
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

of EUR 711 per share.

Liepājas enerģija SIA

Name of the company	Country of Business activity held		31/12/2020		31/12/2019	
	incorporation		Interest held, %	EUR'000	Interest held, %	EUR'000
Other non-current financial inv	vestments					
Pirmais Slēgtais Pensiju Fonds AS	Latvia	Management of pension plans	48.15%	37	48.15%	36
Rīgas siltums AS	Latvia	Thermal energy generation and				
5		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

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

In 2020, the Parent Company invested EUR 300 thousand in the share capital of Sadales tikls AS, by investing the Parent Company's real estate and property, plant and equipment related to distribution

Pensiju Fonds AS to Sadales tīkls AS and Enerģijas publiskais tirgotājs AS.

Summarised financial information for subsidiaries

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In 2019, the Parent Company invested EUR 808 thousand in the share capital of Latvijas elektriskie tikli 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 tikli 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.

	Group		Parent Co	mpany
	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

1,892

41,743

2,372

54.858

Net profit for the year Dividends from subsidiaries* Equity Subsidiaries 31/12/2019 31/12/2020 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 1,011,688 917,097 22,050 29,317 29,317 33,743 Sadales tīkls AS Enerģijas publiskais tirgotājs AS 40 40 Elektrum Eesti OÜ 911 960 239 288 288 250 Elektrum Lietuva, UAB 455 881 77 504 504 548

* 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-currer	t assets	Current a	ssets	Non-current	liabilities	Current lia	bilities
Non-controlling interest of subsidiaries	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

16,918

1,030,012

17,075

1,169,810

3,555

28,170

4.464

44,059

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FUR'000

186,432

641,150

40

35

98

3,556

831,311

31/12/2019

Carrying amount of interest

from investment

31/12/2020

641,450

40

35

98

3,556

645,179

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	
	Gro	Group Parent C		ompany	
	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

				LOITOOO	
	Gro	Group Parent Co		ompany	
	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	

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		Group Parent Co		ompany	
		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
Latvenergo Group	- Other receivables from contracts with customers (portfolio model)	3,557	5,019	1,093	2,571
Latvenerge Group	- Other receivables from contracts with customers (counterparty				
	model)	2,780	5,112	1,480	2,452
rate Governance	 Subsidiaries (counterparty model) 	-	-	4,782	6,623
ate Governance		152,447	158,267	116,861	126,494
	Allowances for expected credit loss from contracts with customers:				
ting Segments	 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)
nability Indicators	- 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)
es to	- Subsidiaries (counterparty model)	-	-	(3)	(4)
stainability Report		(44,269)	(46,737)	(41,005)	(43,521)
	Receivables from contracts with customers, net:				
	- Electricity, natural gas trade and related services customers				
l Report	(portfolio model)	94,886	94,818	61,448	64,534
heport	- 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				
Figures	model)	2,775	5,105	1,478	2,449
gement Report	- Subsidiaries (counterparty model)	-	-	4,779	6,619
jonioni noport		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

					2011000
		Gro	oup	Parent C	ompany
	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

Late payment delay in days	ECL rate			Gro	up					Parent C	ompany		
			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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EUR'000

EUB'000

Movements in loss allowances for impaired receivables from contracts with customers

	Gro	up	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)

, , , , , , , , , , , , , , , , , , , ,				,	LOITOOC
	Level of	Gro	oup	Parent C	ompany
	SICR	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	7.
neceivables for lease	Stage 3	16	-	7	
Other autrent financial reacinables	Stage 1	6,641	1,236	5,054	30
Other current financial receivables	Stage 3	1,728	1,877	1,331	1,23
Other accrued income	Stage 1	874	872	874	87
	Stage 1	(164)	(231)	(116)	(134
Allowances for expected credit loss	Stage 3	(1,536)	(1,877)	(1,215)	(1,234
Receivables for lease from subsidiaries (Note 29 b)	Stage 1	-	-	73	61
Other financial receivables from subsidiaries (Note 29 b)	Stage 1	-	-	21,460	9,64
Other accrued income from subsidiaries (Note 29 c)	Stage 1	-	-	1,850	1,86
Allowances for expected credit loss on subsidiaries	Ū				
receivables (Note 29 b)	Stage 1	-	-	(16)	(7
TOTAL current financial receivables		84,864	76,891	29,328	13,22
TOTAL other financial receivables		84,864	76,891	29,328	13,22

* 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 tikls 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

EUR'000

	Gro	oup	Parent C	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 shortterm deposits with original maturities of three months or less.

					EUR'000
		Gro	oup	Parent C	ompany
	Notes	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 discontin	ued 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.

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20. Share capital

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On 10 June 2020, transmission system assets were separated from the Latvenergo Group, transferring all the shares of Latvijas elektriskie tikli 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
				oup						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					
	(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	(0,002)	_	(476)	-	(476)	(202)	(476)	(1,001)	_	(176)	(176)
Losses from fair value changes of derivative financial instruments 24	_	(7,774)	(-	(7,774)	_	(7,774)	_	(7,774)	(1.1.6)	(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.

	Gro	up	Parent Company		
	2020	2019	2020	2019	
Profit attributable to the equity holder of the Parent Company (in					
housand EUR)	114,513	92,660	154,848	101,227	
Veighted 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

	Gro	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
	Gro	oup	Parent C	ompany
	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	
	Gro	up	Parent Company		
	2020	2019	2020	2019	
At the beginning of the year	882,671	814,343	872,899	802,268	
Borrowings received	39,500	180,291	35,000	180,000	
Borrowings repaid	(143,176)	(112,102)	(138,692)	(109,513)	
Repayment of issued debt securities (bonds)	(35,000)	_	(35,000)	-	
Change in accrued interest on borrowings	(703)	183	(722)	188	
Changes in outstanding value of issued debt securities (bonds)	(93)	(44)	(93)	(44)	
At the end of the year	743,199	882,671	733,392	872,899	

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Borrowings by categories of lenders				EUR'000		
	Gro	oup	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		

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

				LOITOOC
	Gro	oup	Parent C	ompany
	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 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

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

	Gro	up	Parent C	ompany	
	31/12/2020	31/12/2019	31/12/2020	31/12/2019	
	461,003	522,950	451,196	513,178	
rs	182,196	259,721	182,196	259,721	
	100,000	100,000	100,000	100,000	
owings	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

EUR'000

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 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
			Gro	oup			Parent C	ompany	
		31/1	2/2020	31/1	2/2019	31/1	2/2020	31/1	2/2019
	Notes	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Interest rate swaps Electricity forwards and	24 II	-	(9,504)	-	(9,216)	-	(9,504)	-	(9,216)
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		
		Gro	oup		Parent Company					
	31/1	2/2020	31/12/2019		31/1	2/2020	31/1	2/2019		
	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)	s) on fair value changes as a result of realised hedge agreement	S EUR'000

		Grou	p	Parent Co	mpany
	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 Inc	ome				
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

0		•						LON 000
		Gro	oup			Parent C	ompany	
	2	2020		2019		2020		019
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Outstanding fair value at the beginning of the year	-	(9,216)	-	(7,375)	-	(9,216)	_	(7,375)
Included in Statement of Comprehensive Income	_	(288)	_	(1,841)	_	(288)	_	(1,841)
Outstanding fair value at the end of the year	_	(9,504)	_	(9,216)	_	(9,504)	_	(9,216)

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The main interest rate hedging criteria stated in the Financial Risk Management policy is to ensure average fixed rate duration from 1 to 4 years and fixed rate portion at more than 35% of borrowings. As of 31 December 2020 38% (31/12/2019: 45%) of the Group's and 39% (31/12/2019: 45%) of the Parent Company's borrowings had fixed interest rates (taking into account the effect from the interest rate swaps), and average remaining time to interest re–pricing was 1.6 years (2019: 1.8 years) for the Group and the Parent Company.

III) Electricity forwards and futures

As of 31 December 2020, the Group and the Parent Company have entered into 101 electricity forward and future contracts (31/12/2019: 28 contracts) with total outstanding electricity purchase volume of 358,873 MWh (31/12/2019: 1,676,105 MWh) and notional value of EUR 8 million (31/12/2019: EUR 41 million). Electricity forward and future contracts are concluded for the maturities from one month to one year with expiration date during the period from 1 January 2020 to 31 December 2022.

The Group and the Parent Company enter into electricity future contracts in the Nasdaq Commodities exchange, as well as concludes electricity forward contracts with other counterparties. Electricity forward and future contracts are intended for hedging of the electricity price risk and are used for fixing the price of electricity purchased in the Nord Pool AS power exchange.

Electricity forward and future contracts with total outstanding volume of 283,578 MWh as of 31 December 2020 (31/12/2019: 1,247,040 MWh) are designated to comply with hedge accounting treatment and were reassessed prospectively and retrospectively to test whether they are effective within the hedging period. All contracts are designed as cash flow hedges. For the contracts which are fully effective contracts fair value gains are included in other comprehensive income.

			Gro	oup			Parent C	Company		
		2	020	2	019	2	020	2	019	
	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

			Gro	oup			Parent C	ompany	
		2	020	. 2	019	2	020	2	019
	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	rd curre	encies ex	change	e contracts	5			EUR'000	
		Gro	oup		Parent Company				
	2	020	2	019	2	020	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)	_	_	

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25. Fair values and fair value measurement

Accounting policy

The Group and the Parent Company measure financial instruments, such as, derivatives, at fair value at each balance sheet date. Non-financial assets such as investment properties are measured at amortised cost, but some items of property, plant and equipment at revalued amounts.

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair values are estimated based on market prices and discounted cash flow models as appropriate.

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of reporting period. The quoted market prices used for financial assets held by the Group and the Parent Company are the actual closing prices.

The fair value of financial instruments that are not traded in active market is determined by using valuation techniques. The Group and the Parent Company use a variety of methods and make assumptions that are based on market conditions existing at end of reporting period. Estimated discounted cash flows are used to determine fair value for the remaining financial instruments.

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

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

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

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

d) The fair value of the bonds issued and financial investments in government bonds are calculated by discounting their future cash flows using the market quoted yield to maturity rates of the respective bonds as of the end of the reporting year as discount factor;

e) The fair value of investment properties is determined using the income method, by discounting expected future cash flows. In 2020, the nominal pre-tax discount rate used to determine the fair value of investments is 4.40% (2019: 4.61%) as included in the electricity distribution and transmission system service tariff calculation methodology.

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

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

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Type of assets			Gro				Parent C		
			Fair value meas	urement using			Fair value meas	urement 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

TOTAL

Parent Company

Fair value measurement using

Significant

unobservable

Significant

ahaamahla

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Type of liability

		Notes	in active markets (Level 1)	observable inputs (Level 2)	unobservable inputs (Level 3)		in active markets (Level 1)	observable inputs (Level 2)	unobservable inputs (Level 3)	
0	As of 31 December 2020									
tvenergo Group	Liabilities measured at fair value									
	Derivative financial instruments, including:									
e Governance	Interest rate swaps	24	-	9,504	-	9,504	-	9,504	-	9,504
Governance	Natural gas forwards	24	-	4,993	-	4,993	-	4,993	-	4,993
	Currency exchange forwards	24	-	7	-	7	-	7	-	7
Segments	Liabilities for which fair values are disclosed									
C		23		101,256		101,256		101,256		101,256
	Issued debt securities (bonds)	23 23	-	,	-		-	632,136	-	
ty Indicators	Borrowings Trade and other financial current payables	23 26	-	641,943	- 76,429	641,943 76,429	-		- 51,664	632,136 51,664
		20			70,429	70,429			51,004	51,004
)	As of 31 December 2019									
	Liabilities measured at fair value									
ability Report	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
port										
	Liabilities for which fair values are disclosed									
	Issued debt securities (bonds)	23	-	136,956	-	136,956	-	136,956	-	136,956
res	Borrowings	23	-	745,715	-	745,715	-	735,943	-	735,943
nont Poport	Trade and other financial current payables	26	-	-	91,410	91,410	-	-	68,249	68,249

Quoted prices

in active

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 Independent Auditor's Report 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	
		Gro	up		Parent Company				
	Carrying	Carrying amount		Fair value		mount	Fair value		
	31/12/2020	31/12/2019	31/12/2020	31/12/2019	31/12/2020	31/12/2019	31/12/2020	31/12/2019	
Financial assets									
Fixed rate loans to related parties	86,620	-	89,409	-	611,096	642,967	641,936	673,987	
Other financial investments	16,836	16,885	18,031	18,916	16,836	16,885	18,031	18,916	
Financial liabilities									
Interest-bearing liabilities, including:									
Issued debt securities (bonds)	101,256	136,956	103,762	140,471	101,256	136,956	103,762	140,471	

Group

Fair value measurement using

Significant

ahaamiahla

Significant

unchoomuchic

TOTAL

Quoted prices

in active

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

	Gro		Parent C	omnany
	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	55,97
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	1,38
TOTAL financial liabilities	76,429	91,410	51,664	68,24
Non-financial liabilities:				
State social security contributions and other taxes	13,258	12,031	7,244	4,77
Advances received	8,515	8,403	3,771	3,64
Other current payables	2,710	3,864	1,025	1,71
TOTAL non-financial liabilities	24,483	24,298	12,040	10,13
TOTAL trade and other current payables	100,912	115.708	63.704	78.38

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

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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
	Gro	oup	Parent C	ompany
	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 projected unit 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.

		Group	b	Parent Company		
N	lotes	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 tikls 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	
		Grou	ıp	Parent Company		
	Notes	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 tikls 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.

Retirement probability changes

1% increase 1% decrease

(1,855)

(1,722)

2,250

2,084

A quantitative sensitivity analysis for significant assumptions on provisions for post-employment benefits as of the end of the year is as shown below:

1% increase

2,031

1,880

decrease

(1,728)

(1,596)

Group

Future salary changes

1% decrease

(1,701)

(1,577)

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		valuation	Discou	nt rate
			1% increase	1% de
orporate Governance	Impact on provisions for	31/12/2020	1,173	
	post-employment benefits	31/12/2019	1,948	

Date of

valuation

Assumptions

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

Ê 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		
	Gro	up	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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EUR'000

(785)

(728)

1% decrease

Retirement probability changes

956

885

1% increase

Parent Company

Future salary changes

864

798

1% increase

1% decrease

(720)

(667)

Discount rate

499

827

1% decrease

(732)

(675)

1% increase

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 tikls 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 tikls 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			Gro	up					Parent C	Company		
	valuation	Discount rate		Future salary changes Averag		Average employee length of service		Discount rate		Future salary changes		Average employee leng 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	31/12/2020	(37)	38	50	(51)	16	(16)	(12)	13	27	(27)	4	(
termination benefits	31/12/2019	(89)	92	68	(67)	7	(102)	(24)	25	37	(36)	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	
	Gro	oup	Parent Company		
	2020	2019	2020	2019	
At the beginning of the year	661	1,220	661	1,220	
Charged to the Statement of Profit or Loss	1	(559)	1	(559	
At the end of the year	662	661	662	661	

The environmental provision for the Group represents the estimated cost for Latvenergo AS of cleaning up CHPP–1 combined heat and power plant ash–fields in accordance with the requests made by the regional Environmental Authority of Riga and feasibility study on this project.

28. Deferred income

Accounting policy

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. Government grants are recognised as income over the period necessary to match them with the related costs, for which they are intended to compensate, on a systematic basis. For grants received as part of a package of financial or fiscal aid to which a number of conditions are attached, those elements which have different costs and conditions are identified. Treatment of the different elements determine the periods over which the grant will be earned.

Grants related to expense items

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

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

Grants related to assets

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

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

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	Gro	oup	Parent C	ompany
	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.

		Grou	up	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	

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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 tikls AS and Latvijas elektriskie tikli AS since 10 June 2020.

EUR'000

a) Sales/purchases of goods, PPE and services to/from related parties

	Gro	up	Parent Company				
	2020	2019	202	2020		9	
	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	10,56	
 Sales of property, plant and equipment 	_	_	1,621	-	1,003		
- Lease of assets	16,293	36,339	2,376	662	8,802	22	
- Interest income	1,169	-	10,651	1,169	11,810		
TOTAL	26,508	47,811	68,738	10,315	73,962	10,78	
Purchases of goods, PPE, and services: - Purchases of goods and services	79,833	77,403	268,058	6,600	304,079	6,18	
- Purchases of property, plant and	,	,	,	,	,	0,10	
equipment and construction services	29,517	87,395	13	392	2,272	F	
- Lease of assets	689	63	182	200	302	5	
TOTAL	110,039	164,861	268,253	7,192	306,653	6,24	
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 tikls AS and other entities controlled by the management members of Latvenergo Group

					EUR'000
		Gro	oup	Parent C	ompany
	Notes	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 tikls AS, Latvijas elektriskie tikli AS (since 10 June 2020) and Pirmais Slēgtais Pensiju Fonds AS

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

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

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

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

Dividends received from subsidiaries are disclosed in Note 16.

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e) Loans to related parties

Non-current and current loans to related parties

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	Gro	oup	Parent Company	
	31/12/2020	31/12/2019	31/12/2020	31/12/2019
Non-current loans to subsidiaries				
Sadales tikls AS	-	-	477,507	427,35
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 tikls AS	-	-	76,648	75,37
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	15,18
Elektrum Eesti OÜ	-	-	7,937	7,05
Elektrum Lietuva, UAB	-	-	10,209	3,96
Enerģijas publiskais tirgotājs AS	-	-	73,781	69,88
Allowances for expected credit loss	-	-	(74)	(66
TOTAL current loans	-	-	178,446	205,82
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 noncurrent 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

	Gro	oup	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

Interest received from related parties				EUR'000
	Gro	oup	Parent Co	mpany
	2020	2019	2020	2019
Interest received	926	-	11,578	11,810
	926	-	11,578	11,810

I) Non-current loans, including current portion

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

EUR'000

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Non-current loans to Sadales tikls AS by maturity		EUR'000
	Parent	Company
	31/12/2020	31/12/2019
Non-current loan:		
- < 1 year (current portion)	76,648	3 75,377
- 1 – 5 years	311,66	5 278,198
- > 5 years	165,842	2 149,154
	554,15	5 502,729

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

Agreement	Principal	Outstanding	loan amount	Interest	Maturity date
conclusion date	amount of the loan	31/12/2020	31/12/2019	rate	-
a) Latvijas elektriskie tīkli AS					
				6 months	
				EURIBOR +	
1 April 2011	97,467	-	10,164	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 tikli 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 tikli 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 tikli AS on 10 June 2020, all Latvijas elektriskie tikli AS liabilities were transferred to Augstsprieguma tikls AS, including the Latvenergo AS loan to Latvijas elektriskie tikli 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

matanty				EUR UUU	
	Gro	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	
	Gro	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

	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

		Grou	EUR'000
	Notes	2020	رم 2019
	110163	2020	2013
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		20,910
Reserves of disposal group classified as held for distribution	21	-	28,93

Net cash flows from discontinued operation		EUR'000	
	Gro	Group	
	2020	2019	
Net cash flows from operating activities	27,449	85,853	
Net cash flows used in investing activities	(27,573)	(85,825)	
Net cash flows used in financing activities	(15)	(28)	
Net changes in cash and cash equivalents	(139)	_	

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31. Commitments and contingent liabilities

As of 31 December 2020, the Group had commitments amounting to EUR 66.6 million (31/12/2019: EUR 156.3 million) and the Parent Company had commitments amounting to EUR 28.9 million (31/12/2019: EUR 52.3 million) for capital expenditure contracted but not delivered at the end of the reporting period.

Latvenergo AS has issued support letters to its subsidiaries– on 15 February 2021 to Energijas 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 tikls AS decided to recognise the revaluation of Sadales tikls AS electricity lines for financial reporting purposes as of 1 January 2021 and the result of the revaluation was recognised in the financial statements of 2020 as an adjusting event.

On 29 March 2021 a loan agreement was concluded between Latvenergo AS and Enerģijas publiskais tirgotājs AS in the amount till EUR 120 million with the maturity 31 March 2022.

On 17 December 2020, the Shareholders' meeting of Enerģijas publiskais tirgotājs AS accepted decision on the reorganisation of the company through transforming it into a limited liability company Enerģijas publiskais tirgotājs SIA. On 31 March 2021 the reorganisation process was completed and Enerģijas publiskais tirgotājs AS was transformed into Enerģijas publiskais tirgotājs SIA by taking over of all rights and liabilities of Enerģijas publiskais tirgotājs AS and continuing to perform them in full.

There have been no other significant events after the end of the reporting year that might have a material effect on the Latvenergo Consolidated and Latvenergo AS Annual Financial Statements for the year ending 31 December 2020.

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The Management Board of Latvenergo AS:

Guntars Baļčūns Chairman of the Management Board

Accounting director of Latvenergo AS

Liāna Keldere

13 April 2021

Kaspars Cikmačs Member of the Management Board Arnis Kurgs Member of the Management Board **Uldis Mucinieks** Member of the Management Board

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Independent Auditor's Report

To the shareholder of Latvenergo AS

Report on the audit of the separate and consolidated financial statements

Our opinion

In our opinion, the separate and consolidated financial statements give a true and fair view of the separate and consolidated financial position of Latvenergo AS (the Company) and its subsidiaries (together the Group) as at 31 December 2020, and of the Company's and Group's separate and consolidated financial performance and the Company's and Group's separate and consolidated financial performance and the Company's and Group's separate and consolidated financial performance and the Company's and Group's separate and consolidated financial performance and the Company's and Group's separate and consolidated 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 104 to 154 which consist of the separate financial statements of the Company and the consolidated financial statements of the Group (together "the financial statements") comprise:

- the separate and consolidated statement of profit or loss for the year ended 31 December 2020;
- the separate and consolidated statement of comprehensive income for the year ended 31 December 2020;
- the separate and consolidated statement of financial position as at 31 December 2020;
- the separate and consolidated statement of changes in equity for the year then ended;
- the separate and consolidated statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

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Basis for opinion

We conducted our audit in accordance with International Standards on Auditing adopted in the Republic of Latvia (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

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

Independence

We are independent of the Company and the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) and the ethical requirements of the Law on Audit Services that are relevant to our audit of the financial statements in the Republic of Latvia. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code and the ethical requirements of the Law on Audit Services.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Company and the Group are in accordance with the applicable law and regulations in the Republic of Latvia and that we have not provided non-audit services that are prohibited under Article 37.⁶ of Law on Audit Services of the Republic of Latvia.

The non-audit services that we have provided to the Company and the Group, in the period from 1 January 2020 to 31 December 2020, are disclosed in Note 10 to the financial statements.

Our audit approach

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Materiality

Overall Company and Group materiality: EUR 5,600 thousand.

Audit scope

• Full scope audit was conducted for all seven Group entities, five of them are in Latvia (including the Company), one in Estonia and one in Lithuania.

The Group audit team performed the work on all five Latvian entities.

Estonian and Lithuanian subsidiaries were audited by component audit teams located in the respective countries.

Key audit matters

Revaluation of property, plant and equipment (Group)

• Discontinued operations/ distribution of Latvijas elektriskie tīkli AS (LET) from the Group

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Company and Group materiality separately for the separate and consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall Company and Group materiality	Overall materiality applied to the Company and the Group was EUR 5,600 thousand.
How we determined it	5% of profit before tax from continuing operations for 2020.
Rationale for the materiality benchmark applied	We chose profit before tax as the base benchmark because, in our view, it is the benchmark against which the performance of the Company and the Group is most commonly measured by users of the financial statements, and it is a generally accepted benchmark. We chose 5%, which is within the range of acceptable quantitative materiality thresholds.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above EUR 560 thousand, both with respect to the Company and the Group, as well as the misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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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 129 to 131 of the Sustainability and 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 153 of the Sustainability and 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.

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How we tailored our Group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

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 95 to 103 of the accompanying Sustainability and Annual Report,
- Non-financial Report included in the Management Report as set out on page 101 of the accompanying Sustainability and 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, and the Sustainability Report as set out on pages 4 to 91 of the accompanying Sustainability and Annual Report to which we have issued separately a limited assurance report on pages 92 to 93, which we obtained prior to the date of this auditor's report.

Our opinion on the financial statements does not cover the other information identified above.

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

With respect to the Management Report, we also performed the procedures required by Law on Audit Services. Those procedures include considering whether the Management Report is prepared in accordance with the requirements of the applicable legislation.

In addition, in accordance with the Law on Audit Services of the Republic of Latvia with respect to the Corporate Governance Report, our responsibility is to consider whether the Corporate Governance Report includes the information required by section (3) of Article 56.² of the Financial Instruments Market Law.

Based on the work undertaken in the course of our audit, in our opinion, in all material respects:

- the information given in the other information identified above for the financial year for which the financial statements are prepared is consistent with the financial statements;
- the Management Report has been prepared in accordance with the requirements of the Law on Annual Reports and Consolidated Annual Reports of the Republic of Latvia; and
- the Statement of Corporate Governance, available on the Company's website http://www.latvenergo.lv as at the date of this audit report, includes the information required by section (3) of Article 56.² of the Financial Instruments Market Law.

In addition, in light of the knowledge and understanding of the Company and the Group and their environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the Management Report and the other information listed above that we obtained prior to the date of this auditor's report. We have nothing to report in this respect.

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

We hereby report that the Company and the Group has prepared a Non-financial Report, and it is included in the Management Report.

Responsibilities of management and those charged with governance for the financial statements

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

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

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Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

Report on other legal and regulatory requirements

Appointment

We were reappointed as auditors of the Company and the Group for the year ended 31 December 2020 by resolution of general meeting of shareholders dated 8 May 2020. This is our third year of uninterrupted appointment.

PricewaterhouseCoopers SIA Certified audit company Licence No. 5 Ilandra Lejiņa Certified auditor in charge Certificate No.168 Member of the Board

Riga, Latvia 13 April 2021

Independent Practitioner's Assurance Report is signed electronically with a secure electronic signature and contains a time stamp.



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