Latvenergo Group Consolidated and Latvenergo AS Annual Report

2021

Latvenergo Group Consolidated and Latvenergo AS Annual Report

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

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

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FINANCIAL CALENDAR

Interim Condensed Financial Statements:
For the 3 months of 2022 (unaudited) – 31.05.2022
For the 6 months of 2022 (unaudited) – 31.08.2022
For the 9 months of 2022 (unaudited) – 30.11.2022

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Key figures

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

Latvenergo Group

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

EUR'000

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

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

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

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

* Including operating consumption

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

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

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

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

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

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

EUR'000

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

* Including operating consumption
** Including sale of energy purchased within the mandatory procurement on the Nord Pool
*** Figures and ratios for 2017 - 10 June 2020 are presented by excluding discontinuing operations (unbundling transmission system asset ownership), see Note 30 of the Financial Statements
1) Net debt = borrowings at the end of the reporting year – cash and cash equivalents at the end of the reporting year

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

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Management Report

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

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

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

Operating Environment

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

Record-high electricity and energy resource prices

Average Nordpool electricity market price, EUR/MWh

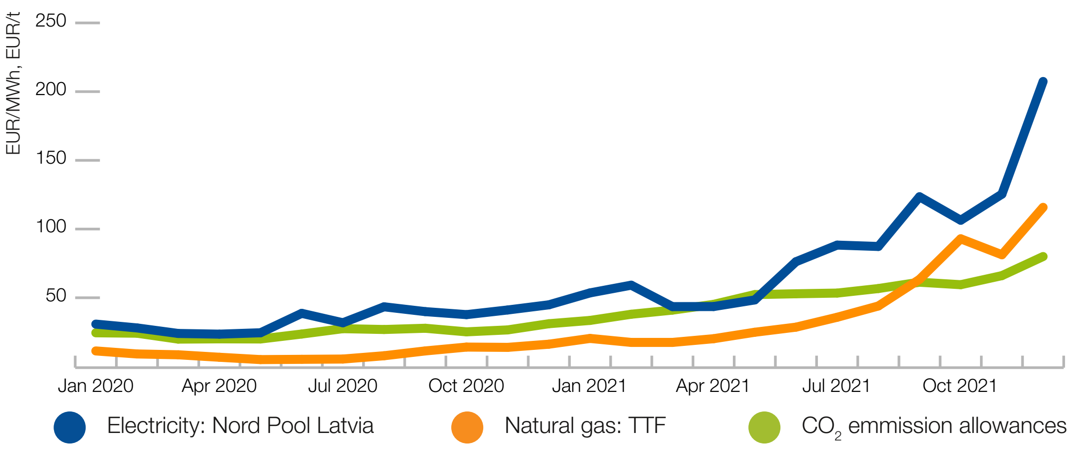
	2021	2020	Δ, %
Latvia	88.8	34.0	161%
Estonia	86.7	33.7	157%
Lithuania	90.5	34.0	166%
Poland	86.7	40.8	113%
Sweden	57.9	19.0	205%
Finland	72.3	28.0	158%
Denmark	88.0	26.7	230%
Norway	56.9	9.3	512%
Germany	96.9	30.5	218%
France	109.2	32.2	239%
Great Britain	137.1	39.6	246%

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

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

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

Energy resource prices



Significant Events

Unbundling transmission system asset ownership

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

Changes in the Management Board of Latvenergo AS

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

Impact of COVID–19 on Latvenergo Group operations

From 11 October 2021 to 28 February 2022, the Latvian government declared a state of emergency in order to limit the spread of COVID–19. Latvenergo Group continuously evaluates the impact of the spread of COVID–19, implements measures for customer and employee safety, and ensures appropriate shift arrangements in the facilities of strategic importance: the Daugava HPPs, the Latvenergo AS Combined Heat and Power Plants (CHPPs) and the facilities of Sadales tīkls AS.

In the reporting year, Latvenergo Group's services were not significantly impacted by the spread of the virus. The Group continued to ensure generation of electricity and thermal energy, as well as uninterrupted and accessible trade and distribution of electricity and natural gas to all its customers.

State aid for the reduction of energy prices

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

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

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

Russia's invasion of Ukraine

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

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

Assessing the possible risks related to the Russia's invasion of Ukraine and in accordance with the task given by the government on 24 February 2022 to replenish gas reserves for national security purposes, Latvenergo AS has swiftly procured approximately 2 terawatt hours (TWh) of gas for the security of supply of production of the combined heat and power plants of Latvenergo AS. The concluded agreements envisage liquefied natural gas supply to Klaipeda Terminal and injection of gas into Inčukalns

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underground gas storage in April and May 2022. Natural gas will be supplied from Norway, the USA and Qatar. The purchased amount of gas will ensure the production of electricity and heat at the planned production regime of the combined heat and power plants of Latvenergo AS in 2022, at the same time envisaging gas reserves in the event of a possible energy crisis.

Operating Results

Generation

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

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

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

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

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

Trade

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

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

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

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

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

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

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

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

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

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

Distribution

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

Since 2017, Sadales tīkls AS has been implementing an efficiency programme, which comprises process reviews, decreasing the number of employees and transportation units, and optimizing the number of technical and support real estate bases. As of 31 December 2021, the number of employees at Sadales tīkls AS has been reduced by almost 870. The amount of smart electricity meters installed by the company comprised more than 970 thousand, which is about 90% of the total number of electricity meters of customers of Sadales tīkls AS.

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

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Investments in modernization of distribution assets have increased the quality of distribution services by lowering System Average Interruption Frequency Index (SAIFI) and System Average Interruption Duration Index (SAIDI) indicators. In 2021, SAIFI was 2.3 times, but SAIDI was 208 minutes. Over the last five years, excluding mass damage situations, SAIFI has decreased by 17% and SAIDI has decreased by 21%.

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

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

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

Financial Results

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

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

Group's revenue increased by 38%

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

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

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

Investments

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

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

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

Daugava HPPs reconstruction

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

Daugava HPP reconstruction

MEUR

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Funding

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

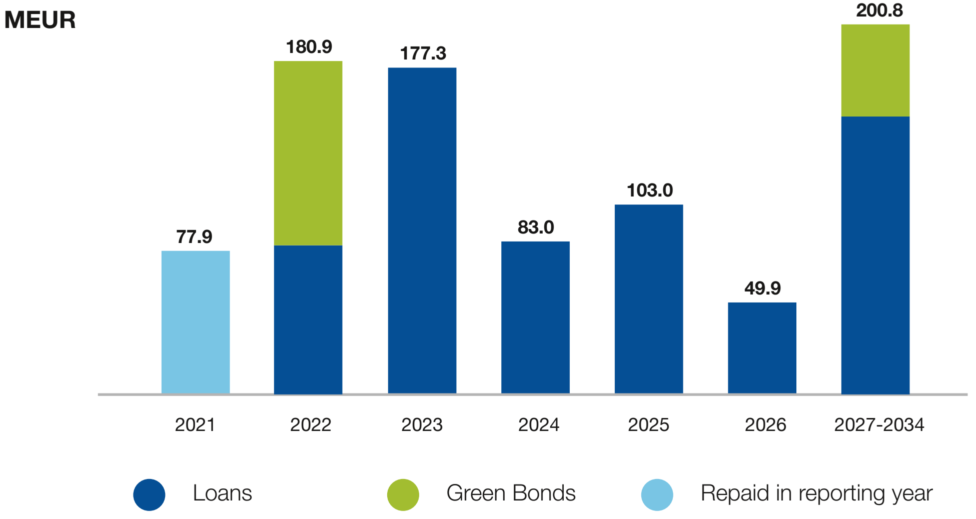
On 17 May 2021, Latvenergo AS issued seven–year green bonds with a total nominal value of EUR 50 million, a maturity date of 17 May 2028 and a fixed annual interest rate (coupon) of 0.5% (yield: 0.543%). The bonds were issued under the third Latvenergo AS EUR 200 million programme, and they are listed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

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

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

Latvenergo Group's debt repayment schedule

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



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

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

After the reporting year, on 24 January 2022, *Moody's* published an updated Credit Opinion of Latvenergo AS. The rating of Latvenergo AS remains unchanged: Baa2 with a stable outlook. The credit rating Baa2 for Latvenergo AS has been stable for seven years in a row, confirming the consistency of operations and financial soundness of Latvenergo Group.

Corporate Governance

Along with the financial results of Latvenergo Group, also the Corporate Governance Report of Latvenergo AS for 2021 is published. It is based on the Corporate Governance Code, which was published in 2020 by the Corporate Governance Advisory Board established by the Ministry of Justice. Evaluating both the governance system of the capital company and its compliance with the principles in 2021, the Management Board considers that Latvenergo AS complies in all material aspects with all the principles set out in the Code, except for the criterion of gender representation on the company's Supervisory Board. For detailed information see the Sustainability Report 2021.

Non-financial Report

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

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

For detailed information on CSR activities, description of the policies and procedures in relation to those matters, the outcome of the policies, risks and risk management, and non–financial key performance indicators, please see the Sustainability Report 2021 which is available on the Latvenergo website: http://www.latvenergo.lv. The report is prepared in accordance with the GRI Standards – Core option requirements.

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

Further Development

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

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

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

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

The financial targets are set to ensure:

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

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

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

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

Financial Risk Management

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

a) Market risks

I) Price risk

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

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

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

II) Interest rate risk

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

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III) Currency risk

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

As of 31 December 2021, all borrowings of Latvenergo Group and Latvenergo AS are denominated in euros, and during the reporting year, there was no substantial exposure to foreign currency risk as regards the Group's and the Parent Company's investments in non–current or current assets.

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

b) Credit risk

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

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

c) Liquidity risk and cash flow risk

Latvenergo Group's liquidity and cash flow risk management policy is to maintain a sufficient amount of cash and cash equivalents and the availability of long and short–term funding through an adequate amount of committed credit facilities in order to meet existing and expected commitments and compensate for fluctuations in cash flows due to the occurrence of a variety of financial risks. On 31 December 2021, Latvenergo Group's liquid assets (cash and cash equivalents – short–term deposits up to 3 months) reached EUR 97.1 million (31 December 2020: EUR 100.7 million), while the Latvenergo AS liquid assets reached EUR 92.4 million (31 December 2020: EUR 98.3 million).

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

Events after the reporting period

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

All other significant events that would materially affect the financial position of the Latvenergo Group and Latvenergo AS after the reporting year are disclosed in Note 33 of the Group's and the Parent Company's Financial Statements.

Statement of management responsibility

Based on the information available to the Management Board of Latvenergo AS, the Latvenergo Group Consolidated and Latvenergo AS Annual Report 2021, including the Management Report, have been prepared in accordance with the International Financial Reporting Standards as adopted by the EU and in all material aspects present a true and fair view of the assets, liabilities, financial position, profit and loss and its cash flows of Latvenergo Group and Latvenergo AS. Information provided in the Management Report is accurate.

Profit distribution

According to the Law "On the medium–term budgetary framework for 2022, 2023 and 2024" the expected amount of dividends to be paid by Latvenergo AS for the use of state capital in 2022 (for the reporting year 2021) amounts to 64% of profit for the reporting year and is not less than EUR 70,2 million. The distribution of net profit and amount of dividends payable is subject to a resolution of the Latvenergo AS Shareholders Meeting.

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The Management Board of Latvenergo AS:

Mārtiņš Čakste
Chairman of the Management Board

Dmitrijs Juskovecs
Member of the Management Board

Guntars Baļčūns
Member of the Management Board

Kaspars Cikmačs
Member of the Management Board

Harijs Teteris
Member of the Management Board

12 April 2022

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Statement of Profit or Loss

EUR'000

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

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

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

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Kaspars Cikmačs
Member of the Management Board

Harijs Teteris
Member of the Management Board

Liāna Ķeldere
Accounting director of Latvenergo AS

12 April 2022

Statement of Comprehensive Income

EUR'000

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

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Statement of Financial Position

EUR'000

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

EUR'000

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

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Statement of Changes in Equity

EUR'000

	Notes	Group							Parent Company			
		Attributable to equity holder of the Parent Company										
		Share capital	Reserves	Retained earnings	Reserves classified as held for distribution	Total	Non-controlling interests	TOTAL	Share capital	Reserves	Retained earnings	TOTAL
As of 31 December 2019		834,883	1,075,235	318,555	28,936	2,257,609	7,878	2,265,487	834,883	778,162	336,242	1,949,287
Decrease of share capital	20	(222,678)	–	–	–	(222,678)	–	(222,678)	(222,678)	–	–	(222,678)
Increase of share capital	20	178,143	–	(178,143)	–	–	–	–	178,143	–	(178,143)	–
Dividends for 2019	21 b	–	–	(127,071)	–	(127,071)	(1,819)	(128,890)	–	–	(127,071)	(127,071)
Disposal of non–current assets revaluation reserve	21 a	–	(8,882)	8,882	–	–	–	–	–	(4,097)	4,097	–
Discontinued operation	21 a, 30	–	–	28,936	(28,936)	–	–	–	–	–	–	–
Total transactions with owners and other changes in equity		(44,535)	(8,882)	(267,396)	(28,936)	(349,749)	(1,819)	(351,568)	(44,535)	(4,097)	(301,117)	(349,749)
Profit for the year		–	–	114,513	–	114,513	1,796	116,309	–	–	154,848	154,848
Other comprehensive income / (loss) for the year	21 a	–	88,014	–	–	88,014	–	88,014	–	(7,950)	–	(7,950)
Total comprehensive income / (loss) for the year		–	88,014	114,513	–	202,527	1,796	204,323	–	(7,950)	154,848	146,898
As of 31 December 2020		790,348	1,154,367	165,672	–	2,110,387	7,855	2,118,242	790,348	766,115	189,973	1,746,436
Increase of share capital	20	20	–	–	–	20	–	20	20	–	–	20
Dividends for 2020	21 b	–	–	(98,246)	–	(98,246)	(2,508)	(100,754)	–	–	(98,246)	(98,246)
Disposal of non–current assets revaluation reserve	21 a	–	(13,329)	13,329	–	–	–	–	–	(3,724)	3,724	–
Total transactions with owners and other changes in equity		20	(13,329)	(84,917)	–	(98,226)	(2,508)	(100,734)	20	(3,724)	(94,522)	(98,226)
Profit for the year		–	–	70,675	–	70,675	948	71,623	–	–	79,520	79,520
Other comprehensive income for the year	21 a	–	34,317	–	–	34,317	–	34,317	–	33,340	–	33,340
Total comprehensive income for the year		–	34,317	70,675	–	104,992	948	105,940	–	33,340	79,520	112,860
As of 31 December 2021		790,368	1,175,355	151,430	–	2,117,153	6,295	2,123,448	790,368	795,731	174,971	1,761,070

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

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The Management Board of Latvenergo AS:

Mārtiņš Čakste
Chairman of the Management Board

Dmitrijs Juskovecs
Member of the Management Board

Guntars Baļčūns
Member of the Management Board

Kaspars Cikmačs
Member of the Management Board

Harijs Teteris
Member of the Management Board

Liāna Ķeldere
Accounting director of Latvenergo AS

12 April 2022

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Statement of Cash Flows

EUR'000

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

EUR'000

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

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

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Harijs Teteris
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Liāna Ķeldere
Accounting director of Latvenergo AS

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Notes to the Financial Statements

1. Corporate information

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

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

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

- Sadales tīkls AS (since 18 September 2006) with 100% interest held,
- Elektrum Eesti OÜ (since 27 June 2007) and its subsidiaries Elektrum Latvija SIA (since 18 September 2012), Energiaturu Võrguehitus OÜ (since 25 August 2021), Baltic Energy System OÜ (since 25 August 2021) and SNL Energia 1 OÜ (since 25 August 2021) all with 100% interest held,
- Elektrum Lietuva, UAB (since 7 January 2008) with 100% interest held,
- Liepājas enerģija SIA (since 6 July 2005) with 51% interest held,
- Enerģijas publiskais tirgotājs AS (since 25 February 2014, on 31 March 2021 reorganised into a limited liability company (SIA)) with 100% interest held.

From 10 February 2011 till 10 June 2020 the Group included Latvijas elektriskie tīkli AS with 100% interest held in the company.

Latvenergo AS and its subsidiaries Sadales tīkls AS and Enerģijas publiskais tirgotājs SIA are also shareholders with 48.15% interest held in company Pirmais Slēgtais Pensiju Fonds AS (Latvenergo AS holds 46.30% of interest) that manages a defined–contribution corporate pension plan in Latvia.

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

The Management Board of Latvenergo AS:

- Since 6 November 2020 the Management Board of Latvenergo AS was comprised of the following members: Guntars Baļčūns (Chairman of the Board), Kaspars Cikmačs and Arnis Kurgs,
- On 29 January 2021, Uldis Mucinieks was elected as Member of the Management Board and since 1 February 2021 the Management Board of Latvenergo AS was comprised of the following members: Guntars Baļčūns (Chairman of the Board), Kaspars Cikmačs, Arnis Kurgs and Uldis Mucinieks,
- Since 3 January 2022 the Management Board of Latvenergo AS was comprised of the following members: Mārtiņš Čakste (Chairman of the Board), Dmitrijs Juskovecs, Guntars Baļčūns, Kaspars Cikmačs, Harijs Teteris.

The Supervisory Board of Latvenergo AS:

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

The Supervisory body – Audit Committee:

- Since 20 November 2020 Audit Committee was comprised of the following members: Torbens Pedersens (Torben Pedersen), Svens Dinsdorfs, Toms Siliņš and Gundars Ruža,
- Since 3 February 2021 Audit Committee was comprised of the following members: Torbens Pedersens (Torben Pedersen), Svens Dinsdorfs, Ilvija Grūba, Toms Siliņš and Gundars Ruža.

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

The Management Board of Latvenergo AS has approved the Latvenergo Group and Latvenergo AS Financial statements 2021 on 12 April 2022. The Financial Statements are subject to Shareholder's approval on the Shareholder's Meeting.

2. Summary of significant accounting policies

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- **IFRS 17: Insurance Contracts**

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

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

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

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

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

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

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

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

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

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

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

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

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

The Group and the Company will assess the impact of these amendments on their financial statements to determine whether they may have a material effect on the Group's and the Company's financial statements and information disclosures.

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

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

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

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

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

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

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

The amendments are effective for annual periods beginning on or after 1 January 2023 with earlier application permitted. In May 2021, the Board issued amendments to IAS 12, which narrow the scope of the initial recognition exception under IAS 12 and specify how companies should account for deferred tax on transactions such as leases and decommissioning obligations. Under the amendments, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. It only applies if the recognition of a lease asset and lease liability (or decommissioning liability and decommissioning asset component) give rise to taxable and deductible temporary differences that are not equal. The Amendments have not yet been endorsed by the EU. The Group and the Company will assess the impact of these amendments on their financial statements to determine whether they may have a material effect on the Group's and the Company's financial statements and information disclosures.

Consolidation

a) Subsidiaries

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

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

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

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

b) Transactions with non–controlling interests and owners

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

c) Distributions of non-cash assets to owners

The Parent Company recognises a liability for dividend payable to its owner when it declares a distribution and has an obligation to distribute the assets concerned to its owner. A liability to distribute non-cash assets as a dividend to its owner is measured at the fair value of the assets to be distributed. When dividend payable is settled, the difference, if any, between the carrying amount of the assets distributed and the carrying amount of the dividend payable is recognised in profit or loss.

Foreign currency translation

a) Functional and presentation currency

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

b) Transactions and balances

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

Financial assets and liabilities

Financial Assets

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

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

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

For assets measured at fair value, gains and losses is either recorded in profit or loss or in other comprehensive income. For investments in equity instruments that are not held for trading, this depends

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on whether the Group and the Parent Company have made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

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

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

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

Debt instruments

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

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

Equity instruments

The Group and the Parent Company subsequently measure all equity investments at fair value. Where the Group's or the Parent Company's management has elected to present fair value gains and losses on equity investments in other comprehensive income (OCI), there is no subsequent reclassification of fair value gains and losses to profit or loss following the de–recognition of the investment. Dividends from such investments continue to be recognised in profit or loss when the Group's and the Parent Company's right to receive payments is established.

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

Financial Liabilities

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

De-recognition

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

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

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

Impairment

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

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

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

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

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

Derivative financial instruments

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

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3. Financial risk management

3.1. Financial risk factors

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

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

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

EUR'000

	Notes	Group			Parent Company		
		Financial assets at amortised cost	**Derivatives used for hedging**	**Financial instruments at fair value through profit or loss**	**Financial assets at amortised cost**	**Derivatives used for hedging**	**Financial instruments at fair value through profit or loss**
Financial assets as of 31 December 2021							
Receivables from contracts with customers	18 a	181,136	–	–	110,638	–	–
Other current financial receivables	18 b	57,498	–	–	43,212	–	–
Loans to related parties	29 e	–	–	–	706,378	–	–
Derivative financial instruments	24 I	–	25,735	–	–	25,466	–
Other financial investments	22	–	–	–	–	–	–
Cash and cash equivalents	19	97,079	–	–	92,418	–	–
		335,713	**25,735**	**–**	**952,646**	**25,466**	**–**
Financial assets as of 31 December 2020							
Receivables from contracts with customers	18 a	108,178	–	–	75,856	–	–
Other current financial receivables	18 b	84,864	–	–	29,328	–	–
Loans to related parties	29 e	86,620	–	–	742,229	–	–
Derivative financial instruments	24 I	–	503	1,054	–	503	1,054
Other financial investments	22	16,836	–	–	16,836	–	–
Cash and cash equivalents	19	100,703	–	–	98,261	–	–
		397,201	**503**	**1,054**	**962,510**	**503**	**1,054**

EUR'000

	Notes	Group			Parent Company		
		Financial liabilities at amortised cost	**Derivatives used for hedging**	**Financial instruments at fair value through profit or loss**	**Financial liabilities at amortised cost**	**Derivatives used for hedging**	**Financial instruments at fair value through profit or loss**
Financial liabilities as of 31 December 2021							
Borrowings	23	795,029	–	–	782,322	–	–
Derivative financial instruments	24 I	–	18,520	–	–	18,520	–
Lease liabilities	15	8,428	–	–	5,226	–	–
Trade and other financial current payables	26	163,950	–	–	166,517	–	–
		967,407	**18,520**	**–**	**954,065**	**18,520**	**–**
Financial liabilities as of 31 December 2020							
Borrowings	23	743,199	–	–	733,392	–	–
Derivative financial instruments	24 I	–	14,504	–	–	14,504	–
Lease liabilities	15	8,344	–	–	4,540	–	–
Trade and other financial current payables	26	76,429	–	–	51,664	–	–
		827,972	**14,504**	**–**	**789,596**	**14,504**	**–**

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a) Market risk

I) Foreign currencies exchange risk

As of 31 December 2021 and 31 December 2020 the Group and the Parent Company had borrowings denominated only in euros (Note 23). Their revenues and most of the financial assets and liabilities were denominated in euros. Accordingly, neither the Group nor the Parent Company were subject to a significant foreign currencies exchange risk.

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

The Group's Treasury Financial Risk Management Policy is to hedge all anticipated cash flows (capital expenditure and purchase of inventory) in each major foreign currency that might create significant currency risk. During 2021 and 2020 the Group and the Parent Company had no capital expenditure project where expected transactions would create significant currency risk.

II) Interest rate risk

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

During 2021 if euro interest rates had been 50 basis points higher with all other variables held constant, the Group's income from the cash reserves held at bank for the year would have been EUR 750 thousand higher (2020: EUR 488 thousand) and the Parent Company's income from the cash reserves held at bank for the year would have been EUR 739 thousand higher (2020: EUR 476 thousand).

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

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

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

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

If interest rates on euro denominated borrowings at floating base interest rate (after considering hedging effect) had been 50 basis points higher with all other variables held constant over the period until the next annual report, the Group's profit for the year would have been EUR 633 thousand lower (over the next 12 months period after 31/12/2020: EUR 661 thousand), the Parent Company's profit for the year would have been EUR 631 thousand lower (over the next 12 months period after 31/12/2020: EUR 654 thousand).

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

III) Price risk

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

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

b) Credit risk

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

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

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Assessment of maximum possible exposure to credit risk

EUR'000

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

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

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

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

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

EUR'000

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

* Investment level credit rating assigned to the parent companies of banks

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

EUR'000

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

Set limits of credit exposure to the financial counterparties were not exceeded during the reporting period, and the Group's and the Parent Company's management do not expect any losses arising from a potential default of financial counterparty, as assessed that financial counterparties' credit risk are in Stage 1.

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

c) Liquidity risk

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

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

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Liquidity analysis (contractual undiscounted gross cash flows)

EUR'000

	Notes	Group					Parent Company				
		Less than 1 year	From 1 to 2 years	From 3 to 5 years	Over 5 years	TOTAL	Less than 1 year	From 1 to 2 years	From 3 to 5 years	Over 5 years	TOTAL
As of 31 December 2021											
Borrowings from financial institutions		82,164	179,927	241,707	154,564	**658,362**	79,723	175,468	238,351	151,638	**645,180**
Issued debt securities (bonds)		102,205	250	750	50,366	**153,571**	102,205	250	750	50,366	**153,571**
Derivative financial instruments		17,604	1,451	1,681	421	**21,157**	17,604	1,451	1,681	421	**21,157**
Lease liabilities*		2,085	1,635	3,765	1,237	**8,722**	1,214	972	2,457	813	**5,456**
Trade and other current financial payables	26	163,950	–	–	–	**163,950**	166,517	–	–	–	**166,517**
		368,008	**183,263**	**247,903**	**206,588**	**1,005,762**	**367,263**	**178,141**	**243,239**	**203,238**	**991,881**
As of 31 December 2020											
Borrowings from financial institutions		111,778	52,815	325,072	169,886	**659,551**	109,564	50,625	321,690	167,427	**649,306**
Issued debt securities (bonds)		1,900	102,079	–	–	**103,979**	1,900	102,079	–	–	**103,979**
Derivative financial instruments		7,248	4,926	3,424	1,237	**16,835**	7,248	4,926	3,424	1,237	**16,835**
Lease liabilities*		1,755	1,675	3,522	2,137	**9,089**	871	871	2,111	930	**4,783**
Trade and other current financial payables	26	76,429	–	–	–	**76,429**	51,664	–	–	–	**51,664**
		199,110	**161,495**	**332,018**	**173,260**	**865,883**	**171,247**	**158,501**	**327,225**	**169,594**	**826,567**

* The carrying amount of the lease (discounted) for the Group is EUR 8,428 thousand and for the Parent Company EUR 5,226 thousand (31 December 2020: Group – EUR 8,344 thousand, Parent Company – EUR 4,540 thousand) (Note 15))

3.2. Capital management

The Group's and the Parent Company's objectives when managing capital are to safeguard the Group's and the Parent Company's ability to continue as a going concern as well as to ensure necessary financing for investment program and to avoid breaches of covenants (no breaches in 2021 nor 2020), which are linked to capital structure and are stipulated in the majority of loan agreements.

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

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

The capital ratio figures were as follows

EUR'000

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

4. Critical accounting estimates and judgements

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

The Management of the Group and the Parent Company has assessed the situation at the end of the reporting period and has determined that the spread of Covid–19 and related restrictions have not created a significant negative impact on the Group's and the Parent Company's financial results, considering the nature and continuity of services provided by the Group and the Parent Company. As disclosed in the Management Report, the Group and the Parent Company continued to ensure generation of electricity and thermal energy, as well as uninterrupted and accessible trade and distribution of electricity and natural gas to all its customers.

The Group's and the Parent Company's operations were not significantly disrupted during Covid–19 in 2021, and the Management of the Group and the Parent Company does not expect significant disruptions in the future performance that could impact the Group's and the Parent Company's ability to continue as a going concern and the measurement of assets and liabilities.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

a) Estimates concerning property, plant and equipment

I) Useful lives of property, plant and equipment

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

II) Recoverable amount of property, plant and equipment

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

III) Revaluation

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

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

For detailed most recent revaluation results see Note 14 c.

b) Impairment of financial assets

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

- non–current and current loans to related parties
- other non–current receivables
- other financial investments
- receivables from contracts with customers
- other current receivables
- cash and cash equivalents.

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

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

Using the portfolio model the Group and the Parent Company apply the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for trade receivables of basic business activities (electricity, natural gas and heat and supporting services sales, IT and telecommunication services sales). To measure expected credit losses these receivables have been grouped based on shared credit risk characteristics and the days past due. The Group and the Parent Company therefore have concluded that the expected loss rates for these receivables are a reasonable approximation of the credit risk exposure. The expected loss rates are based on the payment profiles of sales and the corresponding historical credit losses experienced. There are no adjustments made to the historical loss rates that would reflect current and forward–looking information on macroeconomic factors affecting the ability of the customers to settle the receivables, as the Group and the Parent Company has assumed that macro–economic situation and its future projections do not have significant impact on expected credit loss.

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

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

None of the Group's and the Parent Company's other financial investments measured at amortised cost (investments in State Treasury bonds) have significant increase in credit risk and therefore are considered to have low credit risk (Moody's credit rating – A3) and are in Stage 1, the loss allowance therefore was immaterial and wasn't recognised.

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

c) Estimates concerning revenue recognition from contracts with customers

I) Recognition of mandatory procurement PSO fees

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

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

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

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

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

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

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

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

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

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

d) Recognition and reassessment of provisions

As of 31 December 2021, the Group had set up provisions for post–employment benefits and termination benefits totalling EUR 15.7 million (31/12/2020: EUR 19.2 million) and the Parent Company in amount of EUR 7.5 million (31/12/2020: EUR 8.7 million) (Note 27). The amount and timing of the settlement of these obligations is uncertain. A number of assumptions and estimates have been used to determine the present value of provisions, including the amount of future expenditure, inflation rates, and the timing of settlement of the expenditure. The actual expenditure may also differ from the provisions recognised as a result of possible changes in legislative norms, technology available in the future to restore environmental damages, and expenditure covered by third parties. For revaluation of provisions for post–employment obligations probabilities of retirement in different employees' aging groups as well as variable demographic factors and financial factors (including expected remuneration increase and determined changes in benefit amounts) have been estimated. The probabilities and other factors are determined on the basis of previous experience. According to defined development directions per Strategy of Latvenergo Group for the period 2017–2022, management of the Parent Company approved the Strategic Development and Efficiency Programme. Provisions for employees' termination benefits are recognised on a basis of Strategic Development and Efficiency Programme of Latvenergo Group for the period in which it is planned to implement the efficiency program (including Latvenergo AS and Sadales tīkls AS efficiency activities), by which it is intended to reduce gradually the number of employees by the year 2022. The key assumptions made to determine the amount of provisions are provided in Note 27.

e) Evaluation of effectiveness of hedging instruments

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

f) Recognition of connection service fees to transmission system (IFRS 16) (discontinued operation)

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

Income from connection to transmission system and other service fees is deferred as an ongoing service is identified as part of the agreement with the lessee. Operating lease agreement term is 5 years, the period over which revenue from connection fees is recognised is longer, as it is reasonably certain

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that assets, whose costs are partly reimbursed by connection fees will be leased for a longer period than defined original lease term.

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

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

h) Deferred tax recognition

The untaxed profits of the subsidiaries are subject to deferred tax charge in the Consolidated Financial Statements to the extent that the Parent Company as a shareholder will decide in a foreseeable future on distribution of this profit through dividends which will be taxed on distribution with tax rate 20/80 of net expense (Note 12). Management of the Parent Company has made judgement on the expected timing and extent of the distribution profits of subsidiaries and recognised in the Group's Consolidated Financial Statements deferred tax liability related to profit of its subsidiaries to be distributed.

i) Recognition of financial security for participating in commodities exchange

Management of the Parent Company had initially estimated the financial collateral for securing the operations in Nasdaq Commodities exchange as a liquid asset, but with a restriction (restricted cash and cash equivalents) that could be fully recoverable without penalties over a 3–months period after termination of participation in exchange.

As of 31 December 2021 the management of the Parent Company revised its judgements (estimates) and considering that the Parent Company has no intention to discontinue trade operations in Nasdaq Commodities exchange, considering that electricity and natural gas financial transactions are part of the Parent Company's activities, and therefore these assets should not be estimated as liquid and should be recognised as non–current or current financial receivables (Note 18).

j) Fair values

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

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

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

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

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

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

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

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

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

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

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

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

5. Operating segment information

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

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

The Group divides its operations into three main operating segments – generation and trade, distribution, and lease of transmission system assets. The Parent Company divides its operations into one main operating segment – generation and trade.

In addition, corporate functions, that cover administration and other support services, are presented in the Group and the Parent Company as separate segment.

Corporate functions provide management services to subsidiaries as well as provides IT and telecommunication, rental services to external customers.

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

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

The operations of the lease of transmission system (till 10 June 2020) assets operating segment are managed by Latvijas elektriskie tīkli AS – the owner of transmission system assets (330 kV and 110 kV transmission lines, substations, and distribution points), which provides financing of investments in these assets. In the financial statements this operating segment is classified as discontinued operation (Note 30).

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

EUR'000

	Group							Parent Company				
	Generation and trade	Distribution	Lease of transmission system assets*	Corporate functions	TOTAL segments	Adjustments and eliminations	TOTAL Group	Generation and trade	Corporate functions	TOTAL segments	Adjustments and eliminations	TOTAL Parent Company
2021												
Revenue												
External customers	754,357	303,289	–	7,573	**1,065,219**	–	**1,065,219**	562,765	30,020	**592,785**	–	**592,785**
Inter-segment	1,068	1,175	–	46,422	**48,665**	(48,665)	**–**	1,044	25,226	**26,270**	(26,270)	**–**
TOTAL revenue	**755,425**	**304,464**	**–**	**53,995**	**1,113,884**	**(48,665)**	**1,065,219**	**563,809**	**55,246**	**619,055**	**(26,270)**	**592,785**
Results												
EBITDA	**80,386**	**105,732**	**–**	**12,695**	**198,813**	**–**	**198,813**	**70,968**	**14,307**	**85,275**	**–**	**85,275**
Depreciation, amortisation and impairment of intangible assets, property, plant and equipment and right-of-use assets	(25,169)	(80,841)	–	(10,913)	**(116,923)**	–	**(116,923)**	(21,773)	(11,135)	**(32,908)**	–	**(32,908)**
Segment profit before tax	**55,217**	**24,891**	**–**	**1,782**	**81,890**	**(6,960)**	**74,930**	**49,195**	**3,172**	**52,367**	**27,153**	**79,520**
Segment assets at the end of the year	**1,473,344**	**1,801,062**	**–**	**104,221**	**3,378,627**	**97,263**	**3,475,890**	**1,341,057**	**130,516**	**1,471,573**	**1,444,014**	**2,915,587**
Segment liabilities at the end of the year	**299,658**	**190,597**	**–**	**19,027**	**509,282**	**843,160**	**1,352,442**	**329,381**	**20,196**	**349,577**	**804,940**	**1,154,517**
Capital expenditure	32,545	84,786	–	9,397	**126,728**	–	**126,728**	20,123	9,422	**29,545**	–	**29,545**
2020												
Revenue												
External customers	471,247	294,927	15,967	7,217	**789,358**	–	**789,358**	354,686	30,926	**385,612**	–	**385,612**
Inter-segment	984	1,380	1,594	45,856	**49,814**	(49,814)	**–**	535	24,341	**24,876**	(24,876)	**–**
TOTAL revenue	**472,231**	**296,307**	**17,561**	**53,073**	**839,172**	**(49,814)**	**789,358**	**355,221**	**55,267**	**410,488**	**(24,876)**	**385,612**
Results												
EBITDA	**159,120**	**105,870**	**16,554**	**12,904**	**294,448**	**–**	**294,448**	**148,180**	**49,709**	**197,889**	**–**	**197,889**
Depreciation, amortisation and impairment of intangible assets, property, plant and equipment and right-of-use assets	(77,751)	(67,623)	(11,602)	(11,170)	**(168,146)**	–	**(168,146)**	(74,681)	(11,578)	**(86,259)**	–	**(86,259)**
Segment profit before tax	**81,369**	**38,247**	**4,952**	**1,734**	**126,302**	**(8,658)**	**117,644**	**73,499**	**38,131**	**111,630**	**43,218**	**154,848**
Segment assets at the end of the year	**1,263,651**	**1,795,034**	**–**	**95,907**	**3,154,592**	**204,243**	**3,358,835**	**1,131,977**	**125,634**	**1,257,611**	**1,502,544**	**2,760,155**
Segment liabilities at the end of the year	**231,837**	**190,086**	**–**	**15,567**	**437,490**	**803,103**	**1,240,593**	**232,318**	**16,765**	**249,083**	**764,636**	**1,013,719**
Capital expenditure	40,560	87,431	28,796	12,144	**168,931**	(76)	**168,855**	38,851	12,148	**50,999**	–	**50,999**

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

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

EUR'000

	Group						Parent Company			
	Generation and trade	Distribution	Lease of transmission system assets*	Corporate functions	TOTAL segments	TOTAL Group	Generation and trade	Corporate functions	TOTAL segments	TOTAL Parent Company
2021										
Revenue from contracts with customers recognised over time:										
Trade of energy and related supply services	666,966	3,228	–	–	**670,194**	**670,194**	490,614	–	**490,614**	**490,614**
Distribution system services	1	282,949	–	–	**282,950**	**282,950**	–	–	**–**	**–**
Heat sales	84,123	91	–	10	**84,224**	**84,224**	71,215	10	**71,225**	**71,225**
Other revenue	3,267	16,949	–	5,636	**25,852**	**25,852**	936	26,600	**27,536**	**27,536**
Total revenue from contracts with customers	**754,357**	**303,217**	**–**	**5,646**	**1,063,220**	**1,063,220**	**562,765**	**26,610**	**589,375**	**589,375**
Other revenue:										
Other revenue	–	72	–	1,927	**1,999**	**1,999**	–	3,410	**3,410**	**3,410**
Total other revenue	**–**	**72**	**–**	**1,927**	**1,999**	**1,999**	**–**	**3,410**	**3,410**	**3,410**
TOTAL revenue, including	**754,357**	**303,289**	**–**	**7,573**	**1,065,219**	**1,065,219**	**562,765**	**30,020**	**592,785**	**592,785**
Latvia	416,545	303,288	–	7,289	**727,122**	**727,122**	399,513	28,392	**427,905**	**427,905**
Outside Latvia	337,812	1	–	284	**338,097**	**338,097**	163,252	1,628	**164,880**	**164,880**
2020										
Revenue from contracts with customers recognised over time:										
Trade of energy and related supply services	414,617	3,150	–	14	**417,781**	**417,781**	310,839	14	**310,853**	**310,853**
Distribution system services	1	275,586	–	–	**275,587**	**275,587**	–	–	**–**	**–**
Heat sales	53,349	67	–	12	**53,428**	**53,428**	42,623	12	**42,635**	**42,635**
Other revenue	3,280	16,029	–	5,647	**24,956**	**24,956**	1,414	26,789	**28,203**	**28,203**
Total revenue from contracts with customers	**471,247**	**294,832**	**–**	**5,673**	**771,752**	**771,752**	**354,876**	**26,815**	**381,691**	**381,691**
Other revenue:										
Lease of transmission system assets	–	–	15,631	–	**15,631**	**15,631**	–	–	**–**	**–**
Lease of other assets	–	95	–	1,544	**1,639**	**1,639**	–	3,921	**3,921**	**3,921**
Other revenue	–	–	336	–	**336**	**336**	–	–	**–**	**–**
Total other revenue	**–**	**95**	**15,967**	**1,544**	**17,606**	**17,606**	**–**	**3,921**	**3,921**	**3,921**
TOTAL revenue, including	**471,247**	**294,927**	**15,967**	**7,217**	**789,358**	**789,358**	**354,876**	**30,736**	**385,612**	**385,612**
Latvia	319,542	294,926	15,967	6,917	**637,352**	**637,352**	303,461	29,330	**332,791**	**332,791**
Outside Latvia	151,705	1	–	300	**152,006**	**152,006**	51,415	1,406	**52,821**	**52,821**

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

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Adjustments and eliminations

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

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

Reconciliation of profit before tax

EUR'000

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

Reconciliation of assets

EUR'000

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

Reconciliation of liabilities

EUR'000

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

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

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

6. Revenue

Accounting policy

Revenue from contracts with customers (IFRS 15)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Trade of energy and related supply services

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

Sales of distribution system services (the Group)

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

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

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

Heat sales

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

Sales of IT & telecommunication services

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

EUR'000

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

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

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

EUR'000

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

Accounting policy

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

Mandatory procurement PSO fees

Revenue from mandatory procurement PSO fees in the Group is recognised on net (agent) basis. PSO fee is managed within the context of mandatory procurement process by subsidiary Enerģijas publiskais tirgotājs SIA (hereinafter – EPT) and is the difference (residual) between the revenue from the sale of electricity in Nord Pool

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power exchange by market price, received mandatory procurement PSO fee, received government grant for compensating the increase of mandatory procurement costs and the related costs – costs of purchased electricity under the mandatory procurement from electricity producers, as well as guaranteed fees for installed electrical capacity in cogeneration plants. EPT is acting as an agent in administration of the mandatory procurement process and receives revenue from mandatory procurement administration services (agent fee), which is recognised over time in the Group's Statement of Profit or Loss as other revenue from contracts with customers.

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

Distribution system and transmission system services (Parent Company)

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

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

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

EUR'000

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

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

Accounting policy

Revenue from contracts with customers

Connection fees to distribution system (the Group)

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

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

Revenue from other sources

Lease of transmission system assets until 10 June 2020 (IFRS 16) (Group, discontinued operation (Note 30))

Revenues from lease of transmission system assets are recognised on the basis of lease payment amount which are calculated for transmission system operator accordingly to determined fee per lease agreement and recognised on a straight–line basis over term of the lease. Concluded agreements on the lease of transmission system assets meet IFRS 16 'Leases' criteria that is used for revenue recognition from lease.

Connection fees to transmission system until 10 June 2020 (IFRS 16) (Group, discontinued operation (Note 30))

Revenue from connection fees to transmission system are received as upfront payments from lessee under lease agreement and are carried in the Statement of Financial Position as deferred income and amortised to Statement of Profit or Loss on a straight–line over basis estimated lease period (Note 4 f).

Electricity connection fees to transmission system are recognised by the Group based on the necessity for a connection to the transmission network based on the request of lessee, which acts on behalf of users. For each connection fee a separate arrangement within the base lease agreement is concluded. Connection fee to transmission system partly reimburses the cost of infrastructure to be built and is needed for connection of transmission system user to the network. Connection service fee to transmission system is calculated in accordance with Latvian regulatory authority (Public Utilities Commission) stated methodology.

Deferred income from contracts with customers

EUR'000

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

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

EUR'000

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

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7. Other income

EUR'000

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

8. Raw materials and consumables

EUR'000

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

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

9. Personnel expenses

EUR'000

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

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

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

Number of employees

	Group 2021	Group 2020	Parent Company 2021	Parent Company 2020
Number of employees at the end of the year	3,153	3,295	1,269	1,267
Average number of employees during the year	3,233	3,362	1,273	1,281

Latvenergo

10. Other operating expenses

EUR'000

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

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

11. Finance income and costs

a) Finance income

EUR'000

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

b) Finance costs

EUR'000

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

12. Income tax

Accounting policy

Corporate income tax

Latvia

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

Lithuania

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

Estonia

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

Deferred income tax

Latvia and Estonia

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

Lithuania

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

EUR'000

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

13. Intangible assets

a) Intangible assets

Accounting policy

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

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

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

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

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

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

EUR'000

	Group						Parent Company				
	Goodwill	Usage rights and licences	Greenhouse gas emission allowances	Software	Assets under development	TOTAL	Usage rights and licences	Greenhouse gas emission allowances	Software	Assets under development	TOTAL
As of 31 December 2019											
Cost	–	2,507	11,024	50,487	148	**64,166**	10,797	11,024	47,467	148	**69,436**
Accumulated amortisation	–	(2,375)	–	(39,204)	–	**(41,579)**	(5,474)	–	(37,851)	–	**(43,325)**
Net book amount	**–**	**132**	**11,024**	**11,283**	**148**	**22,587**	**5,323**	**11,024**	**9,616**	**148**	**26,111**
Year ended 31 December 2020											
Additions	–	–	9,547	–	4,805	**14,352**	–	9,547	–	4,269	**13,816**
Transfers	–	641	–	4,219	(4,860)	**–**	3	–	4,216	(4,219)	**–**
Disposals	–	–	(17,414)	–	–	**(17,414)**	–	(17,414)	–	–	**(17,414)**
Reclassified to current intangible assets	–	–	(3,157)	–	–	**(3,157)**	–	(3,157)	–	–	**(3,157)**
Impairment charge	–	–	–	(81)	–	**(81)**	–	–	(81)	–	**(81)**
Amortisation charge	–	(1,683)	–	(2,898)	–	**(4,581)**	(460)	–	(2,622)	–	**(3,082)**
Recognised usage rights after distribution of discontinued operation*	–	38,100	–	–	222	**38,322**	–	–	–	–	**–**
Closing net book amount as of 31 December 2021	**–**	**37,190**	**–**	**12,523**	**315**	**50,028**	**4,866**	**–**	**11,129**	**198**	**16,193**
As of 31 December 2020											
Cost	–	58,173	–	52,617	315	**111,105**	10,800	–	49,593	198	**60,591**
Accumulated amortisation	–	(20,983)	–	(40,094)	–	**(61,077)**	(5,934)	–	(38,464)	–	**(44,398)**
Net book amount	**–**	**37,190**	**–**	**12,523**	**315**	**50,028**	**4,866**	**–**	**11,129**	**198**	**16,193**
Year ended 31 December 2021											
Additions	2,546	–	–	–	6,907	**9,453**	–	–	–	4,321	**4,321**
Transfers	–	2,444	–	4,095	(6,539)	**–**	17	–	4,002	(4,019)	**–**
Disposals	–	–	–	(81)	–	**(81)**	–	–	(81)	–	**(81)**
Impairment charge	–	–	–	81	–	**81**	–	–	81	–	**81**
Amortisation charge	–	(3,000)	–	(2,924)	–	**(5,924)**	(459)	–	(2,649)	–	**(3,108)**
Closing net book amount as of 31 December 2021	**2,546**	**36,634**	**–**	**13,694**	**683**	**53,557**	**4,424**	**–**	**12,482**	**500**	**17,406**
As of 31 December 2021											
Cost	2,546	60,617	–	56,449	683	**120,295**	10,817	–	53,370	500	**64,687**
Accumulated amortisation	–	(23,983)	–	(42,755)	–	**(66,738)**	(6,393)	–	(40,888)	–	**(47,281)**
Net book amount	**2,546**	**36,634**	**–**	**13,694**	**683**	**53,557**	**4,424**	**–**	**12,482**	**500**	**17,406**

* Until 10 June 2020, Latvijas elektriskie tīkli AS was a Latvenergo Group's company, that ensured the construction of connections to the transmission network and recognised usage rights for connection to transmission system network within the Group was excluded in consolidation process

b) Current intangible assets (Greenhouse gas emission allowances)

Accounting policy

Emission rights for greenhouse gases (or allowances) are recognised and subsequently measured at purchase cost when the Group or the Parent Company is able to exercise the control. Allowances received from the Government free of charge are recognised at zero cost. In those cases, when the quantity of emitted greenhouse gases exceeds the quantity of allowances allocated by the state free of charge, the Group and the Parent Company purchase additional allowances.

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

* The number of allowances received by the Group and the Parent Company from the Government free of charge, in accordance with the law "On Pollution" and Directives of the Ministry of Environmental Protection and Regional Development of the Republic of Latvia. Therefore, their carrying amount as of 31 December 2021 was nil (31/12/2020: nil).

Current intangible assets

EUR'000

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

14. Property, plant and equipment

a) Property, plant and equipment

Accounting policy

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

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

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

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

Type of property, plant and equipment (PPE)	Estimated useful life, years
Buildings and facilities	15 – 100
Assets of Hydropower plants:	
- hydropower plants' buildings and facilities,	25 – 100
- hydropower plants' technology equipment and machinery	10 – 40
Transmission system electricity lines and electrical equipment (until 10 June 2020):	
- electricity lines	20 – 50
- electrical equipment of transformer substations	12 – 40
Distribution system electricity lines and electrical equipment:	
- electricity lines	30 – 50
- electrical equipment of transformer substations	30 – 35
Technology equipment and machinery	3 – 40
Other property, plant and equipment	2 – 25

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

Gains and losses on disposals are determined by comparing proceeds with carrying amount. Those are included in the Statement of Profit or Loss. If revalued property, plant and equipment have been sold, appropriate amounts are reclassified from revaluation reserve to retained earnings.

All fixed assets under construction are stated at historical cost and comprise of costs of construction of assets. The initial cost includes construction and installation costs and other direct costs related to construction of fixed assets. General and specific borrowing costs directly attributable to the acquisition or construction of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. Borrowing costs consist of interest and other costs that the Group or the Parent Company incur in connection with the borrowing of funds. Borrowing costs are capitalised to fixed assets proportionally to the part of the cost of PPE under construction over the period of construction. Assets under construction are not depreciated until the relevant assets are completed and ready for intended use, impairment test is performed when there is indication for impairment, either individually or at the cash-generating unit level. The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the recoverable amount that is higher of the asset's the fair value less costs to sell and value in use.

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

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

Net book amounts and movements of property, plant and equipment by groups, including groups of revalued categories are as follows

EUR'000

	Group								Parent Company					
	Land, buildings and facilities	Assets of Hydro Power Plant	Distribution system electricity lines and electrical equipment	Transmission system electricity lines and electrical equipment	Technology equipment and machinery	Other PPE	Assets under construction	Property, plant and equipment TOTAL	Land, buildings and facilities	Assets of Hydro Power Plant	Technology equipment and machinery	Other PPE	Assets under construction	Property, plant and equipment TOTAL
As of 31 December 2019														
Cost or revalued amount	456,257	2,050,409	2,921,846	–	637,869	157,052	99,802	**6,323,235**	341,761	2,050,409	612,341	105,335	76,199	**3,186,045**
Accumulated depreciation and impairment	(254,582)	(1,267,432)	(1,410,073)	–	(528,854)	(103,992)	(5,357)	**(3,570,290)**	(202,471)	(1,267,433)	(516,306)	(85,779)	(5,055)	**(2,077,044)**
Net book amount	**201,675**	**782,977**	**1,511,773**	**–**	**109,015**	**53,060**	**94,445**	2,752,945	**139,290**	**782,976**	**96,035**	**19,556**	**71,144**	1,109,001
Year ended 31 December 2020														
Additions	(866)	–	–	–	–	(80)	164,997	**164,051**	–	–	–	–	46,730	**46,730**
Transfers	5,480	21,119	78,177	2,923	26,262	15,046	(149,007)	**–**	2,585	21,120	26,097	6,198	(56,000)	**–**
Reclassified (to) / from investment property, net	(477)	–	–	–	–	–	–	**(477)**	2,427	–	–	–	–	**2,427**
Reclassified to non-current assets for sale	–	–	–	–	(21)	(22)	–	**(43)**	–	–	–	(1)	–	**(1)**
Disposals	(364)	(4)	(5,340)	(33)	(201)	(42)	(417)	**(6,401)**	(299)	(4)	(195)	(236)	(741)	**(1,475)**
Investment in share capital of other company (Note 16)	–	–	–	–	–	–	–	**–**	(2,449)	–	(15)	(503)	–	**(2,967)**
Increase of assets as a result of revaluation	–	–	96,264	–	–	–	–	**96,264**	–	–	–	–	–	**–**
Reversed impairment charge as a result of revaluation	–	–	8,660	–	–	–	–	**8,660**	–	–	–	–	–	**–**
Impairment charge (Note 14 d I)	(3,037)	–	–	–	(4,465)	–	373	**(7,129)**	(3,037)	–	(4,465)	–	386	**(7,116)**
Depreciation	(14,051)	(25,612)	(65,945)	(10,958)	(34,552)	(12,439)	–	**(163,557)**	(9,667)	(25,612)	(33,161)	(6,589)	–	**(75,029)**
Changes in value of assets attributable to the discontinued operation*	2,722	–	–	8,068	9	(1,929)	(25,857)	**(16,987)**	–	–	–	–	–	**–**
Closing net book amount as of 31 December 2020	**191,082**	**778,480**	**1,623,589**	**–**	**96,047**	**53,594**	**84,534**	**2,827,326**	**128,850**	**778,480**	**84,296**	**18,425**	**61,519**	**1,071,570**
As of 31 December 2020														
Cost or revalued amount	426,279	2,045,830	3,006,885	–	649,011	156,217	89,518	**6,373,740**	341,001	2,045,830	623,104	101,718	66,188	**3,177,841**
Accumulated depreciation and impairment	(235,197)	(1,267,350)	(1,383,296)	–	(552,964)	(102,623)	(4,984)	**(3,546,414)**	(212,151)	(1,267,350)	(538,808)	(83,293)	(4,669)	**(2,106,271)**
Net book amount	**191,082**	**778,480**	**1,623,589**	**–**	**96,047**	**53,594**	**84,534**	2,827,326	**128,850**	**778,480**	**84,296**	**18,425**	**61,519**	1,071,570
Year ended 31 December 2021														
Additions	–	–	–	–	4,969	–	112,286	**117,255**	–	–	–	–	25,203	**25,203**
Invested in share capital	20	–	–	–	–	–	–	**20**	20	–	–	–	–	**20**
Transfers	10,457	23,096	83,272	–	7,285	14,320	(138,430)	**–**	7,442	23,096	7,205	5,553	(43,296)	**–**
Reclassified (to) / from investment property, net	(3,182)	–	–	–	–	–	–	**(3,182)**	(692)	–	–	–	–	**(692)**
Reclassified to non–current assets for sale	(27)	–	–	–	–	(78)	–	**(105)**	(20)	–	–	–	–	**(20)**
Disposals	(34)	(69)	(5,197)	–	(43)	(74)	(39)	**(5,456)**	(84)	(69)	(42)	(136)	(20)	**(351)**
Reversed impairment charge (Note 14 d I)	9,187	–	–	–	27,537	–	4,699	**41,423**	9,187	–	27,537	–	4,669	**41,393**
Depreciation	(13,120)	(25,157)	(70,241)	–	(30,913)	(11,196)	–	**(150,627)**	(9,587)	(25,157)	(29,655)	(5,751)	–	**(70,150)**
Closing net book amount as of 31 December 2021	**194,383**	**776,350**	**1,631,423**	**–**	**104,882**	**56,566**	**63,050**	**2,826,654**	**135,116**	**776,350**	**89,341**	**18,091**	**48,075**	**1,066,973**
As of 31 December 2021														
Cost or revalued amount	427,180	2,044,719	3,031,424	–	661,828	168,431	63,334	**6,396,916**	346,175	2,044,719	630,116	101,775	48,075	**3,170,860**
Accumulated depreciation and impairment	(232,797)	(1,268,369)	(1,400,001)	–	(556,946)	(111,865)	(284)	**(3,570,262)**	(211,059)	(1,268,369)	(540,775)	(83,684)	–	**(2,103,887)**
Net book amount	**194,383**	**776,350**	**1,631,423**	**–**	**104,882**	**56,566**	**63,050**	2,826,654	**135,116**	**776,350**	**89,341**	**18,091**	**48,075**	1,066,973

* Until 10 June 2020, Latvijas elektriskie tīkli AS was a Latvenergo Group's company, that was the owner of the transmission system assets and ensured the construction of the transmission network. Changes in value of assets include additions, disposals and depreciation of property, plant and equipment.

Latvenergo

Impairment charge or reversed charge is included in the Statement of Profit or Loss under 'Depreciation, amortisation and impairment of intangible assets, PPE and right-of-use assets'.

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

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

Information about the pledged property, plant and equipment is disclosed in Note 23 l.

b) Investment property

Accounting policy

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

EUR'000

	Group		Parent Company					
	Investment property held for capital appreciation		Investment properties for lease*		Investment property held for capital appreciation		TOTAL Investment property	
	2021	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
Cost at the beginning of the year	1,455	910	4,005	64,377	1,427	876	5,432	65,253
Accumulated depreciation and impairment at the beginning of the year	(943)	(609)	(1,155)	(25,209)	(943)	(609)	(2,098)	(25,818)
Net book amount at the beginning of the year	**512**	**301**	**2,850**	**39,168**	**484**	**267**	**3,334**	**39,435**
Reclassified to investment property held for capital appreciation	3,182	477	(766)	(2,904)	1,458	477	692	(2,427)
Disposal	(18)	(6)	–	(24)	(18)	(6)	(18)	(30)
Investment in the share capital of other company	–	–	–	(32,333)	–	–	–	(32,333)
Sold	(348)	(260)	–	(840)	(348)	(254)	(348)	(1,094)
Depreciation	(12)	–	(58)	(217)	–	–	(58)	(217)
Cost at the end of the year	3,807	1,455	2,700	4,005	1,861	1,427	4,561	5,432
Accumulated depreciation and impairment at the end of the year	(491)	(943)	(674)	(1,155)	(285)	(943)	(959)	(2,098)
Net book amount at the end of the year	**3,316**	**512**	**2,026**	**2,850**	**1,576**	**484**	**3,602**	**3,334**

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

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

c) Property, plant and equipment revaluation

Accounting policy

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

The following hydropower plants, transmission system and distribution system assets (property, plant and equipment) are revalued regularly but not less frequently than every five years:

a) Assets of Hydropower plants:
- hydropower plants' buildings and facilities,
- hydropower plants' technology equipment and machinery;

b) Transmission system electricity lines and electrical equipment (until 10 June 2020):
- electricity lines,
- electrical equipment of transformer substations;

c) Distribution system electricity lines and electrical equipment:
- electricity lines,
- electrical equipment of transformer substations.

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

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

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

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

The carrying amounts of revalued categories of property, plant and equipment groups at revalued amounts and their cost basis are as follows:

EUR'000

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

Assets of Hydropower plants were revalued in 2017. The revaluation was performed by an independent, external and certified valuation expert by applying the income method or the replacement cost model. Income method is based on average perennial water inflow in each HPP, power exchange (Nord Pool Spot) forecasts of electricity prices, analysis of historical generation and operating expenses, forecast of expenses based on publicly available state statistics, forecast of capital expenditure, forecast of net cash flows, as well as discount and capitalisation rate calculation using the weighted average cost of capital (WACC) formula based on market data.

Considering that the estimated replacement cost of the assets exceeded the value determined by using income method, the value of each of the hydropower plant assets item was reduced to recognise the economic depreciation. The replacement cost was determined according to technical characteristics of property, plant and equipment, current technical requirements and the cost of replacement of functional analogue less physical, functional and economic depreciation.

The nominal pre–tax discount rate used in valuation was 7.5%. If the pre-tax rate would have been increased by 0.1% then the value of the revalued assets of hydropower plants would have been decreased by EUR 17,686 thousand (2020: by EUR 45,938 thousand). If the pre–tax rate would have been decreased by 0.1%, the value of the revalued assets of hydropower plants would have been increased by EUR 18,279 thousand (2020: by EUR 48,308 thousand). If electricity price would have been increased by 1%, the value of assets would have been increased by EUR 22,406 (2020: by EUR 27,665), if the prices would have been by 1% less, the value of assets would have been decrease by EUR 22,406 (2020: by EUR 27,665).

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

Distribution system electrical equipment was revalued as of 1 April 2020, as a result the carrying value increased by EUR 30,739 thousand of which EUR 30,870 thousand was recognised as increase in property, plant and equipment revaluation reserve in equity (see Note 21), while impairment in amount of EUR 131 thousand was recognised in profit or loss.

External valuation expert used cost approach and assessed how components of the replacement or renewal costs of the same property, plant and equipment items have changed since the previous revaluation. The values of sub-categories of property, plant and equipment were indexed by cost components. Material costs were indexed according to the data of the Central Statistical Bureau on price changes, or the available information provided by Sadales tīkls AS on changes in construction / establishment costs from purchases made during the last 12 months. At the same time component of labour costs was indexed according to the data of the Central Statistical Bureau on wage growth in the respective period. According to the data of Central Statistical Bureau, the increase in labour costs since the period of previous revaluation (compared to the previous period) ranged from 1.47% to 9.51% per year and changes in prices of materials ranged from -4.28% to 2.7% per year. For materials, the value of which has been determined using the information provided by Sadales tīkls AS, price changes since the previous revaluation have ranged from -12.65% to 11.2%. After determining the estimated replacement or renewal value, the valuation expert estimated the physical and functional depreciation for each item of property, plant and equipment.

Distribution system electricity lines were revalued as of 1 January 2021 and the revaluation result has been recognised in the Financial statements of 2020 as an adjusting event. As a result, the carrying amount of assets was increased by EUR 74,185 thousand, of which EUR 65,394 thousand was recognised in non–current assets revaluation reserve in equity (see Note 21), while reversal of previously recognised impairment in the amount of EUR 8,791 thousand was recognised in the Statement of Profit or Loss, position 'Depreciation, amortisation and impairment of intangible assets, property, plant and equipment and right-of-use assets'.

External valuation expert used cost approach in valuation of electricity lines, by assessing the control estimate values of cost items of the electricity lines construction used for the construction of Sadales tīkls AS electricity network. The control estimate is an estimate of the median object for the construction or reconstruction of electricity lines, which corresponds to the median value of the price for each group of electricity lines (property, plant and equipment), not taking into account the extreme costs of construction.

In the calculation of replacement costs, cost items of construction control estimates are priced according to market prices as of 1 January 2021. Initial replacement value for 1 km of electricity lines by each of electricity lines group, by regions, and by population levels of the territory was determined. Specialised databases of construction specialists, construction estimates of other customers for construction works and construction companies in Latvia, which were attributable to the valuation date, were used as source for market prices. After determining the estimated replacement or renewal value, the valuation expert estimated the physical and functional depreciation for each item of property, plant and equipment. During the reporting year, the management has changed the estimates of the remaining useful life for those distribution system electricity lines that are planned to be reconstructed, based on more recent and objective information on the dates and volumes of reconstruction. As a result of change in estimates, depreciation expense for year 2021 decreased by EUR 7,107 thousand. Management believes that change in estimates has no significant effect on the revalued value of the distribution system electricity lines.

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

EUR'000

	Date of revaluation	Labour costs		Material costs		Useful lives	
		1% increase	1% decrease	1% increase	1% decrease	1% increase	1% decrease
Revaluation of electrical equipment	01/04/2020	742	(743)	2,963	(2,476)	2,130	(2,140)
Revaluation of electricity lines	31/12/2020	5,484	(5,499)	5,387	(5,438)	6,772	(6,592)

Summary of quantitative information about the significant unobservable inputs

	Date of revaluation	Proportion of labour costs (%)		Proportion of material costs (%)		Useful lives (years)
		Range	Average	Range	Average	Range
Revaluation of electrical equipment	01/04/2020	0-30	23	70-100	77	30-35
Revaluation of electricity lines	31/12/2020	25-49	38	51-75	62	30-50

d) Impairment

Accounting policy

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

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

I) Latvenergo AS combined heat and power plants (Latvenergo AS CHPPs)

Impairment review performed for Latvenergo AS CHPPs is based on value in use calculations. The cash–generating unit is defined as the assets of Latvenergo AS CHPPs.

In October 2017, the Parent Company applied for a one-off compensation from the state, at the same time opting out of the receipt of 75% of the guaranteed annual payments for installed electrical capacity in combined heat and power plant CHPP–1 and CHPP–2 (Note 4 g). The one-off compensation was calculated as 75% of the discounted future guaranteed payments for installed electrical capacity. On 21 November 2017, the Cabinet of Ministers of the Republic of Latvia accepted an order on one–off compensation to Latvenergo AS on guaranteed support for the installed capacity of cogeneration power plants. Conditional grant part recognised as deferred income in the Group's and the Parent Company's statement of financial position (Note 28) and to be allocated to income on a straight-line basis until fulfilling obligation till the end of the support period – 23 September 2028. EUR 23,990 thousand were recognised as 'Other income' in the Group's and Parent Company's statement of profit or loss in 2021 (2020: EUR 23,990 thousand) (Note 7). Consequently, EUR 161,440 thousand remained recognised as deferred income as of 31 December 2021 (31 December 2020: EUR 185,340 thousand) and to be allocated to income on a straight-line basis until fulfilling obligation till the end of the support period – 23 September 2028.

As of 31 December 2021, the future discounted cash flows generated by the operation of Latvenergo AS CHPPs are evaluated in the amount of EUR 26 527 thousand (31 December 2020: nil). More detailed information is given below. Consequently, the value of Latvenergo CHPPs assets is estimated equal to the sum of deferred income and future discounted cash flows as of 31 December 2021– EUR 187,967 thousand (31 December 2020: EUR 185,430 thousand).

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

To ensure the carrying value is in line with recognised impairment, the future cash flows expected to be derived from the operation of Latvenergo AS CHPPs were evaluated. Forecasted period is 2022-2028 and the terminal value appraisal as of end of 2028, evaluated as a sum of land value, backup fuel reserves of diesel, and the future value of heat water boilers, is included. Revenue stream forecast includes the income from electricity and heat generation, as well as the remaining intensity of electrical capacity payments and the support period for CHPP-2 till September 23, 2028, as it is set out in regulations by Cabinet of Ministers of the Republic of Latvia No. 561, dated 2 September 2020. The market prices of electricity, natural gas and emission allowances were forecasted by relying on the most recent third-party expert's estimates. The forecast of expenses is based on historical data, the budget approved by the management for 2022, the service maintenance agreements and assumed long-term inflation

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forecasted at 2%. Nominal pre–tax discount rate used to determine value in use of cash–generating unit by discounting cash flows is 7.5% (2020: 7.5%). As a result of calculation, the future discounted cash flows generated by Latvenergo AS CHPPs are evaluated as EUR 26 527 thousand (2020: nil). The rise in the assets of Latvenergo AS CHPPs is mainly attributable to including the profit from the electricity generation in the future cash flows. The operation of Latvenergo AS CHPPs plants can be flexibly adjusted to the electricity market conditions and guarantees a significant baseload electricity capacity for Latvia. CHPPs can cover Latvian electricity consumption almost completely in circumstances where, due to certain factors, electricity imports from foreign countries are limited.

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

EUR'000

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

*Natural gas and electricity commodity costs are historically closely correlated

II) Sadales tīkls AS distribution system assets

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

15. Leases

a) Right-of-use assets and lease liabilities

Accounting policy

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

Lessee

To assess whether the contract is a lease or contains a lease, the Group and the Parent Company assess whether:
- the contract provides for the use of an identified asset: the asset may be designated, directly or indirectly, and must be physically separable or represent the total capacity of the asset from the physically separable asset. If the supplier has a significant right to replace the asset, the asset is not identifiable;
- the Group and the Parent Company have the right to obtain all economic benefits from the use of the identifiable asset over its useful life;
- the Group and the Parent Company have the right to determine the use of the identifiable asset. The Group and the Parent Company have the right to determine the manner in which the asset will be used, when it can decide how and for what purpose the asset will be used. Where the relevant decisions about how and for what purpose an asset is used are predetermined, the Group and the Parent Company should assess whether it has the right to dispose of the asset or designate the asset in a particular manner, or the Group and the Parent Company have developed an asset in a manner that predetermines how and for what purpose the asset will be used.

At initial measurement or in the case of reassessment of a lease that contains a lease component or several lease components, the Group and the Parent Company attribute each of the lease components to their relative individual price.

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

Low value leases are fully accounted without additional exemption.

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

The right–of¬–use the asset is recognised as a separate item in the composition of non–current assets and is classified according to groups of property, plant and equipment.

The Group and the Parent Company account for the right–of–use assets of land, buildings and facilities.

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

Assets and liabilities arising from leases at commencement date are measured at the amount equal to the present value of the remaining lease payments, discounted by the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the lessee shall use the incremental interest rate.

Lease liabilities include the present value of the following lease payments:
- fixed lease payments (including in–substance fixed lease payments), less any lease incentives receivable;
- variable leases payments that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option;
- payments of penalties for terminating the lease, if the lease term reflects lessee exercising that option.

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

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

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

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

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Right–of–use assets

EUR'000

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

Lease liabilities

EUR'000

	Notes	Group	Parent Company
As of 31 December 2019		**5,565**	**3,502**
Of which are:			
- Non–current		4,349	3,126
- Current		1,216	376
Year ended 31 December 2020			
Recognised changes in lease agreements		4,178	1,746
Decrease of lease liabilities		(1,530)	(777)
Recognised interest liabilities		131	69
As of 31 December 2020		**8,344**	**4,540**
Of which are			
- Non–current		6,783	3,734
- Current		1,561	806
Year ended 31 December 2021			
Recognised changes in lease agreements		1,906	1,725
Decrease of lease liabilities		(1,960)	(1,122)
Recognised interest liabilities		138	83
As of 31 December 2021		**8,428**	**5,226**
Of which are			
- Non–current		6,540	4,085
- Current		1,888	1,141

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

b) Expenses from leases (IFRS 16)

The following amounts are recognised in profit or loss:

EUR'000

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

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

c) Income from leases

EUR'000

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

Future minimum lease payments receivable under operating lease contracts by due dates (the Group and the Parent Company are the lessor)

EUR'000

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

16. Non–current financial investments

The Parent Company's participating interest in subsidiaries and other non–current financial investments

Name of the company	Country of incorporation	Business activity held	31/12/2021		31/12/2020	
			Interest held, %	EUR'000	Interest held, %	EUR'000
Investments in subsidiaries:						
Sadales tīkls AS	Latvia	Electricity distribution	100%	641,450	100%	641,150
Enerģijas publiskais tirgotājs AS	Latvia	Administration of mandatory electricity procurement process	100%	40	100%	40
Elektrum Eesti OÜ	Estonia	Electricity and natural gas trade	100%	35	100%	35
Elektrum Lietuva, UAB	Lithuania	Electricity and natural gas trade	100%	98	100%	98
Liepājas enerģija SIA	Latvia	Thermal energy generation and trade, electricity generation	51%	3,556	51%	3,556
TOTAL				**645,179**		**645,179**
Other non–current financial investments:						
Pirmais Slēgtais Pensiju Fonds AS	Latvia	Management of pension plans	46.30%	36	46.30%	36
Rīgas siltums AS	Latvia	Thermal energy generation and trade, electricity generation	0.0051%	3	0.0051%	3
TOTAL				**39**		**39**

The Group's non–current financial investments

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

The Group owns 48.15% of the shares of the closed pension fund Pirmais Slēgtais Pensiju Fonds AS (Latvenergo AS – 46.30%). However, the Group and the Parent Company are only a nominal shareholder as the Pension Fund is a non-profit company, and all risks and benefits arising from associate's activities and investments in the pension plan are taken and accrued by the members of the Pension Fund pension plan. For this reason, the investment in Pirmais Slēgtais Pensiju Fonds AS is valued at acquisition cost. On 26 May 2020 Latvijas elektriskie tīkli AS sold 1/6 of presumed capital shares of Pirmais Slēgtais Pensiju Fonds AS to Sadales tīkls AS and Enerģijas publiskais tirgotājs AS.

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

In 2020, the Parent Company invested EUR 300 thousand in the share capital of Sadales tīkls AS, by investing the Parent Company's real estate and property, plant and equipment related to distribution system in the amount of EUR 35,300 thousand and its related liabilities (borrowings) in the amount of EUR 35,000 thousand.

On 10 June 2020, transmission system assets in the amount of EUR 694.3 million were separated from Latvenergo Group, transferring all the shares of Latvijas elektriskie tīkli AS in the amount of EUR 222.7 million to the Ministry of Economics. The separation of Latvijas elektriskie tīkli AS was carried out by reducing the share capital of Latvenergo AS, it was reduced to EUR 612.2 million (Note 20).

Profit from distribution of non–current financial investments in Latvijas elektriskie tīkli AS for the Parent Company is disclosed in Note 7 and for the Group in Note 30.

Accounting policy on investments in subsidiaries and non-current investments disclosed in Note 2.

Movement in non-current investments

EUR'000

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

Summarised financial information for subsidiaries

EUR'000

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

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

Summarised financial information for non-controlling interests

EUR'000

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

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

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

Business combinations and acquisition of ownership interests

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

Summarised financial information for Elektrum Eesti OÜ interests

EUR'000

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

17. Inventories

Accounting policy

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

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

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

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

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

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

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

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

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EUR'000

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

Changes in the allowance for raw materials and materials at warehouses are included in the Statement of Profit or Loss position 'Raw materials and consumables used'.

Movement on the allowance for inventories

EUR'000

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

18. Receivables from contracts with customers and other receivables

Accounting policy

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

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

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

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

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

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

EUR'000

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

a) Receivables from contracts with customers, net

EUR'000

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

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

EUR'000

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

* receivables under insolvency process and with an established payment schedule

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

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

EUR'000

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

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

There is no significant concentration of credit risk with respect to receivables from contracts with customers as the Group and the Parent Company have large number of customers except major heating customer the net debt of which as of 31 December 2021 amounted to EUR 18,455 thousand (31/12/2020: EUR 7,077 thousand).

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

Movements in loss allowances for impaired receivables from contracts with customers

EUR'000

	Group		Parent Company	
	2021	2020	2021	2020
At the beginning of the year	**44,269**	**46,737**	**41,005**	**43,521**
Receivables written off during the year as uncollectible	(30,094)	(3,681)	(29,679)	(3,252)
Allowances for expected credit losses	2,853	1,213	2,683	736
At the end of the year	**17,028**	**44,269**	**14,009**	**41,005**

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

EUR'000

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

* by applying agent principle unsettled revenue on mandatory procurement PSO fee is recognised as assets in net amount, as difference between revenue and costs recognised under the mandatory procurement

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As of 31 December 2021 the Group and the Parent Company have no significant concentration of credit risk with respect to other financial receivables except the commodities exchange – Nasdaq Commodities – the net debt of which to the Group as of 31 December 2021 amounted to EUR 20,047 thousand (31/12/2020: EUR 2,348 thousand) and the Group's receivable from State of guaranteed fee for the installed electrical capacity of cogeneration power plants and unsettled revenue on mandatory procurement PSO fee recognised as assets – EUR 36,588 thousand (31/12/2020: EUR 77,273 thousand). Loss allowance for other financial receivables assessed individually and based on counterparty's model (Note 4).

c) Other non-financial receivables

EUR'000

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

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

19. Cash and cash equivalents

Accounting policy

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

EUR'000

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

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

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

20. Share capital

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

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

On 10 June 2020, transmission system assets were separated from the Latvenergo Group, transferring all the shares of Latvijas elektriskie tīkli AS to the Ministry of Economics and decreasing share capital of Latvenergo AS in the amount of EUR 222,678 thousand. On 9 June 2020 changes of share capital were registered in the Commercial Register of the Republic of Latvia according to the decision by the Register of Enterprises of the Republic of Latvia.

On 9 July 2020, in accordance with the decision of the Cabinet of Ministers of the Republic of Latvia on unbundling of transmission assets dated 8 October 2019, the shareholders' meeting of Latvenergo AS decided to increase the share capital of Latvenergo AS by investing in Latvenergo AS retained earnings from previous years in the amount of EUR 178,143 thousand. On 16 July 2020 changes of share capital were registered in the Commercial Register of the Republic of Latvia according to the decision by the Register of Enterprises of the Republic of Latvia.

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21. Reserves, dividends and earnings per share

a) Reserves

EUR'000

	Notes	Group: Property, plant and equipment revaluation reserve	Group: Hedge reserve	Group: Post–employment benefit plan revaluation reserve	Group: Other reserves	Group: TOTAL reserves of continuing operations	Group: Reserves classified as held for distribution	Group: TOTAL	Parent Company: Property, plant and equipment revaluation reserve	Parent Company: Hedge reserve	Parent Company: Post–employment benefit plan revaluation reserve	Parent Company: TOTAL
As of 31 December 2019		**1,083,772**	**(6,227)**	**(2,420)**	**110**	**1,075,235**	**28 936**	**1,104,171**	**785,870**	**(6,227)**	**(1,481)**	**778,162**
Non–current assets revaluation reserve attributable to discontinued operations	30	–	–	–	–	–	(28 683)	**(28,683)**	–	–	–	**–**
Post–employment benefit plan revaluation reserve attributable to discontinued operations	30	–	–	–	–	–	(21)	**(21)**	–	–	–	**–**
Increase of non–current assets revaluation reserve as a result of revaluation	14 a	96,264	–	–	–	96,264	–	**96,264**	–	–	–	**–**
Disposal of non–current assets revaluation reserve	14 a	(8,882)	–	–	–	(8,882)	(232)	**(9,114)**	(4,097)	–	–	**(4,097)**
Losses on re–measurement of defined post–employment benefit plan	27 a, 30	–	–	(476)	–	(476)	–	**(476)**	–	–	(176)	**(176)**
Losses from fair value changes of derivative financial instruments	24	–	(7,774)	–	–	(7,774)	–	**(7,774)**	–	(7,774)	–	**(7,774)**
As of 31 December 2020		**1,171,154**	**(14,001)**	**(2,896)**	**110**	**1,154,367**	**–**	**1,154,367**	**781,773**	**(14,001)**	**(1,657)**	**766,115**
Disposal of non–current assets revaluation reserve	14 a	(13,329)	–	–	–	(13,329)	–	**(13,329)**	(3,724)	–	–	**(3,724)**
Gains on re–measurement of defined post–employment benefit plan	27 a, 30	–	–	1,098	–	1,098	–	**1,098**	–	–	121	**121**
Gains from fair value changes of derivative financial instruments	24	–	33,219	–	–	33,219	–	**33,219**	–	33,219	–	**33,219**
As of 31 December 2021		**1,157,825**	**19,218**	**(1,798)**	**110**	**1,175,355**	**–**	**1,175,355**	**778,049**	**19,218**	**(1,536)**	**795,731**

Non–current assets revaluation reserve, post–employment benefit plan revaluation and hedge reserves cannot be distributed as dividends. Other reserves are maintained with the aim to maintain stability in the operations of the Group entities.

b) Dividends

Accounting policy

Dividend distribution to the Parent Company's shareholders is recognised as a liability in the Financial Statements in the period in which the dividends are approved by the Parent Company's shareholders.

In 2021 the dividends declared and paid to equity holders of the Parent Company for 2020 were EUR 98,246 thousand or EUR 0.12431 per share (in 2020 for 2019: EUR 127,071 thousand or EUR 0.16003 per share).

According to the Law "On the Medium-Term Budget Framework for 2021, 2022 and 2023" the expected amount of dividends to be paid by Latvenergo AS for the use of state capital in 2021 (for the reporting year 2020) amounted to not less than EUR 98,2 million (incl. income tax). The distribution of net profit and amount of dividends payable is subject to a resolution of the Latvenergo AS Shareholders Meeting.

c) Earnings per share

Accounting policy

The Group's share capital consists of the Parent Company's ordinary shares. All shares have been fully paid.

Basic earnings per share are calculated by dividing profit attributable to the equity holders of the Parent Company by the weighted average number of ordinary shares outstanding (Note 20). As there are no potential ordinary shares, diluted earnings per share are equal to basic earnings per share in all comparable periods.

	Group		Parent Company	
	2021	**2020**	**2021**	**2020**
Profit attributable to the equity holder of the Parent Company (in thousand EUR)	70,675	114,513	79,520	154,848
Weighted average number of shares (thousand)	790,360	794,059	790,360	794,059
Basic earnings per share (in euros)	0.089	0.144	0.101	0.195
Diluted earnings per share (in euros)	0.089	0.144	0.101	0.195

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22. Other financial investments

Carrying (amortised cost) amount of other financial investments

EUR'000

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

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

As of 31 December 2020 the entire Group's and the Parent Company's other financial investments were Latvian State Treasury bonds with 10–year maturity, which were purchased with the purpose to invest liquidity reserve in the low–risk financial instruments with higher yield. In 2021 in connection with the amortisation of other financial investments net losses amounted to nil (2020: EUR 50 thousand) (Note 11) are recognised from changes in the value of the purchased bonds.

23. Borrowings

EUR'000

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

Movement in borrowings

EUR'000

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

Borrowings by categories of lenders

EUR'000

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

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

EUR'000

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

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

EUR'000

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

As of 31 December 2021 and as of 31 December 2020 all of the Group's and the Parent Company's borrowings were denominated in euros.

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

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

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I) Pledges

As of 31 December 2021 the Group's and the Parent Company's assets are not pledged to secure the borrowings, except the pledge on assets of Liepājas Enerģija SIA of maximum secured claims in the amount of EUR 29 million (31/12/2020: EUR 29 million) to secure its current and non–current borrowings. As of the end of the reporting year there has been pledged the property, plant and equipment in the net book amount of EUR 26 million and the claims on the receivable's accounts in the amount of EUR 3 million (31/12/2020: EUR 23 million and EUR 3 million, respectively).

II) Un–drawn borrowing facilities

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

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

III) Weighted average effective interest rate

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

IV) Issued and outstanding debt securities (bonds)

In 2015 and in 2016 the Parent Company (Latvenergo AS) issued green bonds in the total amount of EUR 100 million with the maturity date 10 June 2022 (ISIN code – LV0000801777) with the annual coupon rate of 1.9%. In 2021 Latvenergo AS issued green bonds in the total amount of EUR 50 million with the maturity date 17 May 2028 (ISIN code – LV0000802460) with the annual coupon rate of 0.5%. The total nominal amount of outstanding bonds as of 31 December 2021 was EUR 150 million (31/12/2020: EUR 100 million). All issued bonds are quoted in NASDAQ Baltic Stock Exchange. The issued debt securities (bonds) are measured at amortised cost at the end of reporting year.

As of 31 December 2021, the fair value of issued debt securities (bonds) exceeds their carrying amount by EUR 545 thousand (31/12/2020: EUR 2.5 million). The fair value of debt securities (bonds) issued is calculated by discounting their future cash flows and using the market quoted yield to maturity rates of the respective bonds as of the end of the reporting year as discount factor (Level 2).

24. Derivative financial instruments

Accounting policy

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

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

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

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

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

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in equity within 'Hedging reserve'. The gain or loss relating to the ineffective portion, if such arise, is recognised immediately in the Statement of Profit or Loss.

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

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

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I) Outstanding fair values of derivatives and their classification

EUR'000

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

EUR'000

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

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

EUR'000

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

II) Interest rate swaps

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

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

Fair value changes of interest rate swaps

EUR'000

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

The main interest rate hedging criteria stated in the Financial Risk Management policy is to ensure average fixed rate duration from 1 to 4 years and fixed rate portion at more than 35% of borrowings. As of 31 December 2021, 37% (31/12/2020: 38%) of the Group's and 38% (31/12/2020: 39%) of the Parent Company's borrowings had fixed interest rates (considering the effect from the interest rate swaps), and average remaining time to interest re–pricing was 1.5 years (2020: 1.6 years) for the Group and the Parent Company.

III) Energy forwards, futures, and swaps

As of 31 December 2021, the Group have entered into 44 electricity forward and future contracts (31/12/2020: 101 contracts) with total outstanding electricity purchase volume of 899,324 MWh (31/12/2020: 358,873 MWh) and notional value of EUR 63 million (31/12/2020: EUR 8 million). As of 31 December 2021, the Parent Company have entered into 38 electricity forward and future contracts (31/12/2020: 101 contracts) with total outstanding electricity purchase volume of 894,708 MWh (31/12/2020: 358,873 MWh) and notional value of EUR 63 million (31/12/2020: EUR 8 million). Electricity forward and future contracts are concluded for the maturities from one month to one year with expiration date during the period from 1 January 2022 to 31 December 2023. As of 31 December 2021 the Group and the Parent Company have entered into 37 natural gas price swap contracts (31/12/2020: 30 contracts) with total outstanding natural gas purchase volume of 3,067,000 MWh (31/12/2020: 3,390,000 MWh) and notional value of EUR 121 million (31/12/2020: EUR 57 million). Natural gas swap contracts are concluded for the maturities from one month to one season with expiration date during the period of 1 January 2022 to 31 December 2022.

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

Electricity forward and future contracts with total outstanding volume of 288,212 MWh as of 31 December 2021 (31/12/2020: 283,578 MWh) are designated to comply with hedge accounting treatment and were reassessed prospectively and retrospectively to test whether they are effective within the hedging period. All contracts are designed as cash flow hedges. For the contracts which are fully effective contracts fair value gains are included in other comprehensive income. 23 natural gas swap contracts with total outstanding volume of 1,387,000 MWh as of 31 December 2021 are designated to comply with hedge accounting treatment (31/12/2020: 16 contracts of 2,370,000 MWh) and were reassessed prospectively and retrospectively to test whether they are effective within the hedging period.

Fair value changes of electricity forward and future contracts

EUR'000

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

IV) Currency exchange forwards

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

Fair value changes of forward currencies exchange contracts

EUR'000

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

25. Fair values and fair value measurement

Accounting policy

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

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

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

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

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

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

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

EUR'000

Type of assets	Notes	Group – Fair value measurement using: Quoted prices in active markets (Level 1)	Group: Significant observable inputs (Level 2)	Group: Significant unobservable inputs (Level 3)	Group: TOTAL	Parent Company – Fair value measurement using: Quoted prices in active markets (Level 1)	Parent Company: Significant observable inputs (Level 2)	Parent Company: Significant unobservable inputs (Level 3)	Parent Company: TOTAL
As of 31 December 2021									
Assets measured at fair value									
Revalued property, plant and equipment	14 c	–	–	2,407,773	**2,407,773**	–	–	776,350	**776,350**
Non-current financial investments	16	–	–	40	**40**	–	–	39	**39**
Derivative financial instruments, including:									
Energy forwards, futures, and swaps	24	–	25,735	–	**25,735**	–	25,466	–	**25,466**
Assets for which fair values are disclosed									
Investment properties	14 b	–	–	3,316	**3,316**	–	–	3,602	**3,602**
Loans to related parties:									
- Floating rate loans	29 e	–	–	–	**–**	–	172,313	–	**172,313**
- Fixed rate loans	29 e	–	–	–	**–**	–	534,065	–	**534,065**
Current financial receivables	18 a, b	–	–	238,634	**238,634**	–	–	153,850	**153,850**
Cash and cash equivalents	19	–	97,079	–	**97,079**	–	92,418	–	**92,418**
As of 31 December 2020									
Assets measured at fair value									
Revalued property, plant and equipment	14 c	–	–	2,402,069	**2,402,069**	–	–	778,480	**778,480**
Non-current financial investments	16	–	–	40	**40**	–	–	39	**39**
Derivative financial instruments, including:									
Energy forwards, futures and swaps	24	–	1,557	–	**1,557**	–	1,557	–	**1,557**
Assets for which fair values are disclosed									
Investment properties	14 b	–	–	512	**512**	–	–	3,334	**3,334**
Other financial investments	22	–	16,836	–	**16,836**	–	16,836	–	**16,836**
Loans to related parties:									
- Floating rate loans	29 e	–	–	–	**–**	–	131,133	–	**131,133**
- Fixed rate loans	29 e	–	86,620	–	**86,620**	–	611,096	–	**611,096**
Current financial receivables	18 a, b	–	–	193,042	**193,042**	–	–	105,184	**105,184**
Cash and cash equivalents	19	–	100,703	–	**100,703**	–	98,261	–	**98,261**

There have been no transfers for assets between Level 1, Level 2 and Level 3 during the reporting period.

Latvenergo

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

EUR'000

Type of liability	Notes	Group – Fair value measurement using: Quoted prices in active markets (Level 1)	Group: Significant observable inputs (Level 2)	Group: Significant unobservable inputs (Level 3)	Group: TOTAL	Parent Company – Fair value measurement using: Quoted prices in active markets (Level 1)	Parent Company: Significant observable inputs (Level 2)	Parent Company: Significant unobservable inputs (Level 3)	Parent Company: TOTAL
As of 31 December 2021									
Liabilities measured at fair value									
Derivative financial instruments, including:									
Interest rate swaps	24	–	4,312	–	**4,312**	–	4,312	–	**4 ,312**
Energy forwards, futures, and swaps	24	–	14,208	–	**14,208**	–	14,208	–	**14,208**
Liabilities for which fair values are disclosed									
Issued debt securities (bonds)	23	–	151,139	–	**151,139**	–	151,139	–	**151,139**
Borrowings from financial institutions	23	–	643,890	–	**643,890**	–	631,183	–	**631,183**
Trade and other financial current payables	26	–	–	163,946	**163,946**	–	–	166,516	**166,516**
As of 31 December 2020									
Liabilities measured at fair value									
Derivative financial instruments, including:									
Interest rate swaps	24	–	9,504	–	**9,504**	–	9,504	–	**9,504**
Energy forwards, futures, and swaps	24	–	4,993	–	**4,993**	–	4,993	–	**4,993**
Currency exchange forwards	24	–	7	–	**7**	–	7	–	**7**
Liabilities for which fair values are disclosed									
Issued debt securities (bonds)	23	–	101,256	–	**101,256**	–	101,256	–	**101,256**
Borrowings from financial institutions	23	–	641,943	–	**641,943**	–	632,136	–	**632,136**
Trade and other financial current payables	26	–	–	76,429	**76,429**	–	–	51,664	**51,664**

There have been no transfers for liabilities between Level 1, Level 2 and Level 3 during the reporting period.

The fair value hierarchy for the Group's and the Parent Company's financial instruments that are measured at fair value, by using specific valuation methods, is disclosed above.

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

EUR'000

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

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

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26. Trade and other payables

EUR'000

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

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

27. Provisions

Accounting policy

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

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

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

EUR'000

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

a) Provisions for post–employment benefits

Accounting policy

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

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

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

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

EUR'000

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

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

EUR'000

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

Weighted average discount rate used for discounting benefit obligations was 0.92% (2020: 0.58%), considering EIOPA risk-free interest rate, interest rates of Latvian government bonds and EURBMK BBB electricity industry rate at the end of the reporting year. The Group's Collective Agreement provides indexation of employees' wages at least at the level of inflation. Long–term inflation determined at the level of 3.0% (2020: 3.0%) when calculating long–term post–employment benefits. In calculation of these liabilities also the probability, determined on the basis of previous experience, of retirement in different employees' aging groups was also considered.

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

EUR'000

Assumptions	Date of valuation	Group						Parent Company					
		Discount rate		Future salary changes		Retirement probability changes		Discount rate		Future salary changes		Retirement probability changes	
		1% increase	1% decrease	1% increase	1% decrease	1% increase	1% decrease	1% increase	1% decrease	1% increase	1% decrease	1% increase	1% decrease
Impact on provisions for post–employment benefits	31/12/2021	1,866	(1,677)	1,966	(1,650)	2,184	(1,807)	830	(744)	874	(732)	972	(801)
	31/12/2020	1,173	(1,728)	2,031	(1,701)	2,250	(1,855)	499	(732)	864	(720)	956	(785)

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

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

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

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

EUR'000

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

b) Termination benefits

Accounting policy

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

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

EUR'000

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

According to defined development directions per Strategy of Latvenergo Group for the period 2017–2022, management of the Parent Company approved the Strategic Development and Efficiency Programme. Provisions for employees' termination benefits are recognised on a basis of Strategic Development and Efficiency Programme of Latvenergo Group for the period in which it is planned to implement the efficiency program (including Latvenergo AS and Sadales tīkls AS efficiency activities), by which it is intended to reduce gradually the number of employees by the year 2022.

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

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c) Environmental provisions

Accounting policy

Environmental protection provisions are recognised to cover environmental damages that have occurred before the end of the reporting period when this is required by law or when the Group's or the Parent Company's past environmental policies have demonstrated that the Group or the Parent Company have a constructive present obligation to liquidate this environmental damage. Experts' opinions and prior experience in performing environmental work are used to set up the provisions.

EUR'000

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

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

28. Deferred income

Accounting policy

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

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

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

Grants related to expense items

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

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

Grants related to assets

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

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

EUR'000

	Notes	Group		Parent Company	
		31/12/2021	31/12/2020	31/12/2021	31/12/2020
I) Non-current deferred income					
a) contracts with customers					
From connection fees	6	136,217	138,750	–	–
Other deferred income		802	863	802	863
		137,019	**139,613**	**802**	**863**
b) operating lease					
Other deferred income		342	366	342	366
		342	**366**	**342**	**366**
c) other					
On grant for the installed electrical capacity of CHPPs		137,450	161,440	137,450	161,440
On financing from European Union funds		8,220	8,459	2,114	1,601
Other deferred income		103	148	52	73
		145,773	**170,047**	**139,616**	**163,114**
TOTAL non-current deferred income		**283,134**	**310,026**	**140,760**	**164,343**
II) Current deferred income					
a) contracts with customers					
From connection fees	6	14,794	14,167	–	–
Other deferred income		237	924	67	813
		15,031	**15,091**	**67**	**813**
b) operating lease					
Other deferred income		20	20	20	20
		20	**20**	**20**	**20**
c) other					
On grant for the installed electrical capacity of CHPPs		23,990	23,990	23,990	23,990
On financing from European Union funds		896	782	144	7
Other deferred income		–	7	–	4
		24,886	**24,779**	**24,134**	**24,001**
TOTAL current deferred income		**39,937**	**39,890**	**24,221**	**24,834**
TOTAL deferred income		**323,071**	**349,916**	**164,981**	**189,177**

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

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

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

EUR'000

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

29. Related party transactions

Accounting policy

The parties are considered related when one party has a possibility to control the other one or has significant influence over the other party in making financial and operating decisions. Related parties of the Group and the Parent Company are Shareholder of the Company who controls the Company in accepting operating business decisions, members of Latvenergo Group entities' management boards, members of the Supervisory board of the Company, members of Supervisory body of the Company – the Audit Committee and close family members of any above–mentioned persons, as well as entities over which those persons have control or significant influence.

Trading transactions taking place under normal business activities with the Latvian government including its departments and agencies and transactions between state–controlled entities and providers of public utilities are excluded from the scope of related party quantitative disclosures. The Group and the Parent Company enter into transactions with many of these bodies on an arm's length basis. Transactions with government related entities include sales of energy and related services and does not contain individually significant transactions and quantitative disclosure of transactions with those related parties is impossible due to broad range of the Latvenergo Group's and the Parent Company's customers, except for transactions with transmission system operator – Augstsprieguma tīkls AS and Latvijas elektriskie tīkli AS since 10 June 2020.

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

EUR'000

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

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

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EUR'000

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

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

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

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

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

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

Dividends received from subsidiaries are disclosed in Note 16.

e) Loans to related parties

Non-current and current loans to related parties

EUR'000

	Group 31/12/2021	Group 31/12/2020	Parent Company 31/12/2021	Parent Company 31/12/2020
Non–current loans to subsidiaries				
Sadales tīkls AS	–	–	467,786	477,507
Elektrum Eesti OÜ	–	–	7,560	–
Elektrum Lietuva, UAB	–	–	1,970	–
Allowances for expected credit loss	–	–	(306)	(344)
Non–current loans to other related parties				
Augstsprieguma tīkls AS	–	86,672	–	86,672
Allowances for expected credit loss	–	(52)	–	(52)
TOTAL non–current loans	**–**	**86,620**	**477,010**	**563,783**
Current portion of non–current loans				
Sadales tīkls AS	–	–	97,000	76,648
Elektrum Eesti OÜ	–	–	300	–
Allowances for expected credit loss	–	–	(62)	(55)
Current loans to subsidiaries				
Sadales tīkls AS	–	–	10,000	10,000
Elektrum Eesti OÜ	–	–	34,880	7,937
Elektrum Lietuva, UAB	–	–	56,198	10,209
Enerģijas publiskais tirgotājs SIA	–	–	31,137	73,781
Allowances for expected credit loss	–	–	(85)	(74)
TOTAL current loans	**–**	**–**	**229,368**	**178,446**
TOTAL loans to related parties	**–**	**86,620**	**706,378**	**742,229**

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

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

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Movement in loans issued to related parties

EUR'000

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

Interest received from related parties

EUR'000

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

l) Non–current loans, including current portion

Concluded non–current loan agreements with Sadales tīkls AS

EUR'000

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

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

During 2021 the effective average interest rate of non–current loans was 1.42% (2020: 1.53%). As of 31 December 2021 for non–current floating rate loans 6 months EURIBOR was -0.523% (31/12/2020: 6M EURIBOR -0.474%). As of 31 December 2021, impairment for expected credit loss of non–current loans to Sadales tīkls AS in the amount of EUR 361 thousand EUR (31/12/2020: EUR 399 thousand) was recognised. Non–current loans are not secured with a pledge or otherwise.

Non–current loans to Sadales tīkls AS by maturity

EUR'000

	Parent Company	
	31/12/2021	31/12/2020
Non–current loan:		
- < 1 year (current portion)	97,000	76,648
- 1 – 5 years	315,672	311,665
- > 5 years	152,114	165,842
	564,786	**554,155**

Concluded non–current loan agreement with Augstsprieguma tīkls AS

EUR'000

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

Along with the distribution of transmission system assets and unbundling of Latvijas elektriskie tīkli AS on 10 June 2020, all Latvijas elektriskie tīkli AS liabilities were transferred to Augstsprieguma tīkls AS, including the Latvenergo AS loan to Latvijas elektriskie tīkli AS in amount of EUR 225,232 thousand, of which EUR 46,672 thousand were repaid on 18 June 2021 and EUR 40,000 thousand on 20 July 2021 before the maturity date (on 19 June 2020: EUR 138,560 thousand).

Non–current loans to Augstsprieguma tīkls AS by maturity

EUR'000

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

Concluded non–current loan agreements with Elektrum Eesti OÜ

EUR'000

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

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

Non–current loans to Elektrum Eesti OÜ by maturity

EUR'000

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

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

EUR'000

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

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

Non–current loans to Elektrum Lietuva, UAB by maturity

EUR'000

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

II) Current loans

To ensure efficiency and centralised management of Latvenergo Group companies' financial resources and using the functionality of Group accounts and possibility for non–cash offsetting of mutual invoices between the parties, current loans are provided. In the reporting period Latvenergo AS issued loans to subsidiaries in accordance with mutually concluded agreement 'On provision of mutual financial resources', allowing the subsidiaries to borrow and to repay the loan according to daily operating needs and including non-cash offsetting of operating receivables and payables. In 2021 the effective average interest rate was 0.77% (2020: 0.53%).

On 29 March 2021 an agreement was concluded between Latvenergo AS and Enerģijas publiskais tirgotājs SIA for issue of the current loan in amount of EUR 120,000 thousand to ensure Enerģijas publiskais tirgotājs SIA financial resources for the fulfilment of public supplier duties and mandatory procurement process administration. Maturity date of the loan was 31 March 2022 with the possibility to extend the contract for one year if the condition is met that neither of parties propose a termination of the agreement one month before the expiration of the agreement. Annual interest rate is fixed at 1.098% (2020: 1.115%). As of 31 December 2021, net outstanding amount of current loan is EUR 31,137 thousand (31/12/2020: EUR 73,709 thousand).

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

f) Interest paid to related parties

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

EUR'000

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

30. Discontinued operation

Accounting policy

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale or distribution and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale.

The Group classifies assets and liabilities held for distribution if the discontinued operation is available for immediate distribution in its present condition and distribution is highly probable, as well is measured at the lower of their carrying amount and fair value less costs to distribute.

Assets and liabilities classified as held for distribution are presented separately from the other assets and other liabilities in the Statement of Financial Position.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit for the year from discontinued operation in the Statement of Profit or Loss.

On 8 October 2019, the Cabinet of Ministers of the Republic of Latvia supported the implementation of the "full ownership unbundling" model for the electricity transmission system operator by its Protocol Decision No. 46 §38. On 10 June 2020, the Company transferred the ownership interest in its subsidiary Latvijas elektriskie tīkli AS (LET) to the Ministry of Economics. The transaction was a non-cash distribution to the Company's owners (IFRIC 17), transferring all the shares of Latvijas elektriskie tīkli AS in the fair value of EUR 222,678 thousand (stated in the separate financial statements at EUR 186,432 thousand) to the Ministry of Economics. As a result of the transaction transmission system total assets of EUR 694,290 thousand were disposed of by the Latvenergo Group and profit from distribution of non–current financial investments in the amount of EUR 36,246 thousand recognised as 'Other income' (Note 7).

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In the 2020 Financial Statements till 10 June 2020 the subsidiary Latvijas elektriskie tīkli AS was classified as a discontinued operation in accordance with IFRS 5, "Non–current Assets Held for Sale and Discontinued Operations". In the Statement of Profit or Loss was disclosed profit from discontinued operation for period from 1 January 2020 until 10 June 2020 in the amount of EUR 9,844 thousand. Net changes in cash and cash equivalents of discontinued operation for period from 1 January 2020 until 10 June 2020 are negative and amounted to EUR 139 thousand. In the Group's operating segments results financial results of Latvijas elektriskie tīkli AS are disclosed in transmission system assets lease segment because until the termination of its ownership on 10 June 2020 the Management Board of the Parent Company continued to review financial results of this operating segment.

31. Changes in liabilities arising from financing activities

The changes in lease liabilities (Note 15):

EUR'000

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

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

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

32. Commitments and contingent liabilities

As of 31 December 2021, the Group had commitments amounting to EUR 136.8 million (31/12/2020: EUR 66.6 million) and the Parent Company had commitments amounting to EUR 105.0 million (31/12/2020: EUR 28.9 million) for capital expenditure contracted but not delivered at the end of the reporting period.

Latvenergo AS has issued support letters to its subsidiaries – on 9 February 2022 to Enerģijas publiskais tirgotājs SIA, on 17 February 2022 to Sadales tīkls AS and on 22 February 2022 to Elektrum Lietuva, UAB acknowledging that its position as the shareholder is to ensure that subsidiaries are managed so that they have sufficient financial resources and are able to carry their operations and settle their obligations.

33. Events after the reporting year

Accounting policy

Events after the reporting period that provide significant additional information about the Group's and the Parent Company's position at the balance sheet date (adjusting events) are reflected in the financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes when material.

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

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

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

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

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

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

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

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

There have been no other significant events after the end of the reporting year that might have a material effect on the Latvenergo Consolidated and Latvenergo AS Annual Financial Statements for the year ending 31 December 2021.

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The Management Board of Latvenergo AS:

Mārtiņš Čakste
Chairman of the Management Board

Dmitrijs Juskovecs
Member of the Management Board

Guntars Baļčūns
Member of the Management Board

Kaspars Cikmačs
Member of the Management Board

Harijs Teteris
Member of the Management Board

Liāna Ķeldere
Accounting director of Latvenergo AS

12 April 2022

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INDEPENDENT AUDITORS' REPORT

DOCUMENT DATE IS THE TIME OF ITS ELECTRONIC SIGNATURE

To the Shareholder of Latvenergo AS

Report on the Audit of the Financial Statements

Opinion

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

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

Basis for Opinion

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

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Key audit matters

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

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

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

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

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

Reporting on other information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

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

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

We confirm that:

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

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

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

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

Description of a subject and applicable criteria

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

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

Responsibilities of management and those charged with governance

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

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

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

Auditor's responsibility

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

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

Summary of the work performed

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

Our procedures include in particular:

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

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

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Opinion

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

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

ERNST & YOUNG BALTIC SIA
Licence No. 17

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

Riga,

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