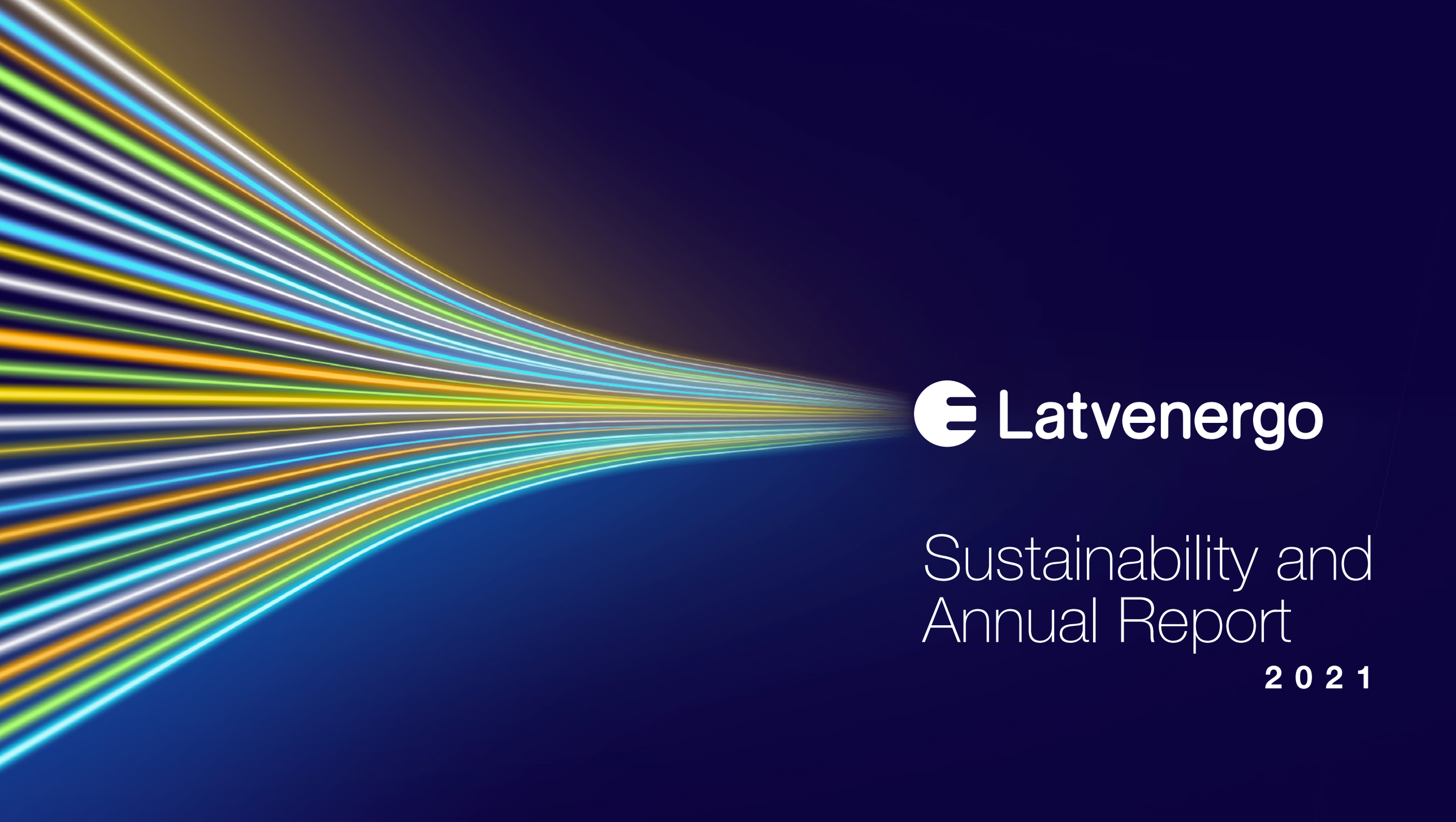
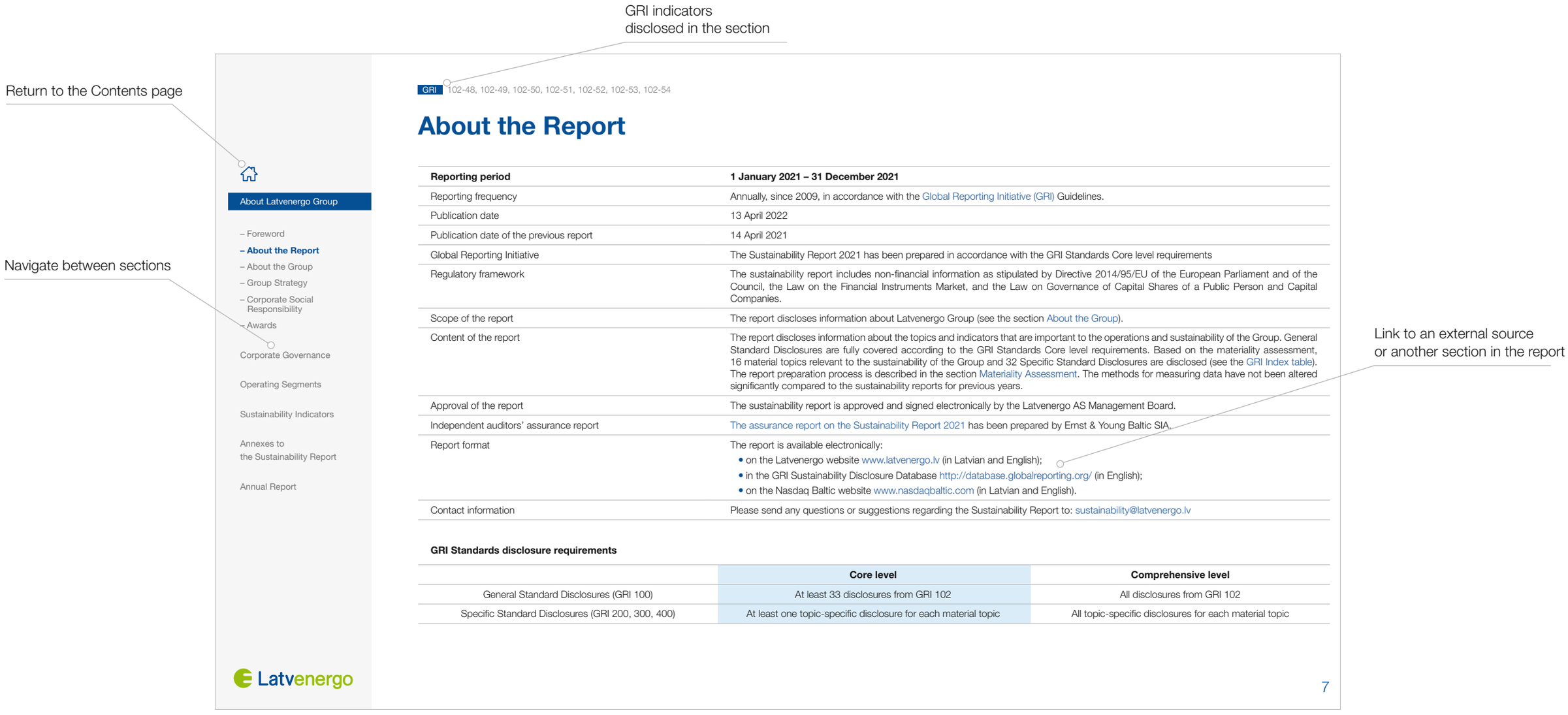


Latvenergo

Sustainability and Annual Report

2021

How to Use the Report



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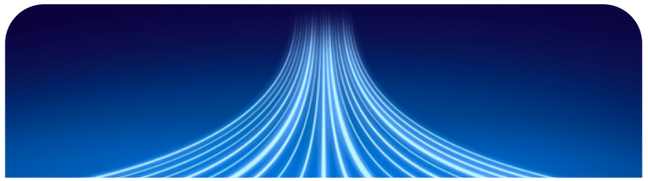

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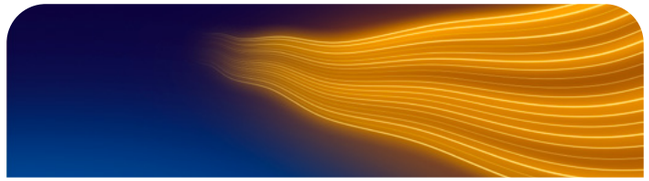

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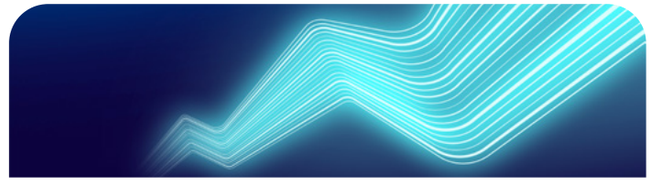
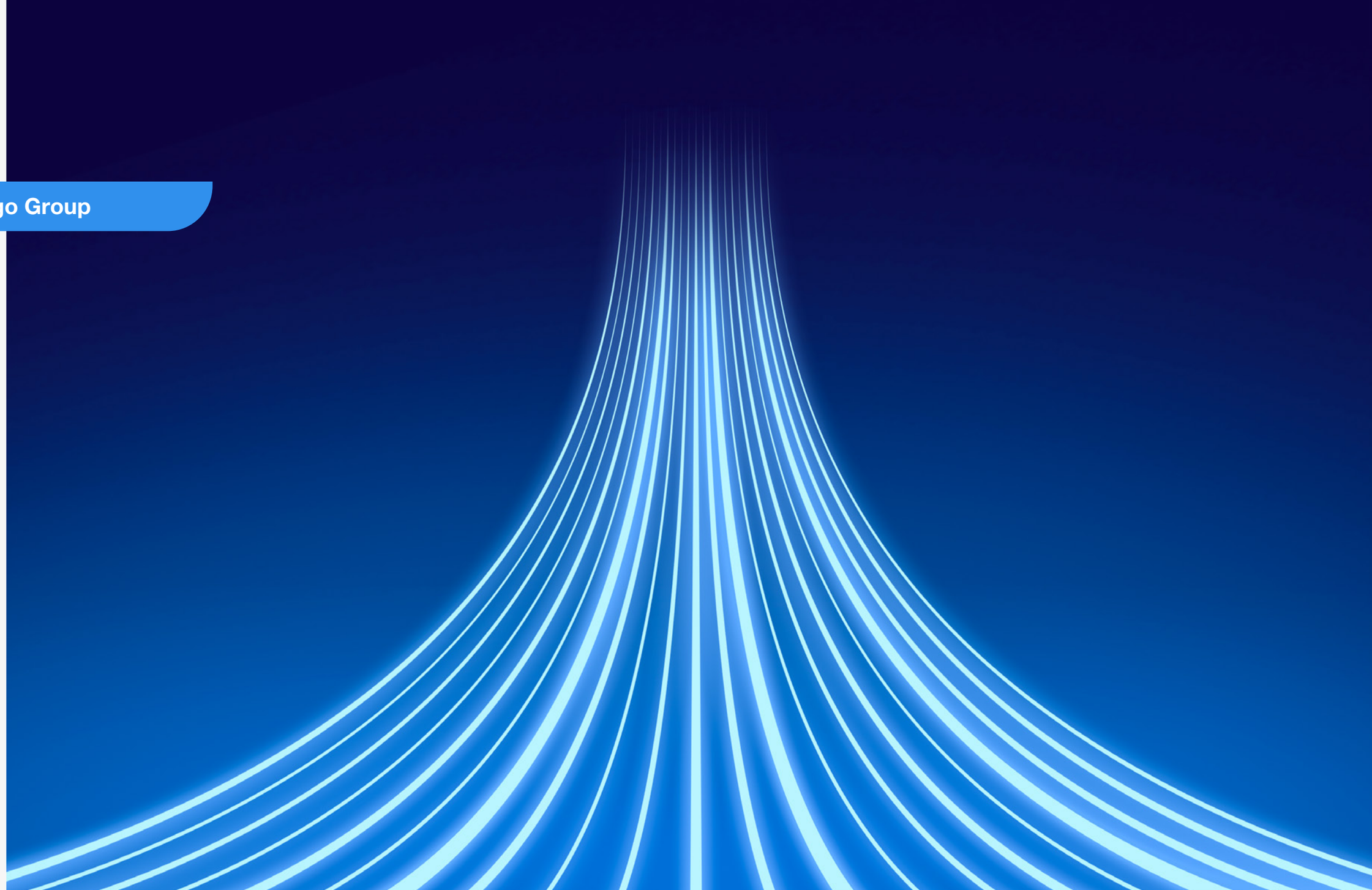


Latvenergo Group Consolidated and Latvenergo AS Annual Report

About Latvenergo Group



Foreword

Mārtiņš Čakste
Chairman of the Management Board of Latvenergo AS

Following the turmoil in the global economy brought by COVID-19, 2021 began with rapid economic growth, which, alongside less favourable weather conditions for electricity generation, led to unprecedented electricity and energy price increases, affecting not only consumers but also energy traders and generators. As a generator and trader of electricity, Latvenergo Group faced new, unprecedented challenges during the pandemic and a rapid and uncontrolled rise in energy prices.

2021 will be marked by the historically highest energy price records in the European energy market. Electricity market prices in the Baltics increased more than two and a half times. In Latvia, the rising electricity prices kept setting new historical monthly average price records, with the average price exceeding 207 EUR/MWh in December. On 7 December, the highest hourly electricity price in Latvia was recorded at 1,000.07 EUR/MWh. Record-high natural gas, coal and emission allowance prices also had a significant impact on electricity prices.

The capacity shortage in the Baltics, the need to diversify generating capacities, the development of new technologies, and their business potential emphasise the pressing need to develop new carbon-free power generation capacities. In 2021, Latvenergo Group's medium-term strategy for 2022–2022, with new strategic targets, was developed and in March 2022, it was approved by the Supervisory Board of Latvenergo AS. Among other things, it envisages expanding and diversifying the generation portfolio with green technologies by planning ambitious growth in renewable energy generation capacity. We are aiming to double renewable energy capacity by 2030 to strengthen our independence from energy imports and reduce electricity prices. By implementing the strategy, Latvenergo Group aims to prevent 2.6 million tonnes of CO_2 emissions in 2026. Geopolitical events in Europe have clearly shown that the decisions defined in the Group's strategy have become even more relevant.

At the same time, it should be emphasised that although 2021 was a challenging and very difficult year, it can nevertheless be considered a very successful year, with growth of the Group's operations, especially in new business segments.

Last year, Latvenergo Group generated a total of 4.5 TWh hours of electricity – 6% more than the year before – and was the largest generator of green energy in the Baltic states, generating 2.7 TWh or 60% of the total capacity at the Daugava hydropower plants. The Latvenergo AS CHPPs also had a successful year, generating 1.9 TWh of electricity in the reporting year – 10% more than in 2020. In total, the Group generated almost 70% of the electricity sold in the retail market.

Latvenergo Group has always carefully considered the environmental aspects of its operations, so it is only natural that the Group invests in its generation facilities as part of the European Green Deal and in accordance with the National Energy and Climate Plan. Reconstruction of hydropower units at Daugava HPPs continued last year to promote reliable, efficient and competitive operations of the cascade within the overall energy system and in the electricity market. The CHPP-2 heat storage system, the largest project of its type in the Baltic states, has been commissioned, and the ambitious reconstruction of Aiviekste HPP has been completed, almost doubling the plant's capacity – from 0.8 MW to 1.5 MW. More efficient use of energy sources in the Group's generation facilities also mitigates the Group's climate impact.

Latvenergo Group operates in all energy trade segments in Latvia, Lithuania, and Estonia and is one of the largest electricity traders in the Baltic states, with a 23% market share. During the reporting year, the number of customers increased in both the business and the household segment, as the Group's subsidiary Elektrum Eesti acquired three distribution microgrid service companies in Estonia and took over almost 20,000 customers in Estonia from the Finnish company Imatra Elekter. With the partial opening of the household market in Lithuania, the number of Elektrum Lietuva customers has also increased by approximately three times. During this period, nearly 7 TWh of electricity were sold to retail customers in the Baltic states, which was 5% more than in 2020, as well as 1 TWh of natural gas, which was twice as much as in 2020. The volume of natural gas sales has increased in all three Baltic states, driven by an increase in the number of customers, especially in the segment of Latvian households and Lithuanian small and medium-sized companies.

Sales of other retail products and services were successfully developed in the reporting period. Construction and installation of solar parks for customers is another particularly successful highlight.

At the end of the year, the total installed capacity of solar panels for retail customers of Latvenergo reached 10.7 MW, making the Group one of the leading providers of the service in the Baltics. About 70% of the capacity is installed for customers outside Latvia. At the end of the year, work began on the largest solar park project of Latvenergo Group, with a total capacity of 13 MW and an area of more than 20 ha in Lithuania.

The development of the charging network for electric cars continued at a rapid pace as well. At the end of 2021, with 90 charging ports in nine Latvian cities, *Elektrum* is one of the largest charging networks for electric cars throughout Latvia.

Despite the socio-economic challenges in 2021, Sadales tīkls AS successfully implemented planned grid maintenance and investment projects, improved digital and technological grid solutions, enhanced reliability indicators and provided high-quality distribution service to customers. Cooperation with customers and partners has been dynamic, based on innovation and digital services at a high level. By the end of 2021, 90% of all clients of Sadales tīkls AS had a smart electricity meter installed.

In the autumn of 2021, the Supervisory Board of Sadales tīkls AS approved the corporate strategy for the next period, which has been integrated into the Latvenergo Group strategy for 2022–2026. It is expected that the role of distribution system operators will change significantly in the coming years as the future of energy will be decentralised, decarbonised and digital, and Sadales tīkls AS will have to ensure high-quality electricity supply while developing a grid suitable for future needs.

Latvenergo Group is a socially responsible business and carries out voluntary activities contributing to sustainable development of the country. They promote broad engagement and provide significant long-term benefits to society as a whole. Some of the key activities are a competition for upgrading physics classrooms, the comprehensive knowledge contest *FIZMIX Eksperiments*, running for 26 years now, the Annual Science Award in cooperation with the Latvian Academy of Sciences, fish conservation projects, and many others highly regarded by the public.

Last year, Latvenergo Group also received a number of awards. For many years running, the Group has been recognized as the most valuable business in Latvia and is the only Latvian business represented in the *Baltic TOP 10*. Latvenergo AS has been recognised as the most sustainable business in the Latvian Sustainability Index and Sadales tīkls AS has also received the Platinum category. Latvenergo AS consistently ranks as the most preferred employer in Latvia in various surveys.

In 2021, the international credit rating agency Moody's reaffirmed the Baa2 investment grade credit rating, which reflects the competitiveness of the business in the energy market, its stability, reliability and future prospects.

Despite a number of shocks and challenges, Latvenergo Group has had a very successful year. At the time of publishing this report, the entire world is concerned by the war in Ukraine. Employees of Latvenergo Group provide assistance to Ukraine by participating in various initiatives. For example, employees of Sadales tīkls AS have helped 150 people from Kyiv, Sloviansk, Dnipro and Odesa get to Latvia and find accommodation in cooperation with local governments.

These tragic events are also having an impact on energy: price escalation and geopolitical crisis are forcing countries to look for diversified sources of gas supplies in the short term and to accelerate the development of a green economy in the long term. This motivates Latvenergo Group to take even more determined steps in developing new capacities to bolster the country's energy independence and at the same time move towards the goals of the European Green Deal. We will also continue to offer new and exciting products and services to our customers.

I would like to thank each of our customers and partners for the successful cooperation during this time! Regardless of any external challenges, Latvenergo Group will continue to grow and develop.

About the Report

Reporting period	**1 January 2021 – 31 December 2021**
Reporting frequency	Annually, since 2009, in accordance with the Global Reporting Initiative (GRI) Guidelines.
Publication date	13 April 2022
Publication date of the previous report	14 April 2021
Global Reporting Initiative	The Sustainability Report 2021 has been prepared in accordance with the GRI Standards Core level requirements
Regulatory framework	The sustainability report includes non-financial information as stipulated by Directive 2014/95/EU of the European Parliament and of the Council, the Law on the Financial Instruments Market, and the Law on Governance of Capital Shares of a Public Person and Capital Companies.
Scope of the report	The report discloses information about Latvenergo Group (see the section About the Group).
Content of the report	The report discloses information about the topics and indicators that are important to the operations and sustainability of the Group. General Standard Disclosures are fully covered according to the GRI Standards Core level requirements. Based on the materiality assessment, 16 material topics relevant to the sustainability of the Group and 32 Specific Standard Disclosures are disclosed (see the GRI Index). The report preparation process is described in the section Materiality Assessment. The methods for measuring data have not been altered significantly compared to the sustainability reports for previous years.
Approval of the report	The sustainability report is approved and signed electronically by the Latvenergo AS Management Board.
Independent auditors' assurance report	The assurance report on the Sustainability Report 2021 has been prepared by Ernst & Young Baltic SIA.
Report format	The report is available electronically: • on the Latvenergo website www.latvenergo.lv (in Latvian and English); • in the GRI Sustainability Disclosure Database http://database.globalreporting.org/ (in English); • on the Nasdaq Baltic website www.nasdaqbaltic.com (in Latvian and English).
Contact information	Please send any questions or suggestions regarding the Sustainability Report to: sustainability@latvenergo.lv

GRI Standards disclosure requirements

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

About the Group

Latvenergo Group is one of the largest providers of energy supply services in the Baltics, operating in:

- electricity and thermal energy generation and trade;
- natural gas trade;
- trade in products and services related to electricity consumption and energy efficiency;
- electricity distribution.

The Group's operations have been organised into two operating segments. One segment covers generation and trade, while the other comprises the distribution of electricity. For more information, see the section Operating Segments.

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

PURPOSE

We energize the growth of society

MISSION

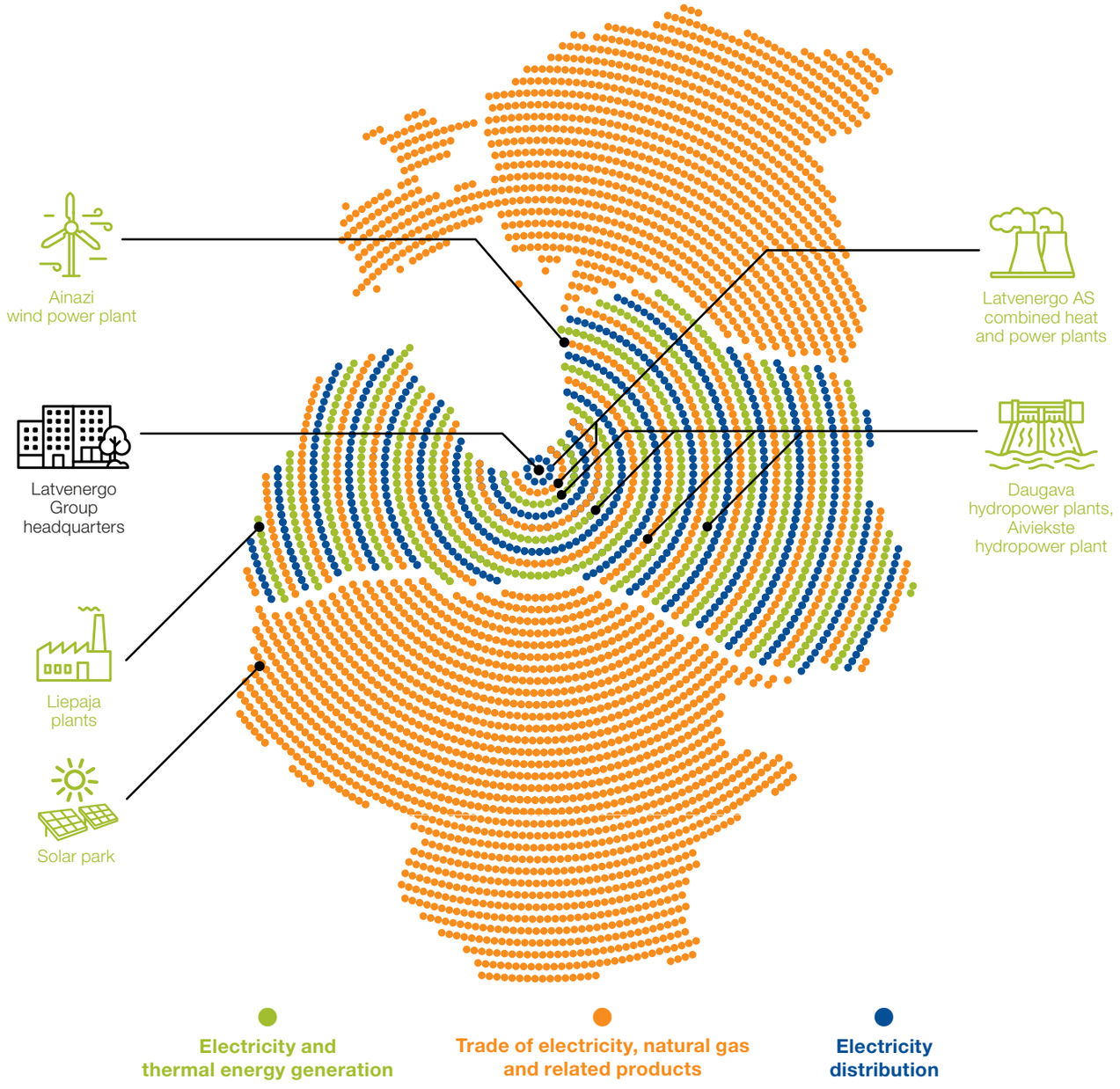
We drive the development of the energy industry by providing friendly, innovative and sustainable solutions

VISION

We are the leading sustainable solutions provider in the energy industry

VALUES

With heart	With mind	With energy	With a future outlook
We are open and passionate	We do the right things and learn continuously	We are brave and persistent	We do good for clients and society

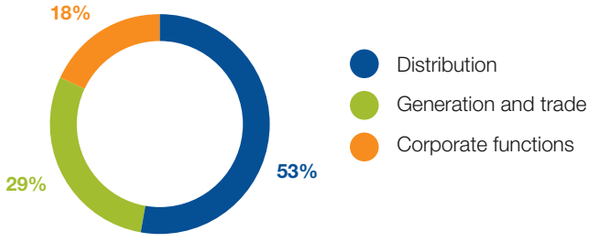


Facts 2021

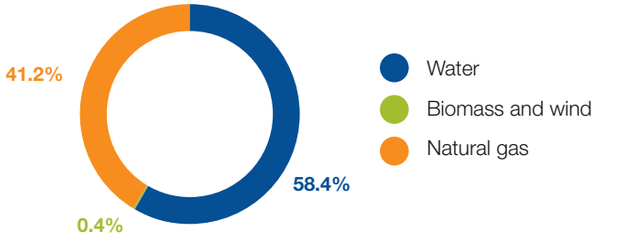
		2021	2020
Financial figures*			
Revenue	MEUR	**1,065.2**	773.4
Profit	MEUR	**71.6**	116.3
Assets	MEUR	**3,475.9**	3,358.8
Investments	MEUR	**126.7**	168.9
Moody's credit rating		**Baa2**	Baa2
Moody's ESG credit impact score		**CIS-2**	-
Generation and trade			
Installed electrical capacity	MW	**2,606**	2,605
Installed thermal capacity	MW	**1,797**	1,838
Electricity output	GWh	**4,517**	4,249
Thermal energy output	GWh	**2,072**	1,702
Generation efficiency of the Daugava HPPs	m^3/kWh	**17.9**	18.1
Generation efficiency of the Latvenergo AS CHPPs	%	**81**	76
CO_2 emission intensity	t/MWh_{el}	**0.12**	0.12
Market share in the Baltics	%	**23**	23
Retail electricity supply	GWh	**6,706**	6,394
Retail natural gas supply	GWh	**1,026**	516
Electricity retail customers	thsd.	**755**	744
Distribution			
SAIDI	min	**208**	219
SAIFI	number	**2.3**	2.3
Length of distribution lines	km	**92,430**	92,656
Transformer capacity	MVA	**5,951**	6,118

* excluding discontinued operations (see Note 30 of the financial statements)

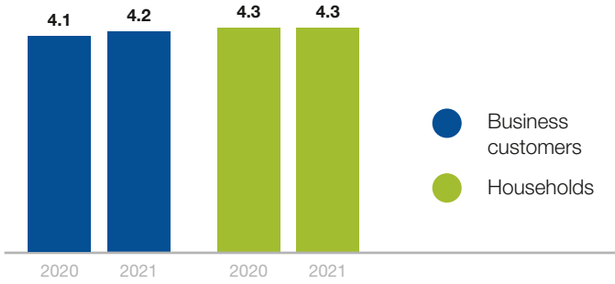
Employees **3,153**



Share of renewable resources in the electricity output **59%**



***Elektrum* customer satisfaction (on a scale 1–6)**



Highlights 2021

THE STRATEGY OF LATVENERGO GROUP FOR 2022–2026 HAS BEEN DEVELOPED

As part of the new strategy, Latvenergo Group plans to develop generation capacities using renewable energy sources, to strengthen the position of the most valuable energy trader in the Baltic market, to promote sustainable and smart electromobility, and to ensure a sustainable and flexible distribution system.

ELEKTRUM HAS DOUBLED ITS NUMBER OF CUSTOMERS OUTSIDE LATVIA

Elektrum Eesti has acquired several distribution microgrid service companies in Estonia to develop new products and services in the field of microgeneration and electromobility. In addition, Elektrum Eesti took over a portfolio of approximately 20,000 customers from the Finnish company Imatra Elekter. With the opening of the household market in Lithuania, the number of Elektrum Lietuva customers has also increased significantly.

ELEKTRUM SOLAR PARK HAS STARTED OPERATING IN LITHUANIA

The first *Elektrum* solar park in Lithuania with a capacity of 1.5 MW has been put into operation. Customers can purchase the capacity installed at the park within the remote net billing system.

More and more solar panels are also being installed in customer facilities. At the end of the reporting year, the total capacity of the panels installed by *Elektrum* for their customers in the Baltics reached 10.7 MW.

WE CONTINUE TO IMPROVE THE DISTRIBUTION SERVICE QUALITY

In the last five years, the System Average Interruption Duration Index (SAIDI) decreased by 20% and the System Average Interruption Frequency Index (SAIFI) decreased by 16%. The installation of smart meters has also continued successfully; at the end of the year, they already accounted for 90% of the entire meter fleet and metered 94% of all electricity consumed by customers.

LATVENERGO GROUP – ONE OF THE LEADERS IN ELECTROMOBILITY IN LATVIA

At the end of 2021, the *Elektrum* charging network already included 90 charging ports in nine Latvian cities. Some of them were installed in cooperation with partners. The number of charges performed has increased by about 50%, reaching 162 MWh.

THE CHPP-2 HEAT STORAGE SYSTEM IS PUT INTO OPERATION

The CHPP-2 heat storage tank, which is the largest project of its kind in the Baltics, was commissioned in March. It ensures thermal energy storage, primary energy savings and reduced CO_2 emissions.

NASDAQ AWARD FOR THE BEST INVESTOR RELATIONS

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

LATVENERGO AS HAS ISSUED GREEN BONDS WORTH EUR 50 MILLION

In May, Latvenergo AS issued green bonds for a total amount of EUR 50 million. The funds obtained are invested in the implementation of environmentally friendly projects. The growing interest in this type of securities is evidenced by the demand, which exceeded the supply 4.5 times.

RECONSTRUCTION OF AIVIEKSTE HPP HAS BEEN COMPLETED

In the reporting year, a large-scale reconstruction of Aiviekste HPP, which is one of the first hydropower plants in Latvia, was completed. Two existing hydropower units were renovated, and two new ones were installed.

Group Strategy

Environmental risks are assessed as the most significant risks at the global level in the coming years. The European Union (EU) has made climate change, the environment, and digitalisation a priority. Such a priority stems from the Communication published by the European Commission (EC) in 2019 on the Green Deal, which focuses on the use of renewable energy sources (RES) and on the progress towards climate neutrality by 2050. In the reporting year, the Green Deal was supplemented with the package *Fit for 55*, which envisages an even faster reduction of GHG emissions compared to the previously set targets for 2030.

The global economy in 2021 demonstrated signs of recovery from the effects of the COVID-19 pandemic. The rapid economic recovery and growing energy demand contributed to the record-high electricity and energy prices. The average annual electricity price in the Latvian bidding area of Nord Pool increased 2.6 times in 2021, reaching 88.8 EUR/MWh, while in December, the average monthly price already exceeded 200 EUR/MWh. The rise in prices was determined by a combination of several factors, including insufficient renewable energy generation capacities, which may become even greater in the future as the accelerating electrification and phasing out of fossil power plants continue.

Considering the new climate and energy policy framework and the significant changes caused by it in the energy sector, in 2021 the Cabinet of Ministers updated the overall strategic goal of Latvenergo AS:

> *to promote the competitiveness and growth of climate-neutral Latvia and increase the value of Latvenergo Group in the Baltic market and beyond it by the development and provision of the goods and services in the energy and related business value chains in a sustainable, innovative, and economically sound manner and by efficiently managing strategically important resources and infrastructure.*

Latvenergo Group is already one of the greenest electricity producers in Europe – the Group generates a significant proportion of electricity at its hydropower plants. These are supplemented by modernised combined heat and power plants, which generate electricity from natural gas. The Group will continue to generate green energy and develop generation capacities that are fully in line with the long-term goals of the EU for the development of the energy sector.

In 2021, Latvenergo Group operated in accordance with the objectives and tasks set in its Medium-Term Operational Strategy for 2017–2022. The fulfilment of the objectives set in the strategy provided an opportunity to evaluate the achievements in time and to set precise targets and tasks for the new period of the strategy, also considering the dynamic changes in the external environment. Respectively, in the reporting year, the Group's Medium-Term Operational Strategy for 2022–2026 was developed, setting out new strategic operational and financial targets. It was approved by the Supervisory Board of Latvenergo AS in March 2022.

The Strategy has been developed in accordance with the requirements of the Law on Governance of Capital Shares of a Public Person and Capital Companies and the Guidelines for the Development of Medium-Term Operational Strategies for State Capital Companies approved by the Cross-Sectoral Coordination Centre and considering the guidelines of the Organization for Economic Co-operation and Development (OECD). The strategic priorities of Latvenergo Group correspond to the strategic goal set by the Cabinet of Ministers, and they are further detailed in the operational and financial targets.

During the strategy development, extensive discussions took place in the sessions of thematic working groups, which involved both the employees of the Group and external experts. An online seminar was held in September 2021 to get to know stakeholders' views about the Group's development. More than half of the participants identified the EU Green Deal initiatives as an opportunity to be taken advantage of. Stakeholders see wind technologies as the main perspective for the development of the generation assets of Latvenergo AS until 2030. The most important proposals of the seminar participants for the strategic development of Latvenergo Group, which are also included in the new Strategy, are:

- to increase wind energy capacity in the generation portfolio;
- to further develop electric car charging points and introduce electric transport in the fleet of the company;
- to continue modernisation of generation assets;
- to continue to develop technical competencies and invest in research and development.

Sustainability is the key principle of the new strategy of Latvenergo Group, which is regularly reported in accordance with internationally recognised guidelines. Sustainability and related issues are perceived by the Group not only as an important part of the business model and strategy, but also in terms of opportunities and risks. The importance of sustainability is also acknowledged by the Group's stakeholders – more than 90% of the participants of the seminar held in September 2021 believe that sustainability aspects should be one of the main priorities in the operation of state-owned companies.

The Group's operational targets for 2022–2026

GENERATION

Expand and diversify the generation portfolio with green technologies.

The target is to grow the renewable energy generation portfolio, focusing on WPP and SPP:

- 2026: constructed or acquired WPP and SPP with total capacity of 600 MW;
- 2030: constructed or acquired WPP and SPP with total capacity of 2,300 MW.

The target also provides for:

- increasing the Daugava HPPs' asset value, guaranteeing their safe operation in the long run;
- ensuring stable, efficient and economically viable operation of the CHPPs in the long run.

TRADE

Strengthen the position of *Elektrum* as the most valuable energy trader in the Baltics.

The target is to increase the customer portfolio; promote microgeneration, electrification, energy efficiency and product innovation; and launch operations in Poland.

ELECTROMOBILITY

Develop electrification of the transport sector.

The target is to develop a public charging network in the Baltics:

- 2026: 1,200-1,500 charging ports;
- 2030: about 3,000 charging ports.

DISTRIBUTION

Ensure a sustainable and economically viable distribution service and improve the security and quality of electricity supply.

The target is to systematically and cost-effectively improve the quality and security of electricity supply:

- SAIDI reduced to 164 min. in 2026;
- SAIFI reduced to 1.92 times in 2026.

It also envisages the creation of a two-way network for the development of microgeneration and the implementation of digital transformation and efficiency measures.

By implementing the strategy of Latvenergo Group, we plan to achieve the following CO_2 emission saving targets:

2026:
2.6 million tonnes

2030:
17.8 million tonnes

UN Sustainable Development Goals set as a priority and relevant to the Group's core business

In addition, the Group plans to develop innovative products, services and processes that are relevant to the Group's priority SDGs. This target provides for the introduction of a culture of innovation in the Group, which supports: 1) research and development of innovative technologies; 2) development and implementation of innovative products and services, business directions and models; 3) systematic and continuous innovation to increase the efficiency of technological and corporate processes.

The Group's strategic targets for 2017–2021

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

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

Latvenergo Group is one of the largest providers of energy supply services and the leader in green energy generation in the Baltics. The Group currently operates in all energy trade segments in Latvia, Lithuania, and Estonia with its *Elektrum* brand. In the reporting year, a total of 6.7 TWh of electricity was supplied to retail customers; 40% of it was supplied to customers outside Latvia. Since 2021, *Elektrum* has also been operating in the partially open Lithuanian household electricity market; currently, the company has 38.5 thousand customers there.

Latvenergo Group is one of the largest consumers of natural gas in the Baltics, and this experience has made it possible to successfully start the retail supply of natural gas in the Baltics in the strategy period. The volume of natural gas sold to customers in the reporting year reached 1 TWh, which is twice as much as in 2020.

The Group also offers a range of electricity-related products and services. During the reporting year, the number of solar panels installed by customers increased significantly. By the end of 2021, their total capacity in the Baltics was 10.7 MW. The first solar energy park for clients, with a capacity of 1.5 MW, has also been commissioned in Lithuania. The Group also continues to strengthen its position in the field of electromobility. At the end of the reporting year, with 90 charging ports, *Elektrum* had one of the largest charging networks in Latvia. In 2022, we plan to increase the number of charging ports to 230.

In 2021, Elektrum Eesti, OÜ, a company of Latvenergo Group, acquired three microgrid companies in Estonia. They will be used to develop new products and services in the field of microgeneration and electromobility. In addition, Elektrum Eesti, OÜ took over almost 20,000 customers in Estonia from the Finnish company Imatra Elekter.

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

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

In line with market conditions and the European Green Deal, the Group invests in generation assets. In the reporting year, the renewal of the Daugava HPPs' hydropower units continued, which will ensure their operation in the next 40 years. Through the implementation of this project, the installed capacity, efficiency rate and electricity output of the hydropower units is increasing. The use of water, a renewable energy source, in a more efficient way reduces the impact of the Group on climate change. In total, seven hydropower units have been rebuilt during this strategic period.

Furthermore, both CHPPs play a very important role in providing generation capacities at a time when the water inflow in the Daugava River is low due to meteorological conditions. To use the advantages of the cogeneration regime as efficiently as possible, the largest heat storage tank in the Baltics was put into operation in 2021 at CHPP-2. The increase in flexibility and efficiency will allow the power plant to better adapt operation to variable market conditions and to reduce GHG emissions.

In the future, the Group plans to significantly increase the share of RES in its generation portfolio. Opportunities to develop wind power plants (WPPs) and to purchase already started WPP development projects in the Baltics and Poland are being evaluated. The construction of solar parks in the Baltic states has also begun.

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

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

During the strategy period, the reconstruction and modernisation of the distribution network was continued, which has made it possible to reduce the System Average Interruption Duration Index (SAIDI) by 27% and the System Average Interruption Frequency Index (SAIFI) by 25% since 2016. Digitalisation of the distribution network continued successfully – at the end of 2021, smart meters already accounted for 90% of the total meter fleet and were metering 94% of the total amount of electricity distributed. The installation of smart meters is expected to be completed in 2022.

In 2017, the Group launched an ambitious strategic development and efficiency implementation programme, which provided for the review, centralisation, and digitalisation of processes. Its implementation has allowed the Group to maintain and, in the long term, increase its value and competitiveness in the open market and the changing energy sector. By the end of 2021, most of the programme had been implemented faster than initially planned, with a total reduction of more than 1,000 positions, 36 technical bases, and almost 400 vehicles, while a number of other efficiency measures had been taken. Most of the measures were implemented at Sadales tīkls AS.

Until June 2020, Latvenergo Group also included Latvijas elektriskie tīkli AS, which leased the transmission system assets to the transmission system operator Augstsprieguma tīkls AS. The most significant transmission projects implemented during the strategy period were *Kurzeme Ring*, the third interconnection between Estonia and Latvia, and the construction of a power transmission line between CHPP-2 and the Riga HPP. In 2020, in accordance with the decision of the Cabinet of Ministers, the transmission assets were separated from Latvenergo Group.

Innovation and development

Latvenergo Group actively uses the opportunities offered by Latvian innovation ecosystem programmes, i.e., participates in co-production spaces, hackathons, and acceleration programmes and attracts co-financing from European funds and programmes. The most important activities in the reporting year:

- To promote the growth of green technology start-ups by developing cooperation with companies operating in the market, the Group has successfully participated in the Future Hub acceleration programmes for charging infrastructure solutions in urban districts and plans to expand this activity soon;
- Cooperation has been initiated with Riga Technical University and Riga Stradiņš University on involvement in the hackathon. The aim is to find the best solutions for the development of the electric car charging infrastructure near apartment buildings and the installation of solar modules with tracking systems, as well as to develop the visual and technical concept of the charging area;
- In cooperation with Latvia University of Life Sciences and Technologies, the solution of an autonomous microgrid for an individual household is being studied;
- Latvenergo AS has joined the Latvian Hydrogen Association to jointly study the extraction and use of hydrogen;
- Cooperation with the Latvian cement producer SCHWENK Latvija SIA and Ventspils naftas termināls SIA on CO_2 capture, storage, and utilisation technologies and on solutions for hydrogen and synthetic fuel extraction has been started;
- Cooperation with the Estonian company Fermi Energia OÜ has been started for the research of a small modular nuclear reactor;
- A study has been carried out on the possibilities of providing system services to the transmission system operator and the usefulness of installing electric batteries.

Sadales tīkls AS, as the holder of electricity market data, has published the first anonymised electricity consumption and generation data set, which can be used by researchers and scientists, as well as by new companies in the electricity supply sector for the improvement and development of existing solutions. The data set is freely available for download on the company's website.

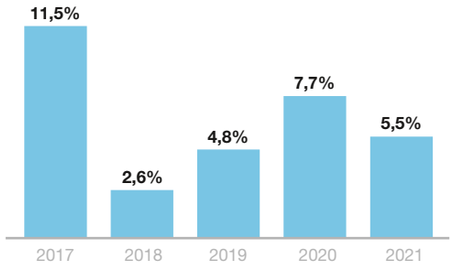
The Group's financial targets for 2026

Profitability

ambitious, yet achievable profitability, which is consistent with the average ratios of benchmark companies in the European energy sector and provides for an adequate return on the business risk

Return on equity (ROE) excluding distribution*

> 7%



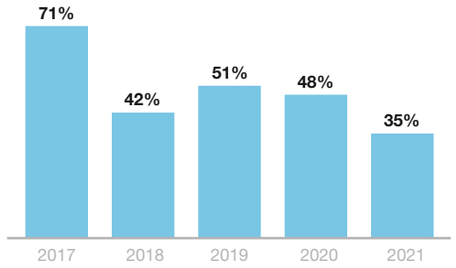
Latvenergo Group's profit for 2021 amounted to EUR 71.6 million, which is EUR 44.7 million less than in 2020. The decrease in profit was due to the significantly higher prices of purchased electricity, as well as to the prices of natural gas and emission allowances. In 2021, the electricity market price in Latvia increased more than two and a half times compared to 2020. Natural gas prices were almost five times higher, and the prices of emission allowances were more than twice as high. The lower profit in the reporting year had a negative impact on the ROE.

Capital structure

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

Ratio between adjusted funds from operations and net debt (FFO / Net Debt)*

> 25%



The FFO/Net Debt ratio in 2021 meets the set objectives.

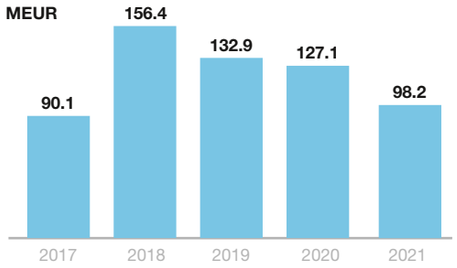
Taking into account the unbundling of transmission assets from Latvenergo Group in June 2020, the discontinued operation (transmission system assets) was removed from capital structure ratios.

Dividend policy

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

Dividend payout ratio

> 64%



Dividends are paid in compliance with the legislation of the Republic of Latvia. The strong capital structure provides for dividend payments larger than the industry average. Over the last five years, the average dividend payout ratio has been around 80%. For more information, see the section Key Figures of the Annual Report.

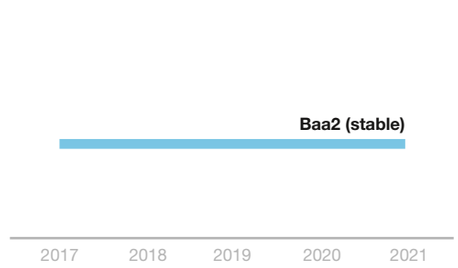
The dividend policy defined in the Strategy for 2022–2026 sets the dividend payout ratio at more than 64% of the profit, while each year's dividend payment is set by the Shareholder Meeting upon evaluation of the actual results. For more information, see the section Dividend Policy.

Credit rating

investment-grade credit rating to ensure financing for the ambitious investment programme set out in the strategy

Moody's credit rating

To maintain an investment-grade credit rating



After the end of the reporting year, on 24 January 2022, Moody's updated the credit rating analysis of Latvenergo AS, maintaining the credit rating of Latvenergo AS at the Baa2 level with a stable outlook. The Baa2 rating has remained stable for the seventh year in a row, confirming the stability and financial reliability of Latvenergo Group.

* For definitions of the financial ratios, see the section Key Figures in the Annual Report.

Corporate Social Responsibility

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

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

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

To promote donation process transparency and the qualitative assessment of donation activities, Latvenergo AS donates financial resources to co-operation partners for the organisation of project tenders. At the beginning of 2021, the donation strategy of Latvenergo AS was renewed, which includes, among other things, the following tasks:

- to supplement the teaching base for teachers and lecturers in the field of exact sciences and to promote the establishment of excellent physics classrooms in Latvian schools;
- to support sports activities for children and young people;
- to support the improvement of the quality of life of children and adults with special needs, including the provision of energy-efficient solutions.

For the last nine years, Latvenergo AS has received the Platinum category in the Latvian Sustainability Index, which indicates that the company adheres to excellent corporate governance and information openness principles, works efficiently and sustainably, treats its employees and customers responsibly, and cares for environmental protection. In the Group's strategy for 2022–2026, two CSR targets have been set: to maintain the compliance of Latvenergo AS with the Platinum category of the Sustainability Index and to ensure that more than 70% of the Latvian population sees the Group as an example of responsible business.

The UN Sustainable Development Goals

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

SDG	The Group's contribution to the achievement of the SDG	Section
 Ensure access to stable, affordable, sustainable and modern energy for all	high share of renewable energy in the generation portfolio and CO_2 emission intensity significantly lower than the European average	Generation Environmental Topics
	commissioning of a solar park in Lithuania	Trade
	modern electricity products in line with the specifics of customers' consumption, including *Elektrum Solar*, *Elektrum Green*, *Elektrum Smart House*, *Energo Pulse*, trade of products promoting energy efficiency, electric vehicle charging stations	Trade
	measures to promote energy efficiency for customers, such as educational events, webinars, publications, consultations offered by the *Elektrum* Energy Efficiency Centre	Trade
	automation and digitalisation of customer service processes	Social Topics
	installation of solar panels for buildings of social care organisations in Latvia	Corporate Social Responsibility
 Build resilient and sustainable infrastructure, promote inclusive and sustainable industrialization, and foster innovation	reconstruction of the Daugava HPPs' hydropower units and Aiviekste HPP	Generation
	renewal and digitization of the distribution network, streamlining of the network structure	Distribution
	construction of the Baltics' largest heat storage tank at CHPP-2, ensuring more effective use of energy sources	Generation Environmental Topics
	involvement in the Innovation Forum for Excellent Latvian Enterprises, the Science Hackathon, and the Future Hub programme of the green technology accelerator	Corporate Strategy
 Take urgent action to combat climate change and its impacts	CO_2 emission intensity significantly lower than the European average secured by the considerable share of renewable energy sources in the consumption of primary energy sources and efficient CHPP generation modes	Generation Environmental Topics
	modernisation of the electricity distribution network, which has allowed the Group to reduce distribution losses by 66 GWh or 20% in the last five years	Distribution
	an energy management system corresponding to the international standard ISO 50001	Environmental Topics

Science and education

Priority direction of CSR that promotes young people's interest in sciences and engineering professions, complements teachers' and lecturers' teaching material base, promotes sports education for children and youth, supports energy researchers and teachers, and educates the public on energy efficiency.

26 years
FIZMIX Eksperiments knowledge contest

In 2021, 131 teams or 655 students from all over Latvia applied for the competition. The competition was held remotely, and its final, which was part of the Latvian Physics Day, was available online. *FIZMIX Teacher 2021* was also awarded for the first time.

24 years
Energy Efficiency Centre

The website of the Energy Efficiency Centre provides e-consultations, diverse and practical recommendations for increasing energy efficiency, and an archive of seminars and webinars organised by the Centre. *Energo Pulse*, a household energy efficiency programme, was launched in 2020, and it is already used by approximately 31,000 *Elektrum* customers.

9 years
FIZMIX

The Group has developed and regularly improves the physics portal FIZMIX for young people. In 2021, the tasks of centralised physics exams, with detailed solutions, explanations and evaluation criteria, were posted on the portal. Some solutions are also available in video format. Students can do exam tasks in the form of a test as well.

14 years
Diploma papers contest

14 years
Scholarship contest

23 years
Annual Science Award

1 year
Project contest for the development of team sports for children and young people

In cooperation with the Latvian Team Sports Games Association, a new project contest was launched in 2021 to promote the involvement of children and young people in team sports, as well as to improve coaches' knowledge and the performance of young athletes in competitions.

1 year
Project contest for the development of physics classrooms

In co-operation with *Mission Possible*, a new project contest was launched in 2021, in which 10 Latvian schools received equipment for the development of modern physics classrooms.

7 years
Donation of used computer equipment to educational institutions

4 years
Support for the participation of the Latvian team in the International Physics Olympiad

Culture and energy heritage

Activities that strengthen Latvian cultural traditions and promote public knowledge about the Latvian energy sector.

27 years
Energy Museum

To promote remote access to the national energy heritage and knowledge about the Latvian energy sector and the history and development directions of the Group, the Virtual Energy Museum was opened in December 2021. There are about 3,000 exhibits in it, which include evidence of energy history, timelines, digital maps, movie chronicles, and animations about energy generation at Latvenergo AS today.

14 years
Participation in the Museum Night

Raising public awareness of electrical safety

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

16 years
Education of children and young people on electrical safety

In 2021, employees of Sadales tīkls AS – electrical safety ambassadors – conducted more than 220 classes both onsite and remotely, educating about 6,200 children and young people. Electrical safety education was also implemented at the *Zelta Zivtiņa Family Cup*.

Environmental protection

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

12 years
Fish protection projects

11 years
White stork monitoring

About 70% of white storks nest on power line pylons, so the construction and maintenance of the power grid is organised in such a way as not to harm the population of these birds. In 2021, Sadales tīkls AS, in cooperation with the Latvian Fund for Nature, opened a live broadcast of a white stork's nest, which could be watched on the websites and social network accounts of the company and Latvian Fund for Nature.

5 years
River cleaning

8 years
Education of people engaged in building, logging and agricultural work on electrical safety

Social support and responsibility towards employees

Support for the promotion of social care and additional social guarantees for employees.

11 years
Employee Christmas charity event

4 years
Project contest to support social care organisations

Following the cooperation with Ziedot.lv, a new project contest for the installation of solar panels in the buildings of social care organisations was launched in 2021.

1 year
Education of households on electrical safety

In 2021, Sadales tīkls AS started a campaign for parents – *Do not test electricity's patience*. As part of the campaign, in cooperation with Schneider Electric Latvija SIA, the maternity wards of nine hospitals in Latvia received 1,000 electrical safety packs for new mothers, which include an instructional colouring booklet, wall socket covers and sockets with guards.

Awards

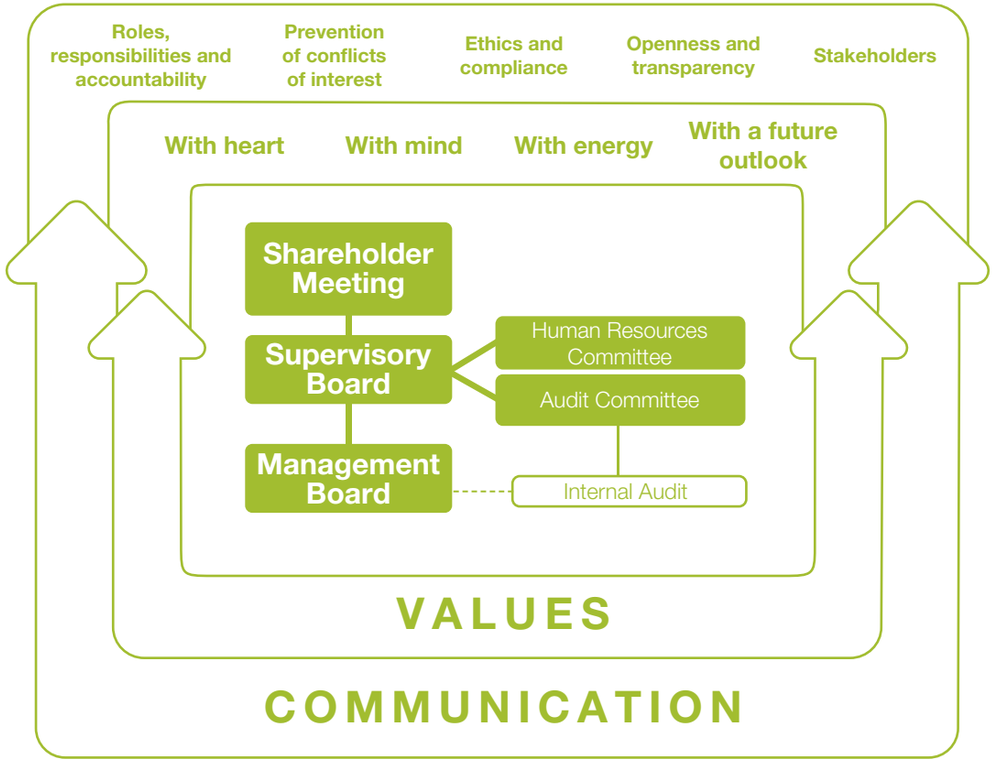
Latvenergo Group – a leader in sustainability

- In the Sustainability Index of 2021, Latvenergo AS was recognised as the most sustainable company in Latvia. Both Latvenergo AS and Sadales tīkls AS received the Platinum category.
- Latvenergo AS was recognised as one of the most attractive employers in Latvia in the Baltic Employer Image Survey of Kantar. In the Fontes study on remuneration trends in Latvian companies in 2021, Latvenergo AS received 4th place among large companies in the category Fair Payer of 2021.
- In the European Sustainable Brands Index, the brand *Elektrum* of Latvenergo AS was recognised as the second most sustainable brand in Latvia.
- Latvenergo AS was granted the status of a Family-Friendly Workplace by the Society Integration Fund.
- The electrical safety campaign of Sadales tīkls AS *Electricity – powerful but threatening* received two prizes in the largest Baltic competition in the communications industry *Mi:t&Links. Baltic Communication Awards 2021*: 2nd place in the category Corporate Sustainability and Responsibility and 3rd place in the category Public Sector Campaigns.
- For the third year in a row, both the fleet of Latvenergo Group and the fleet of specialised equipment of Sadales tīkls AS received the Gold Award in the competition for the Safest Company Fleet of 2021.

Latvenergo Group companies – at the top of the largest and most valuable companies

- In the TOP 101 of the most valuable enterprises in Latvia, Latvenergo AS received the award for the most valuable company in Latvia for the 14th time in general and for the 13th time in a row. Latvenergo AS is the only Latvian company in the TOP 10 most valuable companies in the Baltics.
- In the TOP 500 of Latvian Companies, Latvenergo AS was recognised as the most profitable company, the largest EBITDA maker, the largest state-owned company, and the largest company in the energy sector. Sadales tīkls AS was recognised as the second largest company in the energy sector and the third largest state capital company.
- In the Latvian Business Annual Report 2021, Latvenergo AS was rated as the largest company in the energy sector. Sadales tīkls AS ranked 2nd among Latvian electricity and gas companies.

Corporate Governance Model



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

Every year, Latvenergo AS prepares a corporate governance report according to the requirements of the Law on the Financial Instruments Market and the Law on Governance of Capital Shares of a Public Person and Capital Companies. The report for 2021 has been prepared evaluating the compliance of the capital company with the Corporate Governance Code, which was published in 2020 by the Corporate Governance Advisory Board established by the Ministry of Justice. In 2021, 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. The report is available on the Latvenergo website and on the Nasdaq Baltic website.

Since 2021, Sadales tīkls AS also prepares a corporate governance report. In 2021, the company fully complies with 16 out of the 17 principles set out in the Code. The report is available on the website of Sadales tīkls AS.

Ethics and compliance

Latvenergo Group follows high standards of professional ethics, ensures the compliance of its operation with legislative requirements and does not engage in anti-competitive, corrupt or discriminatory transactions. For more information, see the topic General compliance and fair business.

Roles, responsibilities and accountability

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

Openness and transparency

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

Prevention of conflicts of interest

Members of supervisory boards and management boards of state capital companies have the status of public officials, which restricts their activities that fall outside the framework of their official powers to prevent personal or financial interests in their activities. Members of supervisory boards and management boards are obliged to submit annual asset declarations as public officials. The Group's Code of Ethics defines the types of conflict of interest and the measures for the prevention of conflicts of interest situations. For more information, see the topic General compliance and fair business.

Stakeholders

Latvenergo Group assesses and takes into consideration its impact on stakeholders and vice versa and handles issues of material importance to its stakeholders with a sense of responsibility. For more information, see the section Stakeholder Engagement.

Governance Bodies

Shareholder Meeting

The principal duties

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

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

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

Six Shareholder Meetings took place in 2021. The main decisions passed in the reporting year:

- use of profits and payment of dividends for 2020 in the amount of EUR 98.2 million;
- election of the auditor of the Annual Report for 2021;
- increase in share capital and amendments to the Articles of Association;
- election of the Audit Committee.

Supervisory Board

The principal duties

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

The Supervisory Board of Latvenergo AS is composed of five members and their term of office is five years. All members of the Supervisory Board are independent specialists who are not involved in the Group's operations.

15 meetings of the Supervisory Board took place in 2021. The most important issues addressed at the meetings:

- evaluation and conceptual approval of the Strategy for 2022–2026;
- analysis of the most significant events and trends in the energy sector, assessment of the impact of the extraordinary rise in energy prices and related operational risks;
- quarterly evaluation of the Group's financial and non-financial results and its fulfilment of strategic objectives;
- approval of the budget and the Group's objectives for 2022;
- election of three new Management Board members and organisation of the selection of candidates for the vacant position of member of the Audit Committee.

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

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

Management Board

The principal duties

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

The Articles of Association of Latvenergo AS stipulate that the Management Board is composed of five members and their term of office is five years. The Management Board members are elected by the Supervisory Board, assessing their compliance with the required competencies, experience, and planned area of responsibility. The Management Board operates in compliance with the Articles of Association and the Regulations of the Management Board and reports to the Supervisory Board. All members of the Management Board are independent in their operations and hold no interest in the capital of cooperation partners or related companies. The Management Board members are jointly liable for compliance with all binding laws and regulations, execution of the decisions of the Shareholder Meeting and the Supervisory Board, and the financial performance of the Group.

For most of 2021, the Management Board had four members; two of them – A. Kurgs and U. Mucinieks – were appointed until the permanent members were chosen through a competition. New members M. Čakste, H. Teteris and D. Juskovecs took the Management Board positions on 3 January 2022, and at the time of this report's publication, all five positions on the Board are occupied.

In 2021, 63 Management Board meetings were convened. Number of meetings attended: G. Baļčūns (Chairman of the Management Board) – 62; K. Cikmačs – 59; A. Kurgs – 61; U. Mucinieks (in office from 01.02.2021) – 56. The overall attendance rate was 96%.

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

Audit Committee

The principal duties

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

There is an independent Audit Committee at Latvenergo AS, which reports on its operations and performance to the Supervisory Board. The Committee is composed of five members and their term of office is three years. Two members of the Committee are also members of the Supervisory Board, and all members of the Committee are independent. Nine meetings of the Audit Committee were held in 2021. The Regulations of the Audit Committee are available on the Latvenergo website.

Audit Committee Report

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

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

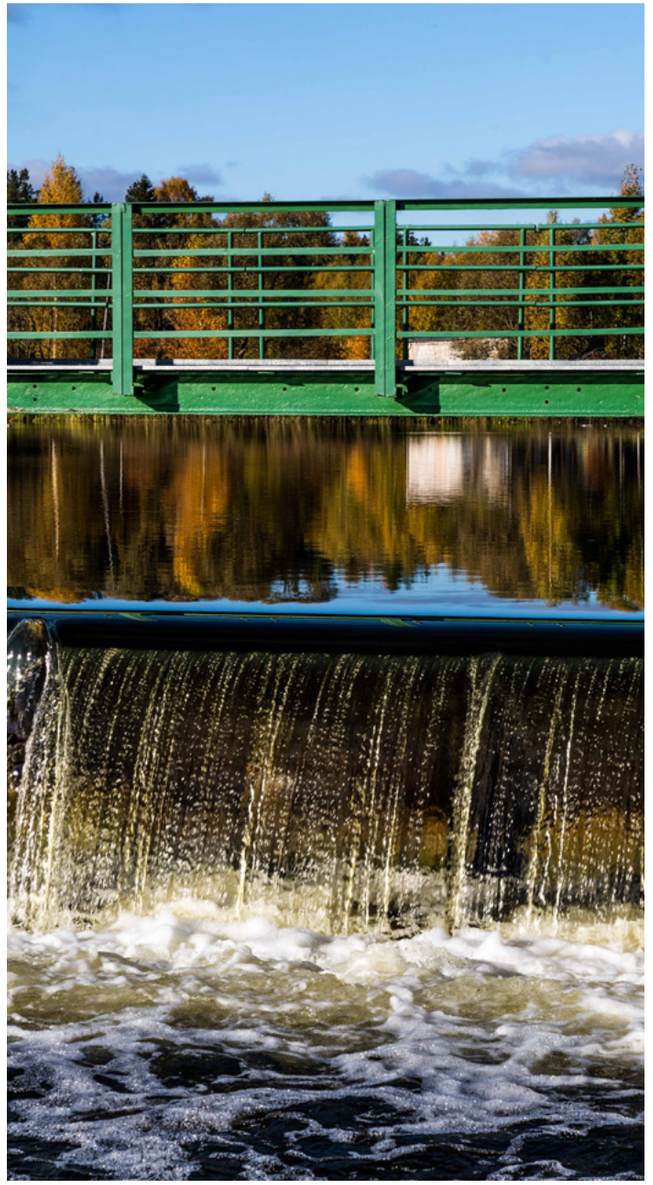
In 2021, in addition to its principal duties, the Audit Committee:

- discussed and commented on the new strategy of the Group;
- deliberated on significant events and trends in the energy sector, including the impact of the extraordinary rise in energy prices and assessment of the related operational risks to the Group;
- selected and recommended to the Shareholder Meeting of Latvenergo AS the choices and its preference for the external auditor for the years 2021–2023;
- agreed on the working mechanisms with the Supervisory Board of Sadales tīkls AS;
- performed a self-assessment of the Committee's working practices as compared to recommended practices and working practices at other organisations.

Having assessed the information received from the Internal Audit Director, Compliance Control Manager, Risk Manager, external auditor and other assurance providers, nothing has come to our attention that would lead us to believe that the internal controls of Latvenergo AS are not operating adequately for the purpose of preparing the Annual Report 2021.

We submit our activity report and assessments to the Supervisory Board of Latvenergo AS in April 2022.

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



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

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

The monthly salary of the Chairman of the Supervisory Board and the Chairman of the Management Board is linked to the average monthly salary of employees in Latvia during the preceding year, as published by the Central Statistical Bureau, multiplied by a ratio specified according to the capital company's reference criteria (turnover, assets and number of employees). The maximum ratio applicable to the monthly salary of a chairman of a supervisory board is 3, and in 2021, it was applied to the monthly salary of the Chairman of the Supervisory Board of Latvenergo AS. In turn, the maximum monthly remuneration coefficient for a chairman of a management board in accordance with the indicators characterising capital companies is 10, which was applied to the monthly remuneration of the Chairman of the Management Board in 2021.

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

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

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

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

Remuneration for 2021

In 2021, remuneration was paid to the Supervisory and Management Boards, and the Audit Committee of Latvenergo AS in accordance with the period in which they worked.

Chairman of the Management Board, Acting Chief Executive Officer and Chief Financial Officer G. Baļčūns – EUR 192,310.23; Member of the Management Board and Chief Development Officer K. Cikmačs – EUR 174,791.39; Member of the Management Board and Chief Administrative Officer A. Kurgs – EUR 146,954.10; Member of the Management Board (from 01.02.2021) and Chief Commercial Officer U. Mucinieks – EUR 138,116.06.

Chairman of the Audit Committee T. Pedersen – EUR 13,891.71; Member of the Audit Committee S. Dinsdorfs – EUR 12,912.00; Member of the Audit Committee (from 03.02.2021) I. Grūba – EUR 11,759.14.

Chairman of the Supervisory Board I. Golsts – EUR 38,736; Members of the Supervisory Board K. Rokens, T. Siliņš, A. Laizāns and G. Ruža – EUR 34,860 each.

Internal Audit

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

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

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

External Auditor

The annual report auditor of Latvenergo AS for 2021 is Ernst & Young Baltic SIA, a commercial company of certified auditors (in 2018–2020, it was PricewaterhouseCoopers SIA). The auditor is selected as a result of the most economically advantageous tender for a period of three years, evaluating the price of the service, the qualifications of the staff involved, the audit execution plan and the number of audit hours.

Dividend Policy

The distribution of Latvenergo AS dividends is regulated by the laws of the Republic of Latvia:

- Law on the State Budget and Law on the Medium-Term Budget Framework;
- Law on Governance of Capital Shares of a Public Person and Capital Companies and regulations of the Cabinet of Ministers issued on the basis thereof.

In accordance with the Law on the Medium-Term Budget Framework for 2022, 2023 and 2024, the expected amount of dividends to be paid by Latvenergo AS is as follows:

- In 2022 (for the reporting year 2021), 64% of the profit in the reporting year, but not less than EUR 70.2 million;
- In 2023 (for the reporting year 2022), 64% of the profit in the reporting year, but not less than EUR 56.8 million.

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

Governance of Subsidiaries

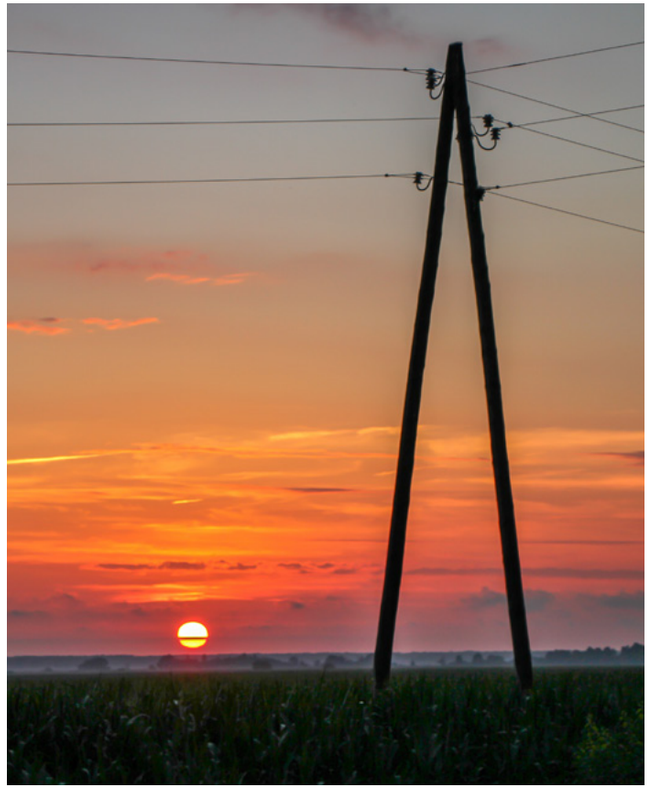
Latvenergo Group subsidiaries are governed through governance instruments such as strategy, organisational structure organised around functional units, and policies.

- The supervisory authority of Latvenergo AS is its Supervisory Board, the members of which have been selected through a competition.
- The activities of the Management Board of Enerģijas publiskais tirgotājs SIA are supervised by the Shareholder Meeting, at which the interests of Latvenergo AS are represented by the Management Board of Latvenergo AS.
- The supervisory body of Elektrum Eesti OÜ and Elektrum Lietuva UAB, which operate outside the territory of Latvia, is their Supervisory Board. Employees of Latvenergo AS who are responsible for the relevant areas of operation at Latvenergo AS are appointed to the Supervisory Boards of these subsidiaries.
- Supervisory functions at Liepājas enerģija SIA, where the equity share of Latvenergo AS is 51%, are carried out by a Supervisory Board; half of its members are representatives of Latvenergo AS.

Changes in governance bodies of subsidiaries

At the beginning of the reporting year, the Management Board of Sadales tīkls AS consisted of four persons. On 18 January 2021, Kristīne Sarkane was elected to the Management Board of the capital company.

At the end of 2020, the Shareholder Meeting of Enerģijas publiskais tirgotājs AS decided to reorganise Enerģijas publiskais tirgotājs AS by transforming it into Enerģijas publiskais tirgotājs SIA. The reorganisation was completed on 31 March 2021.



Latvenergo AS Supervisory Board

Ivars Golsts

Chairman of the Supervisory Board

Term of office

10.06.2025

Committee membership

Human Resources Committee

Experience

2021–present: Member of the Fiscal Discipline Council

2019–2020: Fiscal Discipline Council, Secretary

2008–2015: Latvian Guarantee Agency, Director

2003–2006: Latvian State Radio and Television Centre VAS, Chairman of the Management Board-Director General

2000–2003: European Bank for Reconstruction and Development, Advisor for Norway / Finland / Latvia Office of Board Directors

Education

University of Latvia, Master's Degree in Humanities, in Theology and Religious Studies (2021)

University of Colorado at Denver, Master of Science in International Business (2000)

RTU, Computer Hardware Engineer (1991)

Riga Electromechanical Technical College, Radioelectronics Technician (1986)

Kaspars Rokens

Deputy Chairman of the Supervisory Board

Term of office

10.06.2025

Committee membership

Human Resources Committee (Chairman)

Experience

2020–present: Velve SIA, Chairman of the Management Board and Chief Executive Officer

2017–2019: RB Rail AS, Member of the Management Board and Chief Operating Officer

2011–2016: Schneider Electric Latvia SIA, Member of the Management Board, Chief Executive Officer

1998–2010: Machinery Latvia SIA, Member of the Management Board, Chief Executive Officer

1994–1998: ABB Latvia, Production Director / Power Plant Department Manager

Education

SSE Riga, Master of Business Administration (2007)

RTU, Master's Degree in Energy Supply Optimisation (1996)

KTH Royal Institute of Technology, Licentiate Degree in Combustion Processes (1996)

Aigars Laizāns

Member of the Supervisory Board

Term of office

10.06.2025

Committee membership

Human Resources Committee

Experience

2016–2021: Latvijas Dzelzceļš VAS, Member of the Supervisory Board

2013–present: Latvia University of Life Sciences and Technologies, Vice-Rector for Studies, Professor and Lead Researcher

1984–2013: Latvia University of Life Sciences and Technologies, Researcher and Professor

Education

LLU, Doctor of Sciences in Agricultural Engineering (2011)

RTU, Riga Business Institute, Master of Business Management (1996)

LLU, Master's Degree in Agricultural Engineering (1992)

Toms Siliņš

Member of the Supervisory Board

Term of office

10.06.2025

Committee membership

Audit Committee

Experience

2020–present: Air Baltic Corporation AS, Member of the Supervisory Board

2020–present: RERE Grupa AS, Chief Financial Officer and Member of the Executive Board

2018–2020: Remaco Asset Management AG, Group Chief Financial Officer and Investment Advisor, Member of the Executive Management

2013–2016: Sberbank AG, Chief Financial Officer, Member of the Executive Board

2005–2012: Swedbank AB Group, Member of the Management Board, Member of the Supervisory Board, Chief Financial Officer in the Group's companies in Latvia, Estonia, Lithuania

1993–2002 and 2004–2005: Bank of Latvia, Analyst, Investment Portfolio Manager, Head of the Trading and Investment Division, Deputy Head of Foreign Exchange Operations Management

Education

New York University, Leonard N. Stern School of Business, MBA (2004)

University of Latvia, Master of Social Sciences in Business Management (1999)

University of Latvia, Bachelor's Degree in Business Management (1996)

Gundars Ruža

Member of the Supervisory Board

Term of office

10.06.2025

Committee membership

Audit Committee

Experience

2020–present: LATRAPS, Cooperative Society of Agricultural Services, Member of the Management Board and Chief Financial Officer; LATMALT SIA, Chairman of the Management Board

2017: Moller Auto Baltic AS, Chief Executive Officer of the Group, Member of the Management Board in subsidiaries in Lithuania, Latvia and Estonia

2009–2016: Moller Auto Baltic AS, Chief Financial Officer of the Group, Member of the Management Board in subsidiaries in Lithuania, Latvia and Estonia

2006–2008: Moller Baltic Import SE and Moller Baltikum Holding, Chief Financial Officer

2002–2006: Ernst & Young Baltic SIA, Member of the Management Board, Head of the Business Outsourcing Department, Audit and Business Advisory Senior Manager

1994–2002: Arthur Andersen SIA, Audit and Business Advisory Project Manager/Senior Consultant on Tax and Law

Education

University of Latvia, Economist's Diploma in Accounting (2001)

University of Latvia, Master's Degree in International Law (2000)

University of Latvia, Bachelor's Degree in Law (1998)

Latvenergo AS Management Board

Mārtiņš Čakste

Chairman of the Management Board and Chief Executive Officer (from 03.01.2022)

Term of office

02.01.2027

Experience

01.2022–present: Latvenergo AS, Chairman of the Management Board, Chief Executive Officer

2017–2021: Pure Chocolate SIA, Co-owner, Chairman of the Management Board

2008–2016: Melnā kafija/Lofbergs Baltija SIA, Member of the Management Board, Procurator, General Manager

2008–2015: Officeday Baltics, Chairman of the Management Board; Officeday Latvija SIA, General Manager, Chief Executive Officer in the Baltics

2000–2008: Zepter International, General Manager in Latvia, Executive Director in Russia, Executive Director in Ukraine, Chief Executive Officer in the Baltics

Education

RTU, Doctor of Economics in Business/ Managerial Economics (2007)

RTU, Master of Engineering Economics (1999)

RTU, Bachelor of of Engineering Economics (1997)

Guntars Baļčūns

Member of the Management Board and Chief Financial Officer

Term of office

15.11.2025

Experience

2016–present: Elektrum Eesti OÜ, Member of the Supervisory Board

2016–present: Elektrum Lietuva UAB, Member of the Supervisory Board

2016–present: Baltic Institute of Corporate Governance, Member of the Supervisory Board

2015–present: Latvenergo AS, Member of the Management Board, Chief Financial Officer (2020–2021: Chairman of the Management Board)

2014–2015: Enerģijas publiskais tirgotājs AS, Member of the Management Board

2005–2015: Latvenergo AS, Business Planning and Control Director, Corporate Strategy Project Manager

Education

RTU Riga Business School, Master of Business Administration (2016)

University of Latvia, Master of Economics (2005)

SSE Riga, Bachelor of Economics and Business Administration (2003)

Kaspars Cikmačs

Member of the Management Board and Chief Development Officer

Term of office

24.09.2023

Experience

2018–present: Latvenergo AS, Member of the Management Board, Chief Development Officer (before – Chief Technology and Support Officer)

2010–2018: Citadeles banka AS, Member of the Management Board, Chief Operating Officer

2009–2010: Parex Banka AS, Head of Information Technologies

2005–2009: Swedbank Baltic Banking, Head of IT Operations in the Baltics

1996–2005: Hansabanka, Head of IT Monitoring in the Baltics, Head of Service Support and Monitoring, IT System Administrator

Education

SSE Riga, Master of Business Administration (2012)

INSEAD (France), Business Management (2006)

University of Latvia, Bachelor of Computer Sciences (1999)

Dmitrijs Juskovecs

Member of the Management Board and Chief Commercial Officer (from 03.01.2022)

Term of office

02.01.2027

Experience

01.2022–present: Latvenergo AS, Member of the Management Board, Chief Commercial Officer

2015–2020: RePharm Group, Chairman of the Management Board

2013–2014: Elko grupa AS, Regional Manager in the CIS countries

2010–present: SSE Riga, Lecturer

2005–2008: Recipe Plus AS, Chief Executive Officer

2000–2005: Magnum Medical SIA and A.Aptieka SIA, Chairman of the Management Board

Education

American Graduate School of International Management (Thunderbird, USA), Master of International Management (1997)

SSE Riga, Bachelor of Economics and Business (1996)

Harijs Teteris

Member of the Management Board and Chief Operating Officer (from 03.01.2022)

Term of office

02.01.2027

Experience

01.2022–present: Latvenergo AS, Member of the Management Board, Chief Commercial Officer

1993–2021: Linde Gas SIA, Member of the Management Board (production and logistics)

1984–1991: Sigulda SCO, Chief Engineer

Education

RTU Riga Business School, Professional Master's Degree in Business and Organisation Management (2002)

RTU, Civil Engineer (1981)

Latvenergo AS Audit Committee

Torben Pedersen

Chairman of the Audit Committee

Term of office

02.02.2024

Experience

2018–present: BDO Latvia AS, Member of the Council

2013–present: Vilnius International School, Shareholder Representative

2012–present: Latvenergo AS, Chairman of the Audit Committee

2013–2014: Rus-Agro Team AS, Member of the Management Board

2012–present: Baltic Engineers UAB, Chairman of the Management Board

2011–2016: Danish Chamber of Commerce in Lithuania, Member of the Supervisory Board

2001–2010: Deloitte, Partner

1994–2001: Arthur Andersen, Partner

Education

Aarhus School of Business, Master of Economics and Auditing (1974)

Chartered Accountant Qualification (Denmark)

Svens Dinsdorfs

Member of the Audit Committee

Term of office

02.02.2024

Experience

2017–present: INDEXO IPAS, Member of the Supervisory Board

2015–present: Elko Grupa AS, Director, Member of the Management Board

2012–present: Latvenergo AS, Member of the Audit Committee

2006–2014: Elko Grupa AS, Finance Director, Member of the Management Board

2004–2006: Sirowa Riga AS, Finance Director

1998–2004: Air Baltic Corporation AS, Vice President of Strategic Development, Business Control Director

Education

SSE Riga, Master of Finance and Economics (2003)

SSE Riga, Bachelor of Economics and Business Administration (1998)

Ilvija Grūba

Member of the Audit Committee

Term of office

02.02.2024

Experience

2021–present: Latvenergo AS, Member of the Audit Committee

2019–present: AstraZeneca, Compliance Assurance Lead for Europe, Canada, Russia and Eurasia and Data Privacy

2016–2019: AstraZeneca, Compliance Assurance Partner for Germany, Switzerland, Austria, Scandinavia and the Baltic Countries and for the Production Unit in Sweden and Russia

2013–2015: AstraZeneca, Compliance Assurance Manager in the Baltic Countries, Iceland and Norway

2011–2012: AstraZeneca Latvija SIA, Compliance Assurance Manager in the Baltic Countries

2009–2011: PricewaterhouseCoopers Latvija, Risk Management, Internal Audit Services Manager

Education

Institute of Internal Auditors (USA), Certified Internal Auditor (2008)

University of Latvia, Economist's Qualification in Accounting (2003)

University of Latvia, Master of Social Sciences in Business Management (2000)

Members of the Audit Committee who are also members of the Latvenergo AS Supervisory Board:

Toms Siliņš

Term of office: 02.02.2024

Information about experience and education is available in the subsection Latvenergo AS Supervisory Board.

Gundars Ruža

Term of office: 02.02.2024

Information about experience and education is available in the subsection Latvenergo AS Supervisory Board.

Group Management

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

The Group's strategic management is implemented by the Management Board, whose accountability is joint according to the Commercial Law, and operational management is ensured by Chief Officers, whose accountability is individual. The main duty of the Management Board is to lead the Group to reach the objectives set in the strategy. At minimum, the Management Board reports to the Supervisory Board on a quarterly basis and to the Shareholder on an annual basis. Chief Officers ensure the operational management of Latvenergo AS, including goal achievement and policy implementation; they also ensure their division's cooperation with the functions of other divisions and adoption of decisions in compliance with the Group's strategy and delegation. The divisions have been established in accordance with the strategic goals of the Group.

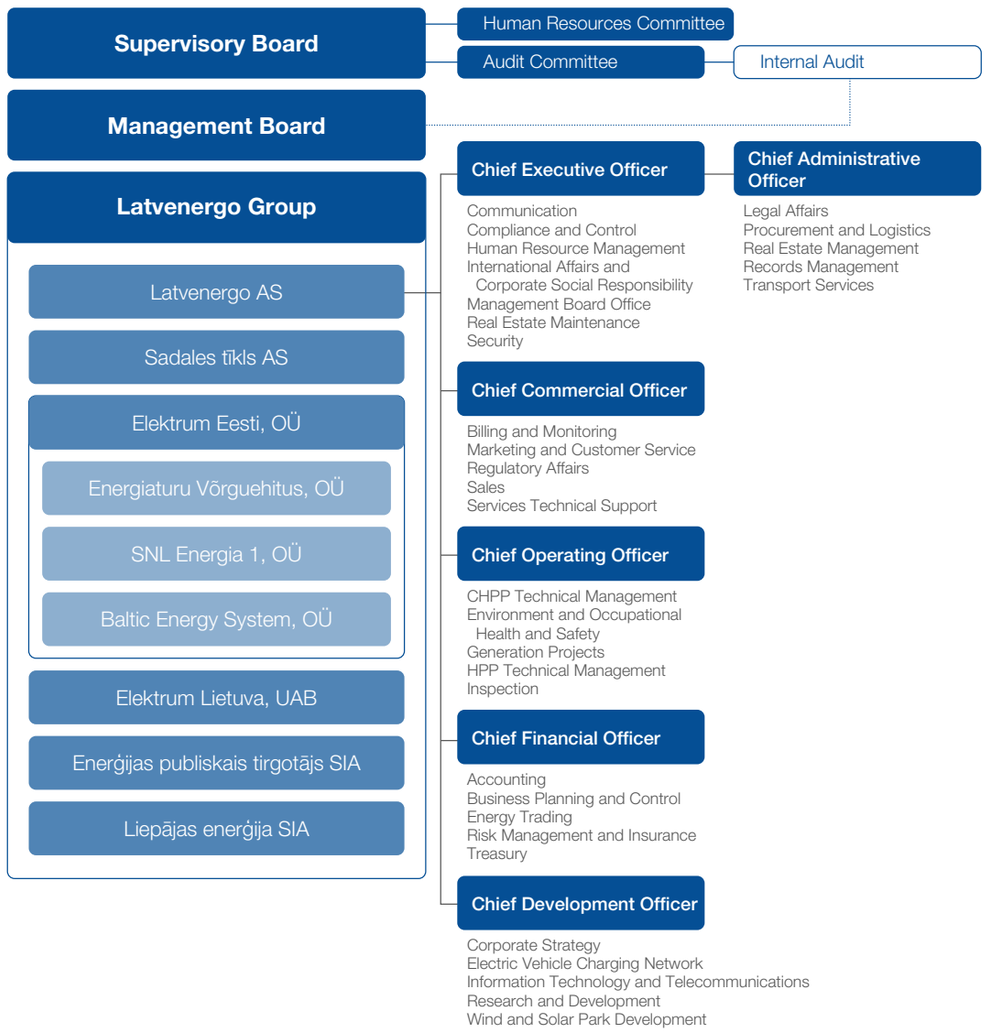
Considering their previous experience and knowledge of the Group's operations, the duties of Chief Officers are performed by the Members of the Management Board of Latvenergo AS. In 2021, not all positions on the Management Board were occupied. Two of the Members of the Management Board were appointed on a temporary basis until selection of the permanent Members of the Management Board through a competition (see the section Governance Bodies for more information). The new Members of the Management Board and Chief Officers took office on 3 January 2022, and at the time of this report's publication, the responsibilities of the Chief Officers are divided as follows:

- Mārtiņš Čakste – Chief Executive Officer
- Guntars Baļčūns – Chief Financial Officer
- Kaspars Cikmačs – Chief Development Officer
- Dmitrijs Juskovecs – Chief Commercial Officer
- Harijs Teteris – Chief Operating Officer

A certain group of administrative functions is supervised by the Chief Administrative Officer Arnis Kurgs, who is not a Member of the Management Board.

In August 2021, Latvenergo Group acquired shares of three microgrid service companies in Estonia. All three companies have become subsidiaries of Elektrum Eesti. For more information, see the section Trade.

Latvenergo Group Organisational Structure



Internal Control System and Risk Management

Internal Control System

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

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

Efficiency of operations

Since 2017, an extensive efficiency programme is being implemented at the Group. It includes revision, centralisation and digitalisation of the Group's processes, as well as a significant reduction in employees, technical bases and vehicles. The programme ends in 2022, and its estimated gain by the end of 2022 exceeds EUR 40 million.

Reporting

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

Compliance

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

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

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

Control environment

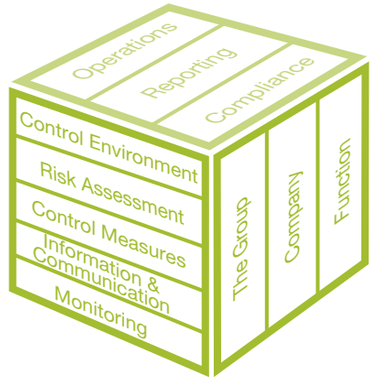
The Group's management promotes business activities that are in line with the principles of good faith and comply with ethical standards. It also implements actions to prevent the risk of fraudulent conduct and corruption and to improve the control environment. Responsible persons for establishment and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

Risk assessment

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

Control measures

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



Information and communication

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

Monitoring

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

Once a year, Latvenergo AS performs a self-assessment of the internal control system, which allows for structured assessment of the functioning of the elements of the existing system, identification of deficiencies, and determination of further actions for the system's improvement. This self-assessment is an essential part of the regular system for evaluating and improving controls.

Supervisory institutions

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

Risk Management

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

Significant risks are analysed in internal working groups and in the Group's Risk Management Committee, which is a specially established institution on the management board level. Within the analysis, the probability and impact of a risk is evaluated, critical controls are identified, risk mitigation measures are developed, and the implementation of these control measures is supervised. Any risks identified are conveyed to the internal audit system, thus allowing the risk assessment to be used for planning the activities of the Internal Audit. The Group's management is informed about the Group's risk appetite and key risk indicators on a quarterly basis.

The Group's risks

Strategic risks	Operational risks	Financial risks	Legal and compliance risks	Fraud and corruption risks
Risks related to the implementation of strategically important capital expenditure projects, introduction of new, innovative technologies and expanding into new market and business areas.	Risks related to energy generation and ensuring the functionality of power plants and energy distribution. They are also associated with loss of assets, human health and safety, information technologies, environmental impact and other issues. These risks arise from imperfect or insufficiently effective processes and systems, errors or insufficient competence on the part of employees, damage to equipment or external events.	Market risk, credit risks, liquidity and cash flow risk.	Risks arising from laws and regulations of the EU and the Republic of Latvia.	Likelihood that an employee or a group of employees will act intentionally to serve their own interests or interests of another person, gaining undue benefits and causing financial or reputational damage to the Group.
Main risk management tools				
• monitoring change and development trends in the energy sector and the political environment, participating in developments that affect the Group's operational aspects • evaluating and implementing necessary changes in the Group	• maintenance of the internal control system and its continuous improvement • regular inspection and maintenance of equipment • ensuring qualifications of personnel at the necessary level (briefings, trainings, knowledge tests) • use of insurance services	• fixed-price delivery contracts with customers • derivative financial instruments • delivery of natural gas for a fixed price • balanced allocation of financial assets and liabilities • raising of funding in a timely manner (incl. credit lines)	• monitoring changes and development trends in the legal environment that apply to the Group's operations • participation in the development process of new regulatory documents and implementation of necessary changes in the Group	• ban on accepting and offering gifts (except for items of insignificant material value) • restrictions on combining of positions (to combine positions employees must receive the employer's written consent, and combining of positions shall not create conflicts of interest) • ban on conflicts of interest (conflict of interest declarations, employee declaration on averting conflicts of interest) • regular training of employees on issues of ethics, prevention of conflicts of interest, and prohibiting fraud and corruption

Group Procurement

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

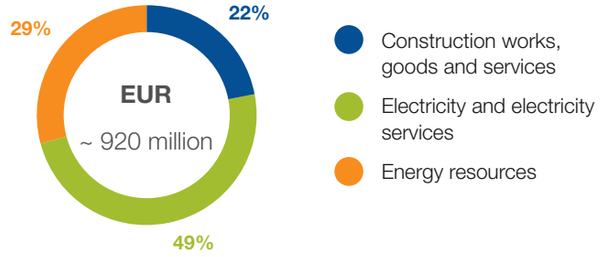
The Group's procurement process complies with the legislation of the EU and the Republic of Latvia and the regulations of the countries in whose territory the Group carries out its commercial activity. The key principles of the Group's procurement are based on the requirements of Directive 2014/25/EU of the European Parliament and the Council and those of the Law on Procurement of Public Service Providers. In addition to these requirements, the Group's Procurement Policy has defined common basic principles for procurement to ensure sustainable growth of the Group's capital companies and the most efficient use of funds. The procurement process is organised in a way that promotes competition among suppliers and observation of the principles of openness and equality. Both the efficiency of the market research and the openness of the procurement process are facilitated by the introduction of IT technologies that enable all procurement to be carried out electronically.

When selecting suppliers, the Group complies with the Law on International Sanctions and National Sanctions of the Republic of Latvia. Before concluding a procurement contract, the companies of the Group check whether the potential winner and its subcontractors have been sanctioned in a way that could affect the performance of the contract.

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

When concluding agreements, Latvenergo Group asks its contractual partners to confirm that cooperation will take place in accordance with the principles of honest cooperation. The ethical principles for cooperation with contractual partners are published on the Group's website.

Types of procurement in 2021



Procurement of construction work, goods and services

In 2021, Latvenergo Group's costs of construction work, goods and services amounted to approximately EUR 200 million. The largest share of these costs comprised investments in reconstruction of the existing assets and construction of new ones, where EUR 126.7 million were invested in the reporting year. To ensure high-quality power network service, technical indices and security of operations, a considerable amount of investment was made in network modernisation, accounting for 67% of the total investment. The Group is also continuing reconstruction of the hydropower units of the Daugava HPPs, where EUR 11.7 million was invested in the reporting year. The other costs related to the procurement of construction work, goods and services consist of procuring materials, repair work and various services.

Procurement of electricity

The total costs of electricity procurement at Latvenergo Group amounted to approximately EUR 450 million, including ancillary electricity services, transmission service, and electricity futures that are used to reduce price risks. The Group sells all the electricity it generates and at the same time procures electricity for its customers on the Nord Pool power exchange, thus ensuring full transparency of its transactions. With the transmission network interconnections, the Baltic countries are fully integrated with the Nordic power exchange and electricity prices in Latvia are determined by price formation in the Nordic countries, Poland, and Germany, as well as availability of transmission capacities. Electricity price fluctuations are mostly related to common trends across Europe.

Procurement of energy resources

The energy resource procurement of the Group comprises natural gas, woodchips and diesel fuel, as well as CO_2 emission allowances for generation of electricity and thermal energy. In 2021, the total costs amounted to approximately EUR 270 million. The Latvenergo AS CHPPs accounted for more than 80% of energy resource procurement costs. Natural gas makes up the largest share of these expenses. It is used as the primary fuel by the CHPPs and as one of the fuel sources by the Liepāja plants. The Group organises natural gas supplies to the CHPPs independently through wholesale purchases of natural gas (including inventories for the next heating season). Liepājas enerģija SIA buys natural gas from natural gas trade companies in Latvia. Consumption of natural gas depends on the electricity market conditions and the demand for thermal energy.

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

The Liepaja plants mainly use a renewable energy source, woodchips, which accounted for approximately 1% of the Group's total energy resource costs in 2021. Like all other goods and services, woodchips and diesel fuel are procured under the conditions of free competition.

The costs of CO_2 emission allowances in 2021 accounted for approximately 16% of total energy resource costs. For more information on the allocated CO_2 emission allowances, see the section Environmental Topics.

Purchased electricity

	Units	2017	2018	2019	2020	2021
Purchased electricity	GWh	3,544	4,020	3,569	3,823	4,208

Fuel consumption

	Units	2017	2018	2019	2020	2021
Natural gas*	thsd. nm^3	465,947	667,256	674,889	492,263	581,799
Wood chips	loose m^3	255,352	252,534	225,166	237,511	268,947
Diesel fuel	m^3	12	10	11	10	10

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

Stakeholder Engagement

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

On 30 September 2021, Latvenergo Group organised an online stakeholder seminar to discuss the development trends of the energy sector in the context of the EU Green Deal and the Group's strategic vision, as well as to receive proposals for its improvement. The proposals were evaluated and considered in the process of developing the strategy for the next period.

More than 90% of the seminar participants believe that the practice of sustainability aspects in the operation of state-owned companies should be among the main priorities. The Group's sustainability priorities are ranked as follows:

1) economic sustainability
2) environmental sustainability
3) social sustainability

The results of the seminar are described in more detail in the section Group Strategy. For more information on the sustainability topics jointly defined by stakeholders and the Group, see the section Materiality Assessment.

Latvenergo Group's stakeholders, mutual impact and material topics

Shareholder – Ministry of Economics

- the Group's contribution to the national economy
- the Group's strategy, governance, investments and performance
- compliance with the requirements of laws and regulations and fair competition

Business partners

- clear and transparent procurement tenders, investments, compliance with laws and regulations and fair competition
- efficiency, availability and security of distribution services

Employees, trade union

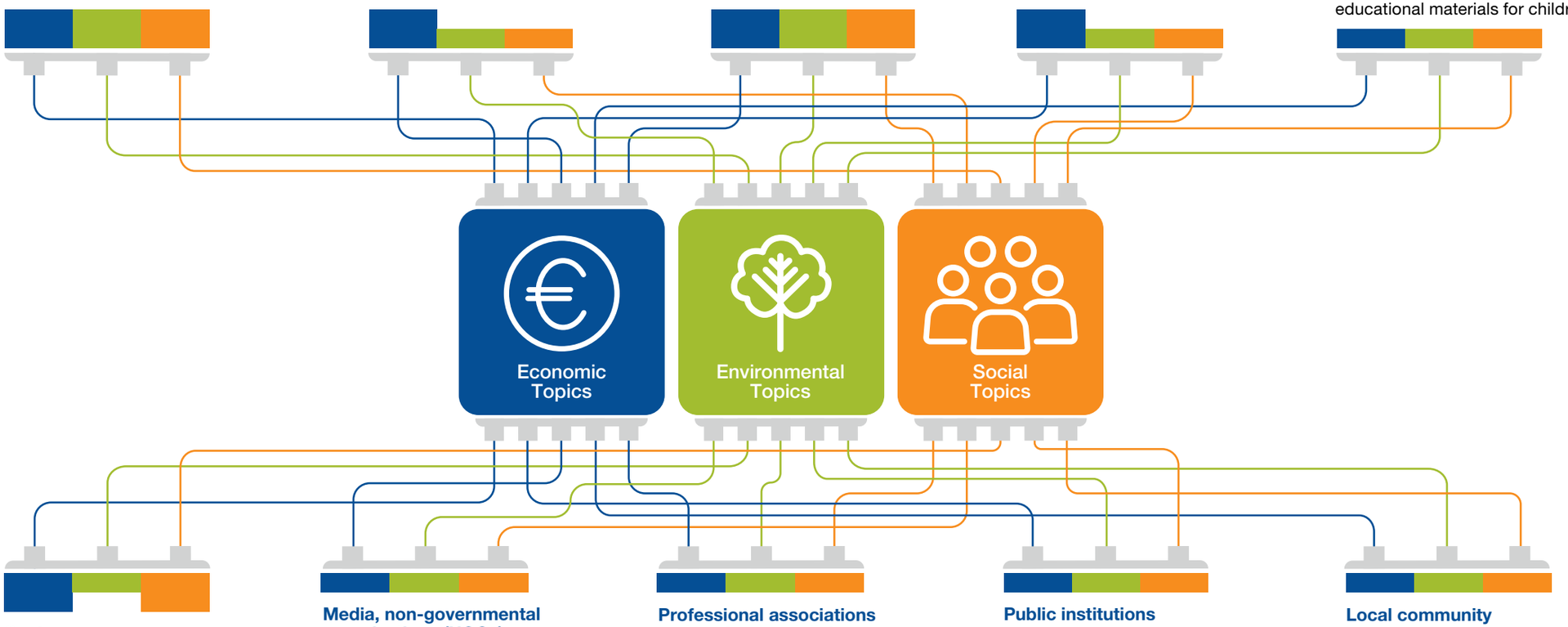
- occupational health and safety
- collective bargaining agreement
- involvement, development, productivity and motivation of employees

Funders and investors

- the Group's financial results, significant events, compliance with laws and regulations and agreements
- fair competition and communication practice

Educational and scientific institutions

- involvement of the Group in the development of educational programmes that meet the requirements of the labour market and involvement of the Group's experts in educational programmes
- science and education projects, educational materials for children and youth



Customers

- products, services, their quality and price
- reducing the frequency and duration of unscheduled power outages
- availability of information

Media, non-governmental organisations (NGOs)

- availability of information on the Group's core operations and governance
- current issues in energy sector policy
- compliance with laws and regulations and fair competition

Professional associations and sector specialists

- efficiency of generation facilities and involvement in shaping energy sector policy
- compliance with laws and regulations and fair competition
- community contribution
- availability of information

Public institutions

- development of Latvian and EU energy policies
- efficiency of energy generation facilities and contingency management plans
- compliance with laws and regulations and fair competition
- data security

Local community

- modernisation of generation facilities and network development projects; efficiency and availability of distribution services
- compliance with environmental protection requirements
- the Group's CSR activities

material impact less material impact

Stakeholder	Shareholder – Ministry of Economics	Business partners	Employees, trade union	Funders and investors	Educational and scientific institutions
Level of engagement	collaboration	involvement	negotiation, involvement	consultation, collaboration	collaboration
Engagement description	See the section Governance Bodies.	See the section Group Procurement.	See information on employees and the working environment in the section Social Topics.	See information on openness and transparency in the section Corporate Governance Model.	See information on science and education projects in the section Corporate Social Responsibility.

Stakeholder	Customers	Media, non-governmental organisations (NGOs)	Professional associations and sector specialists	Public institutions	Local community
Level of engagement	involvement	consultation, involvement	consultation, involvement	consultation, involvement	consultation, involvement, negotiation
Engagement description	See the section Trade and Product Responsibility.	Cooperation with national and regional media includes press releases, media events and press conferences. In 2021, the main topics were the Group's financial and operational results, the Group's strategic development, promotion of green technologies and innovations, modernisation of generation facilities, development of *Elektrum* solar parks and the charging network for electric vehicles, current electricity and natural gas markets, changes in the Group's governance institutions, and responsible business activities. The Group regularly provides information on its activities and answers questions from journalists on its website and social media. The Group also provides NGOs with information related to its core operations.	See the section Representation at Associations, Organisations and Unions.	In compliance with the procedure stipulated by laws and regulations, the Group cooperates with the Competition Council and provides regular information on its operations, financial results and calculation of the MP components to the PUC. In 2021, the Group's experts participated in meetings of the working groups of the Cross-Sectoral Coordination Centre of the Republic of Latvia in preparing an informative report for the Cabinet of Ministers of the Republic of Latvia on promoting innovation and establishing research and development objectives at state-owned companies. Information on the Group's involvement in shaping energy sector policy is available in the section Society.	The Group cooperates with local governments on environmental impact assessment of the modernisation projects of the Group's facilities, while Sadales tīkls AS regularly informs local governments about improvements in electricity supply and planned electricity network renovation projects. Every spring, regular interinstitutional meetings are held to secure the preparedness of responsible services, institutions and local governments and their action during the spring flood period in the Daugava River basin. The Group engages the local community in discussing the modernisation projects of the Group's facilities, regularly surveys the opinion of Latvian residents through various opinion polls and implements various CSR activities. These are described in the section Corporate Social Responsibility.

consultation – identification of current issues

negotiation – participatory discussions

involvement – participation in joint activities, development of solutions and action plans

collaboration – joint decision-making and cooperation

Representation at Associations, Organisations and Unions

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

The most significant events in which the Group's representatives participated in 2021 include:

- the conferences *Energy 2021* and *Construction and Energy 2021*
- *Lampa* Conversation Festival
- energy innovation forum *AC/DC Tech*
- green technology accelerator *Future Hub*
- RTU and RSU Science Hackathon
- *A market for responsible ideas*

International organisations and unions

Baltic Institute of Corporate Governance

European Network for Cyber Security

European Distribution System Operators' Association for Smart Grids

European Wind Energy Assocation WindEurope

Union of the Electricity Industry – Eurelectric

Technical Association for Power and Heat Generation VGB PowerTech e.V.

International Business Network Organization for Economic Cooperation and Development

National associations and professional organisations

Latvian Association of Power Engineers and Energy Constructors

Employers' Confederation of Latvia

Latvian Association of Large Dams

Latvian Chamber of Commerce and Industry

Latvian Association of Heat Supply Companies

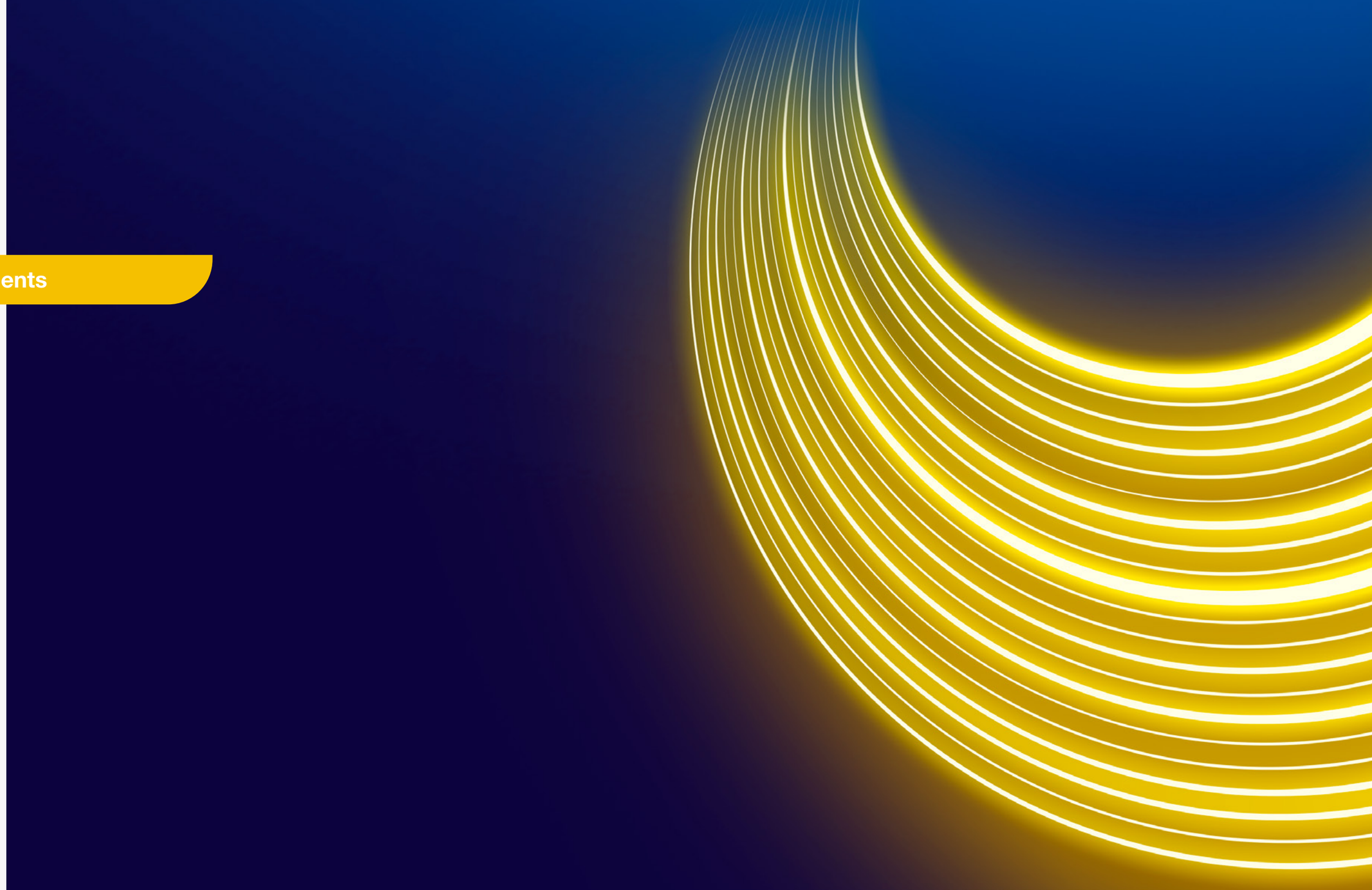
Latvian Hydrogen Association

Institute for Corporate Sustainability and Responsibility

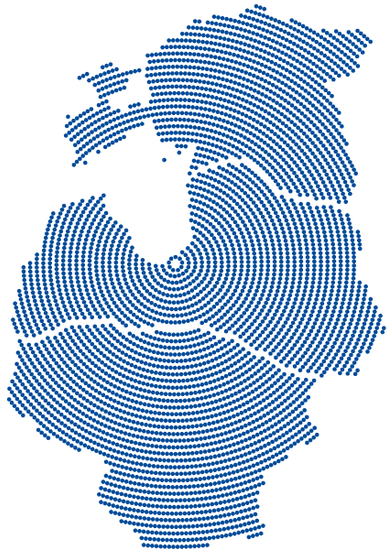
World Energy Council, Latvian National Committee

Wind Energy Assocation

Operating Segments



Operating segments of Latvenergo Group



Generation and Trade

Generation of electricity and thermal energy, electricity and natural gas trade in the Baltic states, and administration of the mandatory electricity procurement process in Latvia.

Latvenergo

elektrum

LIEPĀJAS ENERĢIJA

Enerģijas publiskais tirgotājs

Distribution

The distribution service ensures the flow of electricity from the transmission network to consumers. Sadales tīkls AS is the country's largest distribution system operator and covers approximately 99% of the territory of Latvia. Distribution system service tariffs are approved by the Public Utilities Commission (PUC).

ST

Generation and Trade

Generation and trade is the largest operating segment of Latvenergo Group in terms of revenue. In 2021, 89% of the segment's revenue was comprised of revenue from the trade of electricity, natural gas, and associated services, while thermal energy revenue accounted for 11%. Most of the generation and trade segment revenue is unregulated, while tariff-regulated operational revenue comprises revenue from:

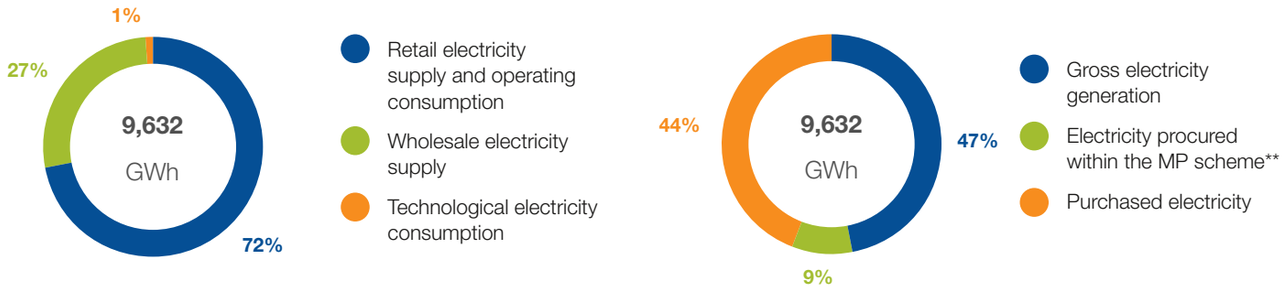
- generation of thermal energy and payment for the installed electrical capacity at the Latvenergo AS CHPPs;
- generation of electricity and thermal energy at the Liepaja generation facilities and Aiviekste HPP.

In 2021, the Group generated 4.5 TWh or 67% of the total amount of electricity sold in the retail trade. 59% of the amount generated came from renewable energy sources. The generation of electricity at the Daugava HPPs increased by 4% and amounted to 2.6 TWh. The Latvenergo AS CHPPs generated 1.9 TWh in the reporting year, which was 10% more than in 2020 when the weather was warmer in the heating season and the electricity prices were lower. For more information, see the section Generation.

With a 23% market share, Latvenergo Group is one of the largest electricity traders in the Baltics. In the reporting year, the total amount of electricity sold, including auxiliary consumption, was 9.6 TWh. For more information, see the section Trade.

In the reporting year, the Group sold 1 TWh of natural gas in the retail trade in the Baltics, which is twice as much as in 2020. The total amount of natural gas consumed by the Group for its own use and sold to customers comprised 6 TWh.

Latvenergo Group electricity balance sheet in 2021*



Latvenergo Group electricity balance sheet*

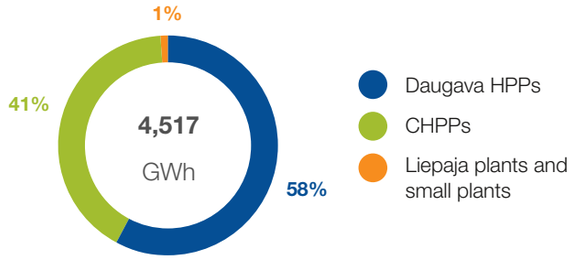
	Units	2017	2018	2019	2020	2021
Retail electricity supply and operating consumption	GWh	7,259	7,281	6,773	6,670	6,983
incl. retail electricity supply	*GWh*	*6,923*	*6,954*	*6,505*	*6,394*	*6,706*
Wholesale electricity supply	GWh	3,448	3,030	2,754	2,460	2,554
Technological electricity consumption	GWh	91	124	121	85	96
TOTAL	**GWh**	**10,798**	**10,435**	**9,648**	**9,216**	**9,632**
Gross electricity generation	GWh	5,734	5,076	4,880	4,249	4,517
Electricity procured within the MP scheme**	GWh	1,520	1,339	1,199	1,144	907
Purchased electricity	GWh	3,544	4,020	3,569	3,823	4,208
TOTAL	**GWh**	**10,798**	**10,435**	**9,648**	**9,216**	**9,632**

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

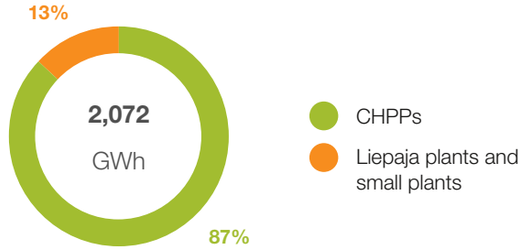
Generation

Latvenergo Group has a balanced and environmentally friendly energy generation portfolio, consisting mostly of hydropower plants and highly efficient combined heat and power plants. Most of the electricity is generated by the three Daugava hydropower plants (HPPs) and two combined heat and power plants (CHPPs) of Latvenergo AS. The CHPPs also produce a significant part of the thermal energy required for the heat supply of the city of Riga. Energy is also generated by Liepājas enerģija SIA, Aiviekste HPP and Ainazi Wind Power Plant (WPP). The total installed electrical capacity at the Group's generation facilities is 2,606 MW and the thermal capacity is 1,797 MW. In 2021, 4.5 TWh of electricity and 2.1 TWh of thermal energy were generated.

Electricity output in 2021



Thermal energy output in 2021



Installed electrical capacity of generation facilities

	Units	2017	2018	2019	2020	2021
Daugava HPPs	MW	1,550	1,558	1,558	1,558	1,558
CHPPs*	MW	1,025	1,025	1,025	1,039	1,039
Liepaja plants and small plants	MW	8	8	8	8	9
TOTAL	**MW**	**2,583**	**2,591**	**2,591**	**2,605**	**2,606**

* installed capacity when CHPP-2 is in condensation mode

Installed thermal energy capacity of generation facilities

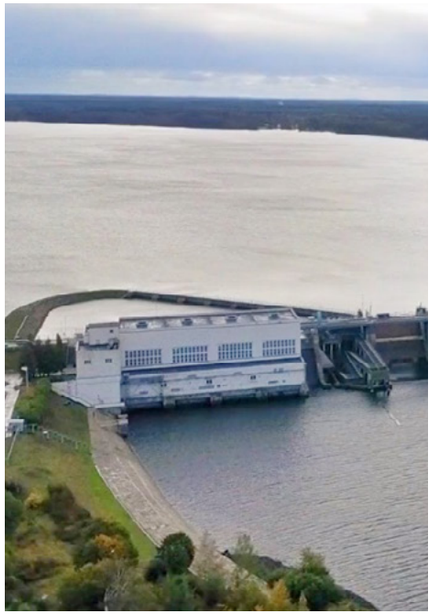
	Units	2017	2018	2019	2020	2021
CHPPs	MW	1,617	1,617	1,617	1,617	1,617
Liepaja plants and small plants	MW	225	221	221	221	180
TOTAL	**MW**	**1,842**	**1,838**	**1,838**	**1,838**	**1,797**

Electricity output

	Units	2017	2018	2019	2020	2021
Daugava HPPs	GWh	4,270	2,380	2,047	2,528	2,636
CHPPs	GWh	1,411	2,644	2,780	1,685	1,854
Liepaja plants and small plants	GWh	53	52	53	37	26
TOTAL	**GWh**	**5,734**	**5,076**	**4,880**	**4,249**	**4,517**

Thermal energy output

	Units	2017	2018	2019	2020	2021
CHPPs	GWh	2,349	2,004	1,603	1,475	1,800
Liepaja plants and small plants	GWh	263	270	239	227	272
TOTAL	**GWh**	**2,612**	**2,274**	**1,842**	**1,702**	**2,072**



Kegums HPP

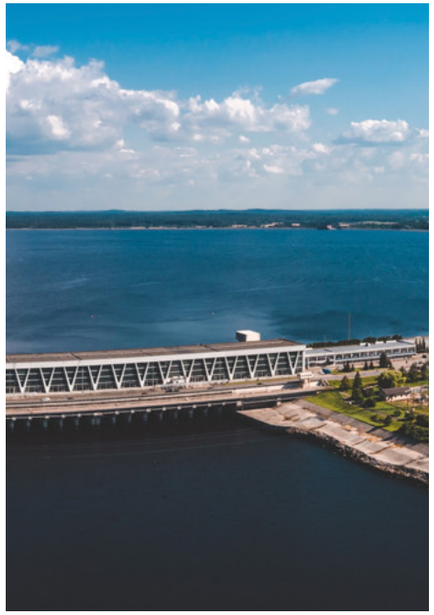
Start of operations: 1939
Capacity: 248 MW
Hydropower units: 7
Energy source: water

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

Plavinas HPP

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

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



Riga HPP

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

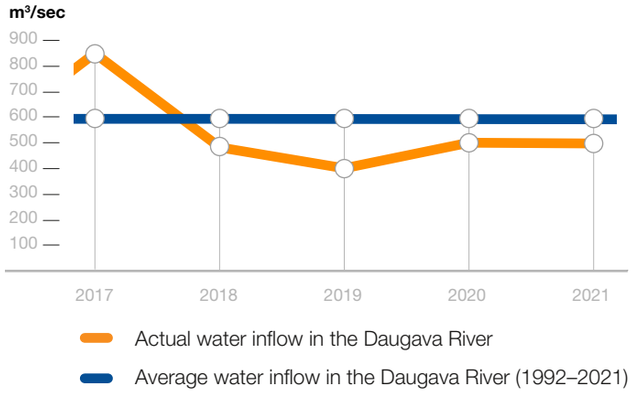
Riga HPP is the newest of the Daugava hydropower plants. It also serves as a synchronous compensator for voltage regulation in high voltage electricity networks.

Daugava HPPs

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

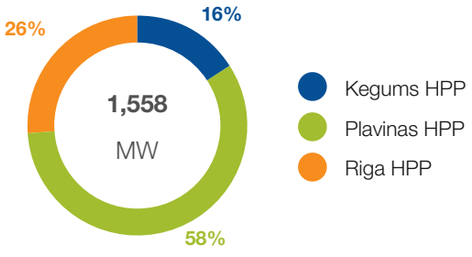
In 2021, the Daugava HPPs generated 2.6 TWh of electricity, which was 4% more than in 2020 and constituted 58% of the Group's total electricity output.

Water inflow in the Daugava River

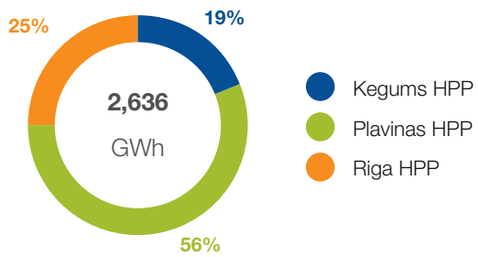


Source: Latvian Environment, Geology and Meteorology Centre

Installed electrical capacity at Daugava HPPs in 2021



Electricity output at Daugava HPPs in 2021



Installed electrical capacity at Daugava HPPs

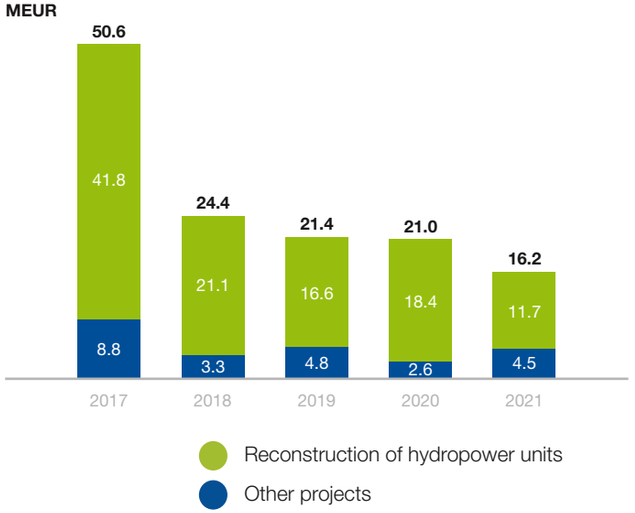
	Units	2017	2018	2019	2020	2021
Kegums HPP	MW	240	240	248	248	248
Plavinas HPP	MW	894	908	908	908	908
Riga HPP	MW	402	402	402	402	402
TOTAL	**MW**	**1,536**	**1,550**	**1,558**	**1,558**	**1,558**

Electricity output at Daugava HPPs

	Units	2017	2018	2019	2020	2021
Kegums HPP	GWh	825	457	402	493	512
Plavinas HPP	GWh	2,429	1,359	1,150	1,420	1,474
Riga HPP	GWh	1,016	564	495	615	650
TOTAL	**GWh**	**4,270**	**2,380**	**2,047**	**2,528**	**2,636**

Investments in the Daugava HPPs

In the reporting year, investments in the Daugava HPPs' assets amounted to EUR 16.2 million, including EUR 11.7 million invested in the programme for the reconstruction of hydropower units, which will ensure their operation for more than 40 years. The programme provides for the reconstruction of 11 hydropower units that have not been reconstructed yet, of which seven were commissioned by the end of 2021. The total cost of the programme will exceed EUR 260 million. Investments of almost EUR 200 million were already made by the end of 2021.



Replacement of outdated hydro turbines contributes to an increase in their capacity, efficiency rate and electricity output. This promotes reliable, efficient and competitive operations of the Daugava HPPs within the overall energy system and in the electricity market. More efficient use of water resources mitigates the negative impact of the Group on climate change. In the reporting year, each megawatt hour of electricity generated by the Daugava HPPs reduced CO_2 emissions by 0.384 tonnes, assuming that this energy would otherwise be generated in condensation mode at combined heat and power plants by using natural gas as fuel.

CHPP-1

Start of operations: 1955
Electrical capacity: 158 MW

Thermal capacity: 493 MW
Energy source: natural gas

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

CHPP-2

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

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

Latvenergo AS CHPPs

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

In March 2021, the largest heat storage system in the Baltics was commissioned at CHPP-2. The heat storage tank of 17,800 m^3 allows to accumulate the thermal energy generated in cogeneration mode and optimise the adjustment of the CHPP operating modes to the changing market conditions and to cover peak loads. In its first incomplete year of operation (from September until December), the system ensured primary energy savings of almost 600 MWh and reduction in CO_2 emissions of more than two thousand tonnes. In addition, the CHPP-2 heat storage system will increase the security of heat supply of the Riga district heating system on the right bank of the Daugava.

In the reporting year, the CHPPs generated 1.9 TWh of electricity, which constitutes 41% of the Group's total electricity output. It is 10% more than in 2020 when the weather was warmer in the heating season and the electricity prices were lower. The amount of thermal energy generated by the CHPPs in 2021 was 1.8 TWh, a 22% increase compared to the previous year. The decrease was influenced by colder weather in the heating season. The thermal energy generated is sold to Rīgas siltums AS at regulated tariffs.

Electricity output at CHPPs

	Units	2017	2018	2019	2020	2021
CHPP-1	GWh	595	643	598	364	310
CHPP-2	GWh	816	2,001	2,182	1,321	1,544
TOTAL	**GWh**	**1,411**	**2,644**	**2,780**	**1,685**	**1,854**

Thermal energy output at CHPPs

	Units	2017	2018	2019	2020	2021
CHPP-1	GWh	1,195	1,105	883	729	757
CHPP-2	GWh	1,154	899	720	746	1,043
TOTAL	**GWh**	**2,349**	**2,004**	**1,603**	**1,475**	**1,800**

Investments in CHPPs of Latvenergo AS

	Units	2017	2018	2019	2020	2021
Investments	MEUR	22.5	2.5	10.1	17.8	3.7

Liepājas enerģija SIA and Small Plants

Liepaja plants

Liepājas enerģija SIA was founded in 2005
Electrical capacity: 6 MW
Thermal capacity: 180 MW
Energy source: natural gas, woodchips

Latvenergo AS holds a 51% share in Liepājas enerģija SIA. The company ensures generation, transmission, distribution and trade of thermal energy in the city of Liepaja as well as generation of electricity in cogeneration mode. The priority fuel for energy generation is woodchips, which account for 76% of the fuel balance of 2021.

In 2021, a new container-type chip boiler house complex was built in Liepāja. The new facilities will provide heat to 55 sites in Karosta. To attract new customers in South Kurzeme, the company has expanded its range of services to include installation and maintenance of individual heating units.

In the reporting year, the Liepaja plants generated 272 GWh of thermal energy and 22 GWh of electricity. Contracts have been concluded for the connection of 19 new objects to district heating networks with a total planned capacity of 3.7 MW.

Ainazi WPP

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

In 2013, full renovation of both generators was completed. In 2021, 1.1 GWh of electricity were generated at Ainazi WPP.

Aiviekste HPP

Fully renovated: 2021
Electrical capacity: 1.5 MW
Energy source: water

Aiviekste HPP was the first hydropower plant in Latvia; it started generating electricity back in 1925. The reconstruction of the hydropower plant was completed in the reporting year, and the plant's capacity increased from 0.8 MW to 1.5 MW. The connection of Aiviekste HPP to the electricity network was also rebuilt.

In 2021, 3.7 GWh of electricity were generated at Aiviekste HPP.

GRI EU3

Trade

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

Electricity

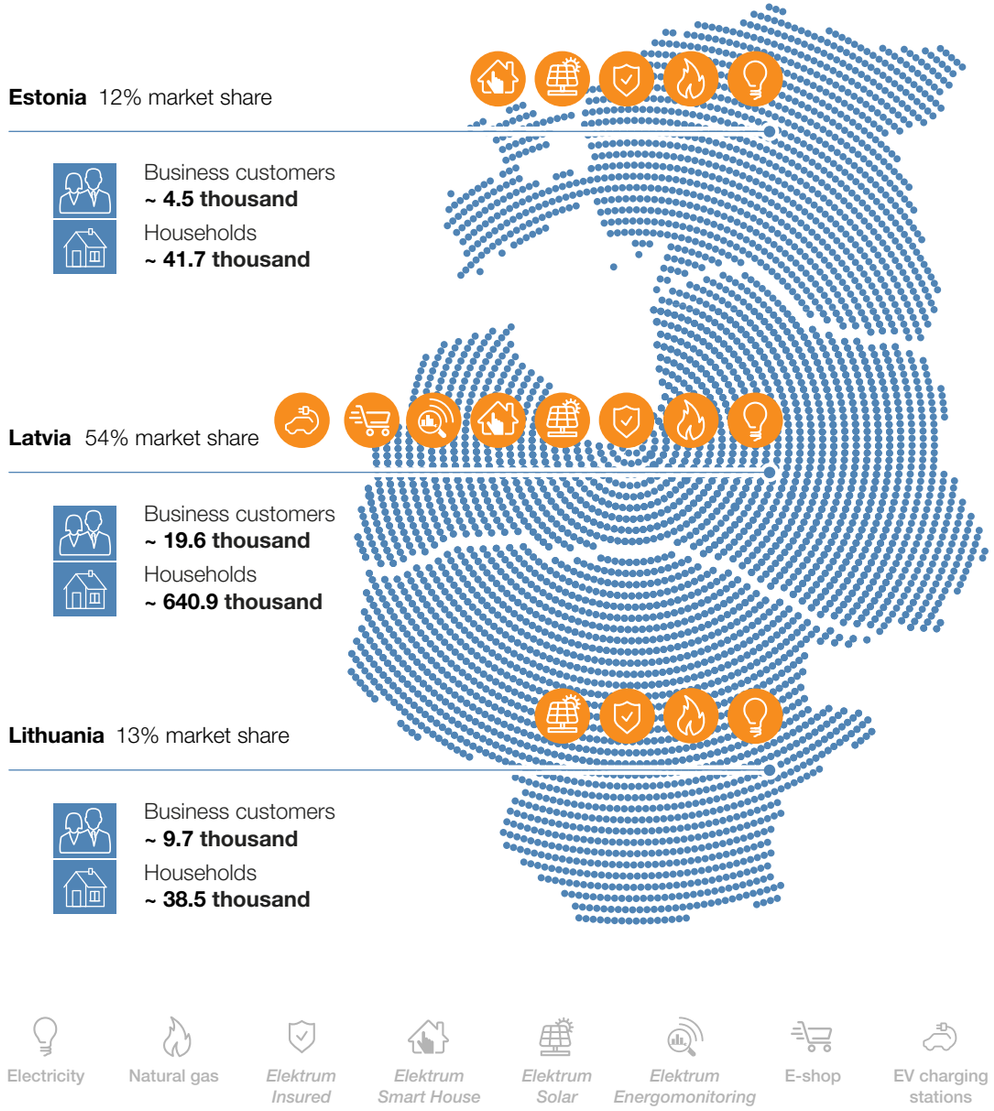
The total electricity consumption of the Baltic states in 2021 increased by about 4%, reaching 28.7 TWh. Consumption growth was mainly driven by the cooler weather at the beginning and end of the year, a hotter summer, and economic recovery from COVID-19 restrictions. In the reporting year, the market share of Latvenergo Group in the Baltic electricity market was 23%. In 2021, 6.7 TWh of electricity was sold to retail customers in the Baltics, which is 5% more than in 2020.

At the end of 2021, Latvenergo Group had about 755 thousand customers in the Baltic states, of which more than 90 thousand were outside Latvia. In the reporting year, the number of customers increased in both the business customer and household segments. The increase was significantly influenced by the acquisition of a portfolio of almost 20,000 customers in Estonia from the Finnish company Imatra Elekter. With the opening of the household market in Lithuania, the number of Elektrum Lietuva customers has also increased by approximately three times. Of the total number of electricity customers, 96% are household customers and 4% are business customers.

In August 2021, Elektrum Eesti, a subsidiary of the Group, acquired three distribution microgrid service companies in Estonia: Baltic Energy System OÜ, Energiaturu Võrguehitus OÜ, and SNL Energia 1 OÜ. In addition to microgrid services, the companies will be used to develop new products and services in the field of microgeneration and electromobility.

Natural gas

In 2021, natural gas sales of Latvenergo Group to retail customers in the Baltics amounted to 1 TWh, which is twice as much as in 2020. The volume of natural gas sales has increased in all Baltic countries, driven by an increase in the number of customers, especially in the segment of Latvian households and Lithuanian small and medium-sized companies. At the end of 2021, the number of the Group's natural gas customers in the Baltics reached almost 19 thousand, about half of which are outside Latvia. Of the total number of natural gas customers, 90% are household customers and 10% are business customers.



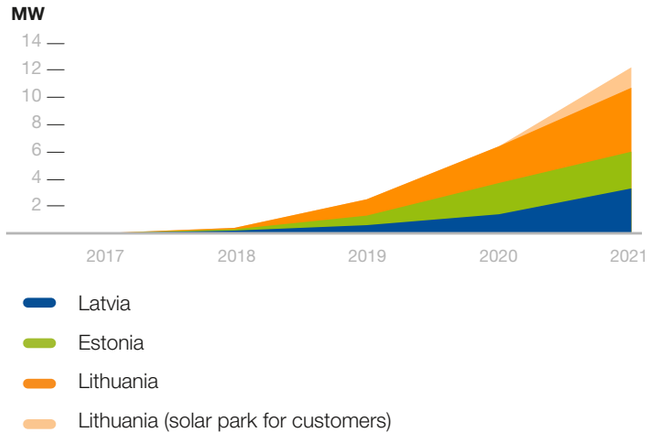
Solar panels and parks for customers

In the reporting year, the sale of other retail products and services was also developed, including the construction of solar parks for customers and installation of solar panels.

In 2021, more than 1,300 new contracts were signed in the Baltics for the installation of solar panels and sale of shares of remote solar parks, which is twice as much as in 2020. At the end of the year, the total installed capacity of solar panels for retail customers of Latvenergo Group reached 10.7 MW, which makes the Group one of the leading providers of the service in the Baltics. 69% of the capacity is installed for customers outside Latvia.

In April 2021, the Elektrum Lietuva solar park was put into operation, the aim of which is to sell shares of the park to end customers in Lithuania. The park's entire capacity of 1.5 MW has been sold, and about 90% of the contracts are with household customers. At the end of the year, Latvenergo Group's largest solar park project, with a total capacity of 13 MW and an area of more than 20 ha, was launched in Lithuania. The solar park will be located in the city of Gargždai, Klaipėda County, and it is expected to be commissioned in the second half of 2022.

Customer solar panel capacities (cumulative)



Development of the charging network for electric cars

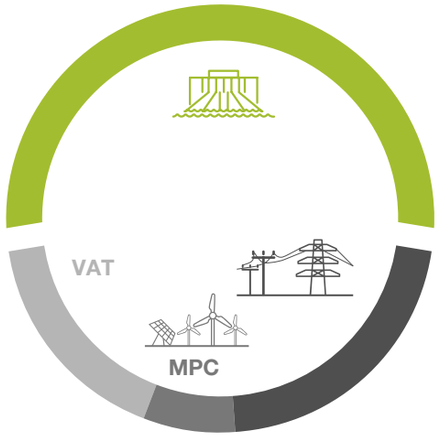
The development of the charging network for electric cars continued in the reporting year as well. At the end of 2021, with 90 charging ports in nine Latvian cities, *Elektrum* is one of the largest charging networks for electric cars in Latvia. Some ports have been installed together with cooperation partners. In 2022, we plan to increase the number of charging ports to 230.

Compared to 2020, the number of charges increased by about 50%, reaching 162 MWh. Since the launch of the network in August 2019, customers of the *Elektrum Drive* mobile application have charged 288 MWh at public charging points, which provides 1.6 million kilometres of mileage.

Breakdown of an electricity bill in Latvia*

Price set by the market and competition

- **Price for electricity**
  includes costs of generation and trade



Regulated tariffs set by the state and value added tax are the same for all suppliers

- **Transmission and distribution services****
  are provided by Augstsprieguma tīkls AS and Sadales tīkls AS
- **Mandatory procurement components****
  are set by the state to support generation of environmentally friendly energy
- **Value added tax**

* An estimate for a household customer who has 1-phase connection, consumes 100 kWh and uses the product *Elektrum Economical* on 31.12.2021.

** To reduce the impact of electricity price increase on end users, a 50% discount was applied to the distribution service fee in December 2021. The distribution service fee and the MPC is fully covered by the state from 01.01.2022 until 30.04.2022.

Electricity market and market players

Trade

Purchase and sale of electricity

Every day generators inform the power market about the amount of electricity they can produce and at what price.

Power exchange
Power exchange (Nord Pool) is a neutral trading site where the electricity is purchased and sold for a price that is calculated by aggregating many hundreds of sale and purchase orders. The price is set for every hour.

A supplier informs the power market about the amount of electricity it is willing to purchase and at what price. The power market calculates the electricity price for a given moment according to the supply and demand.

Generators
Latvenergo AS CHPPs, Daugava HPPs, and others

Suppliers
are companies that purchase electricity on the power market and sell it to customers

Delivery

Transportation of electricity from a generator to a consumer

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

All suppliers have equal rights to use transmission and distribution network system for electricity transportation.

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

Customers

Energy efficiency

The Energy Efficiency Directive 2012/27/EU sets out a series of measures aimed at promoting the energy efficiency of both generators and consumers and achieving total energy savings of 32.5% at the EU level by the end of 2030 (vs the base scenario for 2030 prepared in 2007). The *Fit for 55* initiative sets even more ambitious savings targets: a 36% reduction in final energy consumption and a 39% reduction in primary energy consumption by 2030 compared to the 2007 base scenario. To meet its energy efficiency targets, the Directive gives each EU country the right to establish an energy efficiency obligation scheme (EEOS), within which energy retailers must achieve cumulative savings of energy consumed by their customers.

An EEOS was established in Latvia in 2017, and its first period ran from 2018 to 2020. Latvenergo AS has been implementing energy efficiency promotion measures since 2014 and, in the first EEOS period, achieved the savings targets set for the company. The second EEOS period is in effect from 2021 to 2025, and a national framework is currently being developed which will define the range of responsible parties and the amount of savings to be achieved.

The following energy efficiency improvement activities were implemented in the reporting year:

- seminars, webinars, lectures, and other educational activities organised by the *Elektrum* Energy Efficiency Centre for both large business and household clients, as well as online classes for students and teachers as part of the *Ready for Life* school programme;
- individual remote consultations provided by both the *Elektrum* Energy Efficiency Centre and customer service specialists;
- informing customers about energy efficiency through the *Elektrum* mobile app and at elektrum.lv, where customers can also keep track of their hourly energy consumption;
- energy efficiency tips are also provided in the customer newsletter *Elektrum Tavām mājām* and on *Elektrum* social networks;
- informing the public through the media, such as the radio programme *Energy Efficiency Expert*, the television advertising campaigns *Keep the Heat Off* and *Cleaning Electrical Appliances*, the creation of a special issue of *Electromobility* for subscribers of the journal *Ir*, the preparation and distribution of informative handouts, and the development of interactive exhibits and games;
- an electricity consumption assessment tool, *Energo Pulse*, has been developed, which enables customers to compare consumption in their home with similar households in Latvia and get personalised recommendations for increasing energy efficiency;
- participation of *Elektrum* Energy Efficiency Centre specialists in industry conferences, think tanks and discussions, e.g., at the Conversation Festival *Lampa*, the conference *Heat Supply 2021* and other events.

Energy efficiency is an important element in the development of both the Group and the entire energy sector. Since 2014, Latvenergo AS has achieved a significant amount of energy savings and will continue to implement energy efficiency improvement measures in the future.

Mandatory Procurement

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

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

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

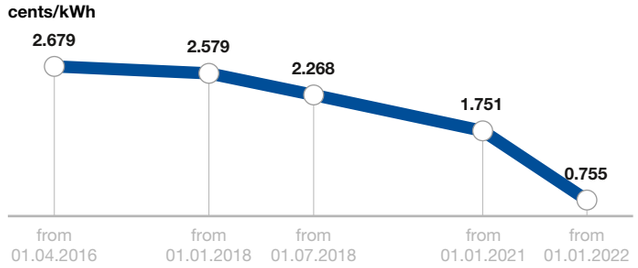
- In recent years, the maximum allowable profit margin for MP beneficiaries has been set, and the rules have been improved, which ensures that only energy left over after providing for a power plant's own consumption is purchased within MP. Only electricity produced in an efficient cogeneration process is purchased from cogeneration power plants.
- As of 2021, the public trader is obliged to receive and sell guarantees of origin of electricity from generators that are entitled to sell electricity or receive support for the installed electric capacity within MP. The public trader reduces the reimbursable costs of MP for the revenues derived from the sale of these guarantees of origin.
- As of 1 January 2022, biogas power plants are required to use organic waste and production residual products as raw materials for generation. Depending on how much such products are used monthly, a price differentiation coefficient is applied to the purchase price of electricity within MP.

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

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

As of January 2022, the average MPC rate has been reduced to 0.755 cents/kWh. It is 57% lower than the previous rate and has reached its lowest level since the introduction of the MPC more than 15 years ago. The decrease in the rate was determined by a significant increase in the electricity market price in the second half of 2021, when the difference between MP and the market price reduced significantly. In addition, at the end of the reporting year, the Cabinet of Ministers approved the informative report "Rapid reduction of the MPC to limit the increase in electricity prices in 2022", which envisages greater co-financing from the state budget to cover MP costs. A part of Latvenergo AS dividends is directed to the state budget grant.

Changes in the average MP value



To increase the competitiveness of Latvian energy-intensive manufacturing companies, MPC reduction support has been provided to companies of this category. As of 1 January 2022, the range of energy-intensive manufacturing companies that have the right to qualify for a reduction in the MPC has been expanded. The decision on the right to a reduced MPC payment is made by the State Construction Control Bureau.

Mandatory procurement key indicators

In the reporting year, 249 GWh or 21% less electricity was procured within MP than in 2020. The decrease was due to several factors:

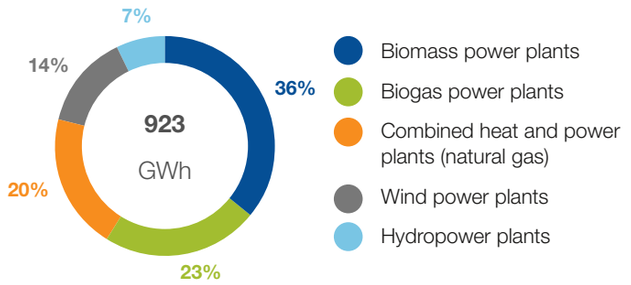
- in the last two years, the support period has ended for 15 power plants, and permits for 60 power plants have been revoked;
- changes in the regulatory enactments, as a result of which several biogas cogeneration plants did not reach the specified efficiency coefficient; thus, the amount of electricity procured within the framework of MP also decreased;
- less favourable weather conditions for electricity generation at wind and hydropower stations.

MP costs above the market price decreased to EUR 75.8 million in the reporting year, which is 50% less than in 2020. This decrease was due to the decrease in the volume of electricity procured within MP and a significantly higher electricity market price. In 2021, the average electricity price in the Latvian trade area increased 2.6 times, reaching 88.8 EUR/MWh.

In the reporting year, MP revenue from electricity end users exceeded MP costs by EUR 37.9 million, which reduced MP revenue not received in the previous years recognised in the balance sheet assets (see Note 18 to the financial statements). Support costs for energy-intensive manufacturing companies in 2021 amounted to EUR 2.9 million, and a state grant was received for these costs. In 2021, a state grant of EUR 2.8 million was also received for the 2020 costs.

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

Electricity purchased within the MP in 2021



Mandatory procurement: key indicators

	Units	2017	2018	2019	2020	2021
Power plants	number	408	374	364	337	306
Installed capacity	MW	1,394	1,360	1,354	1,331	1,168
Electricity purchased within MP	GWh	1,567	1,385	1,246	1,172	923
MP costs above the market price (after SET)	MEUR	235.3	158.9	150.9	150.7	75.8
MPC reduction: state aid to energy-intensive companies	MEUR	3.0	4.8	6.2	3.0	2.9

Distribution

Electricity distribution is the largest operating segment of Latvenergo Group in terms of assets and EBITDA. It ensures the flow of electricity from the electricity transmission network and electricity generators connected to the distribution networks to electricity consumers.

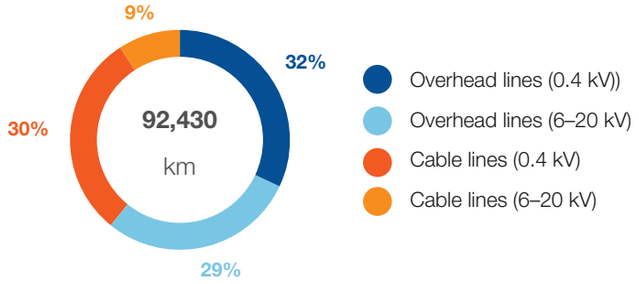
92,430 km
total length of electricity distribution lines

30,461
transformers

28,386
transformer substations

5,951 MVA
total installed capacity

Length of electricity distribution lines



Sadales tīkls AS, a subsidiary of the Group, is the largest distribution system operator in Latvia, providing electricity distribution service to approximately 800 thousand customers (for information on customer satisfaction, see the section Product Responsibility). The distribution network consists of low-voltage and medium-voltage lines formed by cables and overhead lines. As a result of reconstruction of the network, the share of cable lines increases year by year: it has grown from 33% to 39% of the total power line length over the last five years. The use of cable lines reduces both natural and human-induced damage to power lines.

In 2021, the share of electricity losses in the distribution network was lowered to 3.79%. Over the last five years, losses have been reduced by 66 GWh or 20%. For more information on the efficiency and availability of the distribution service, see the section Economic Topics.

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

In 2021, the amount of electricity distributed increased by 3% or 184 GWh, mainly due to economic recovery from COVID-19 restrictions, as well as colder weather in the winter months and a hotter summer. The increase is observed in practically all user groups. The largest increase (5%) in the volume of distributed electricity occurred in the household segment, mainly due to remote working and schooling, as well as limited opportunities to spend free time outside. Electricity consumption of large business clients increased by 2% in the reporting year.

Electricity received in distribution network

	Units	2017	2018	2019*	2020	2021
From transmission network	GWh	5,225	5,520	5,531	5,334	5,693
From small generators	GWh	1,575	1,407	1,295	1,228	1,048
incl. microgeneration	*GWh*	–	–	–	*2*	*4*
TOTAL	**GWh**	**6,800**	**6,927**	**6,825**	**6,563**	**6,741**

Distributed electricity and losses

	Units	2017	2018	2019*	2020	2021
Distributed electricity	GWh	6,463	6,600	6,532	6,286	6,470
Electricity distribution losses. technological and operating consumption	GWh	337	327	293	277	271
TOTAL	**GWh**	**6,800**	**6,927**	**6,825**	**6,563**	**6,741**
Electricity losses	%	4.63%	4.43%	4.05%	3.99%	3.79%

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

Efficiency programme

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

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

Within the efficiency programme, a reduction in the number of jobs at Sadales tīkls AS of more than 800 was planned. From the launch of the programme in 2017 to the end of the reporting year, the number of jobs was reduced by 34% or 869 jobs and the number of vehicles was curtailed by 36% or 384 units. 38 technical bases have been freed up (two in part), thereby reducing their number by 54% and optimising their geographical location in the territory of Latvia. More than 970 thousand smart meters were installed by the end of 2021, accounting for 90% of the total fleet of meters and metering 94% of the total volume of electricity consumed by customers.

Investment and maintenance

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

- an automation programme that includes the construction of remotely controlled circuit breakers and fault location indicators;
- introduction of smart electricity meters, which improves customer awareness of electricity consumption and promotes the efficiency of electricity consumption and cost reduction for the distribution system operator, customers and electricity traders;
- replacing overhead power lines with cable lines (mostly in forested areas), which helps to reduce the number of disruptions in the electricity supply system due to unfavourable weather conditions;
- renewal of power lines, 110 kV substation switchgear and transformer substations.

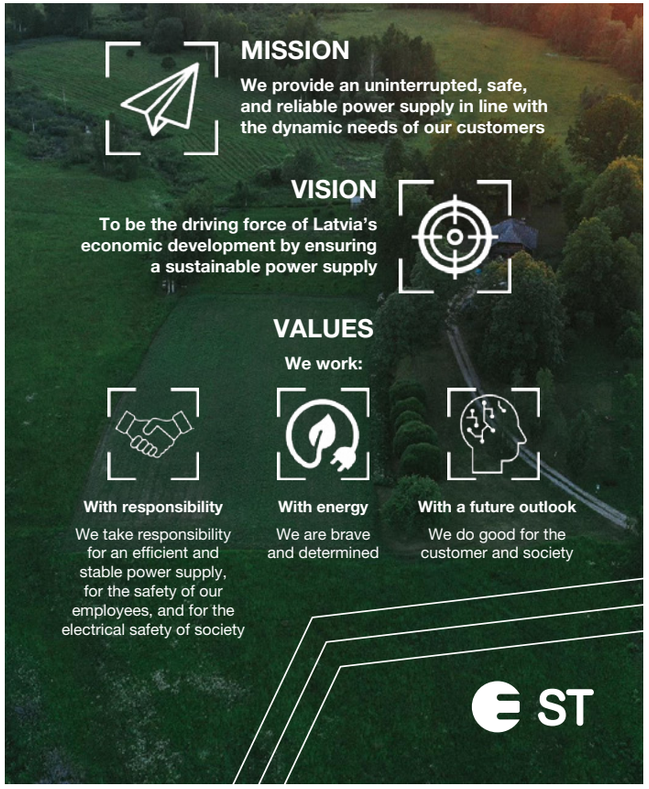
In September 2021, the PUC approved the Development Plan of Sadales tīkls AS for the next 10 years, which envisages purposeful investments in the development of electricity infrastructure. During 2022–2031, the company will continue the reconstruction and modernisation of the distribution system in accordance with the development trends of the industry and public demand. Sadales tīkls AS plans to expand innovative technical solutions in renewing the network and to work on making it smarter. Capital investment projects focus on investment efficiency, selection of the most optimal technical solutions, technological development of the electricity network, smart technologies, innovation, and customer requirements.

Investments in distribution assets

	Units	2017	2018	2019	2020	2021
Investments	MEUR	107.7	95.1	95.1	87.4	84.8

Reconstruction and construction

	Units	2017	2018	2019	2020	2021
Overhead lines (0.4 kV)	km	18	39	81	367	718
Cable lines (0.4 kV)	km	781	858	711	571	525
TOTAL low-voltage power lines	**km**	**799**	**897**	**792**	**938**	**1,243**
Overhead lines (6–20 kV)	km	522	692	621	885	905
Cable lines (6–20 KV)	km	326	295	199	149	124
TOTAL medium-voltage power lines	**km**	**848**	**987**	**820**	**1,034**	**905**
Transformer substations reconstructed	number	726	816	690	605	522
Connections constructed	number	8,907	9,445	11,079	12,410	14,747



In the autumn of 2021, the Supervisory Board of Sadales tīkls AS approved the Sadales tīkls AS Strategy for 2022–2027. It is integrated into the Latvenergo Group Strategy for 2022–2026.

The strategic goals of Sadales tīkls AS have been developed considering expected future challenges, the results of an internal and external factor analysis, and the forecasts of the European Distribution System Operators Association (E.DSO) and other international organisations. The role of the distribution system operators will change significantly over the next ten years. The future of energy will be decentralised, decarbonised and digital, and Sadales tīkls AS will have to ensure high-quality electricity supply while developing a network suitable for future needs. During strategy development, the views of the company's cooperation partners on the development trends of the electricity sector were also considered.

The overall long-term goal of Sadales tīkls AS is to provide a sustainable and economically justified electricity distribution service by efficiently managing the electricity network and improving the security and quality of the electricity supply, which is important for economic competitiveness and growth, while promoting climate neutrality goals. To achieve the vision and overall strategic goal of the company, four objectives have been set for 2022–2027:

- **Improving the quality and reliability of electricity supply** – the distribution network is designed with attention to the safety of the network and the quality of the voltage in each facility and the network as a whole. The main lines of action to achieve this objective are development and maintenance of the network, management of the smart network, and sustainability and management of the materials used.
- **Digital transformation of the company** – the company purposefully develops digital solutions based on automated, standardised processes and centralised data exchange and improves the digital environment and services for customers. The main areas of action to achieve this objective are digital solutions, data-based development and know-how, security, and development of information systems.
- **Continuous improvement of the company, increasing its value** – in the strategic period, we plan to continue increasing the efficiency of the company's operations. The main areas for achieving this objective are the development of company processes, synergy with other operators and communication holders, financial sustainability and efficient management of resources.
- **Ensuring sustainable development and climate neutrality** – the main activities to achieve this objective are the company's sustainable development, employees, and climate neutrality.

For each of these objectives, the key performance indicators to be achieved have also been set, which will allow the company to keep track of progress.

EU Taxonomy

To promote sustainable investment and the implementation of the European Green Deal, the European Commission has set up a special classification system for economic activities: the EU Taxonomy. It aims to identify which activities can be considered sustainable and to facilitate the reorientation of capital flows towards sustainable investment.

To identify environmentally sustainable economic activities, the Taxonomy Regulation (EU) 2020/852 sets six environmental objectives:

1) climate change mitigation
2) climate change adaptation
3) sustainable use and protection of water and marine resources
4) transition to a circular economy
5) pollution prevention and control
6) protection and restoration of biodiversity and ecosystems

An economic activity is considered environmentally sustainable if it simultaneously contributes significantly to one or more of the environmental objectives, does not cause significant harm to other environmental objectives and is carried out in compliance with at least the minimum social and governance requirements. At present, a list of taxonomy-eligible economic activities and the technical criteria for assessing their alignment with the first two environmental objectives have been developed. Other objectives will be addressed during 2022.

Companies in the non-financial sector that meet the criteria set out in the Taxonomy Regulation are required to indicate the share of taxonomy-eligible economic activities in turnover, CAPEX and OPEX in their report for 2021. During 2022, companies will need to further assess which of these activities meet the technical criteria and are therefore considered to be taxonomy-aligned, indicating their share in the above-mentioned financial ratios.

It is important to note that not all activities that are not included in the Taxonomy are harmful to the environment. Currently, the Taxonomy includes those sectors and activities that have the greatest impact on the environment. In the coming years, both the list of sectors included in the Taxonomy and the list of economic activities will be expanded.

Taxonomy-eligible activities

The Taxonomy-eligible economic activities have been identified based on the Delegated Regulation (EU) 2021/2139 and its draft amendments on nuclear energy and gas, approved in principle on 2 February 2022. The most significant taxonomy-eligible activities of Latvenergo Group include:

- electricity generation at the Daugava HPPs, the Latvenergo AS CHPPs, the Liepaja generation plants, Aiviekste HPP and Ainazi WPP;
- heat generation at the Latvenergo AS CHPPs and Liepaja plants and use of the CHPP-2 heat storage system;
- electricity distribution;
- development of a charging network for electric cars and solar panel installation.

Trade in energy and related services is not covered by the taxonomy.

In 2022, Latvenergo Group will assess the compliance of taxonomy-eligible activities with detailed technical criteria to determine whether all the activities are taxonomy-aligned.

Main assumptions and calculation methodology

The calculations have been performed in accordance with the instructions of the Taxonomy Regulation, its delegated acts, and related documents. Given the current lack of common understanding and specific methodological guidelines, the calculations are based on several assumptions described below. Assumptions and calculation methodologies may be adjusted following the publication of official guidelines from the European Commission.

Revenue

For distribution services and thermal energy generation, the share of taxonomy-eligible activities in revenue is determined based on an analysis of the revenue from products and services. In turn, electricity is provided to customers both from Latvenergo Group power plants that meet taxonomic requirements and by purchasing part of the energy on the market; therefore, taxonomic activities are attributed to a proportionate share of the total electricity sales revenue corresponding to the share of electricity generated by the Group's power plants to the total electricity sold.

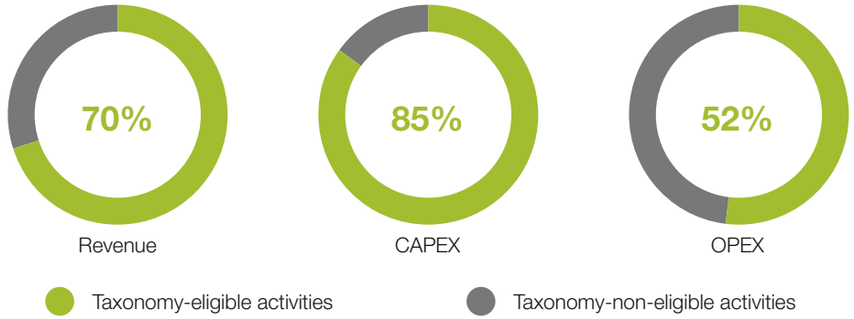
CAPEX

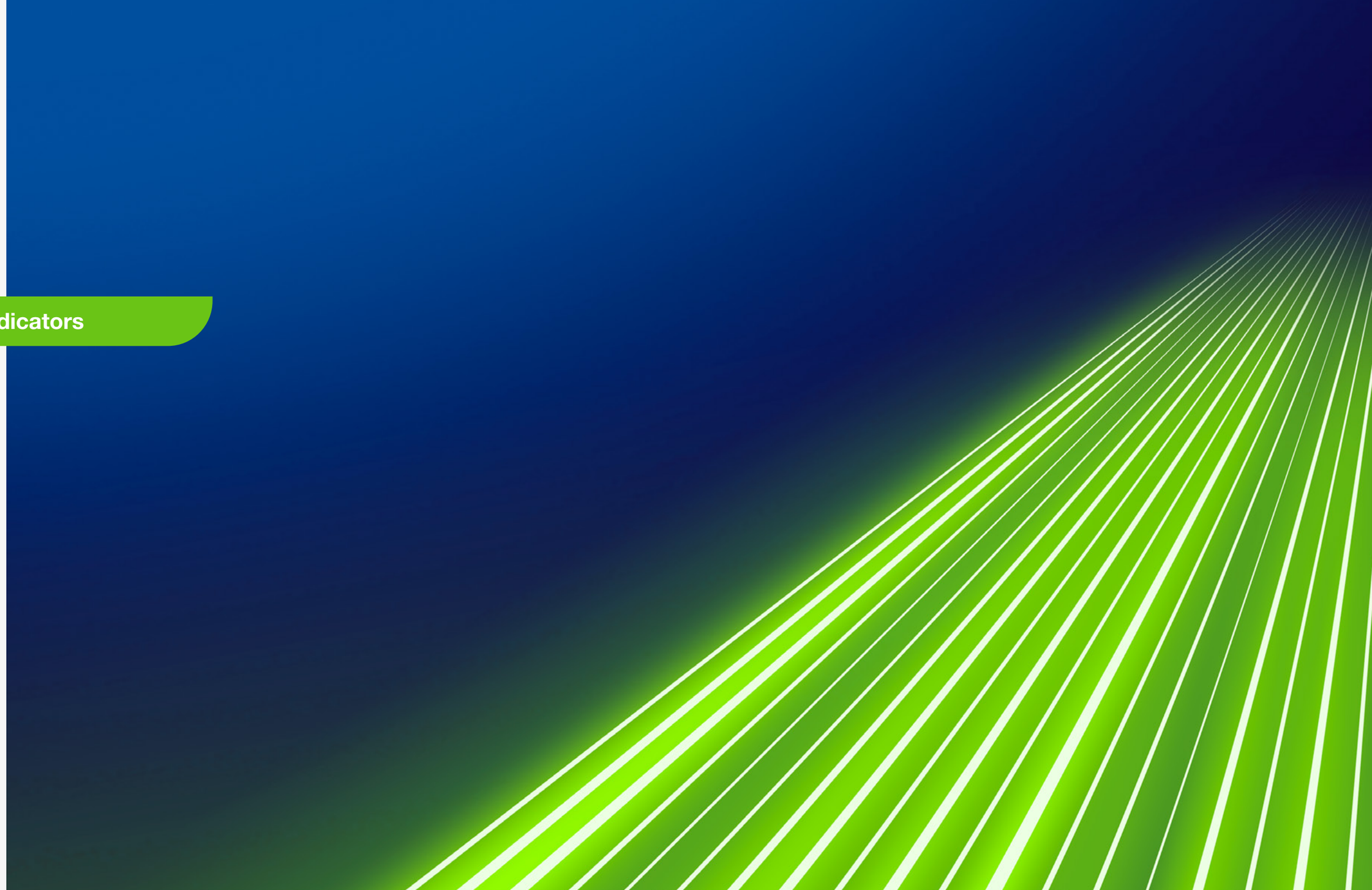
The share of taxonomy-eligible activities in the CAPEX is determined by the assessment of capital investments in operating segments and more specifically in project segments. The most significant part of the eligible investments consists of investments in distribution network renewal and development.

OPEX

The share of taxonomy-eligible activities in the OPEX is determined by assessing the costs by operating segments, for example, for the distribution service, as well as by analysing in detail the directly attributable costs for other activities, such as thermal energy and electricity generation at Latvenergo Group power plants. These costs include both the direct costs of operating the plants (including staff costs) and the costs of fuel to generate thermal energy and electricity.

Proportion of taxonomy-eligible activities





Materiality Assessment

The content of the Latvenergo Group Sustainability Report is based on economic, social and environmental topics important to the Group and its stakeholders. These material topics have been identified in compliance with the GRI Guidelines and the materiality assessment methodology developed by the Group. Identifying the topics and the relevant disclosures can be divided into four steps.

Step 1

Identifying relevant sustainability topics. Identifying priority stakeholders.

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

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

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

Step 2

Determining the most material sustainability topics.

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

In September of 2021, Latvenergo Group organised a stakeholder workshop online to discuss trends in energy industry development and to gather stakeholder perspectives on the Group's development. The stakeholders still recognize economic sustainability as the most material to the Group.

Step 3

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

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

The materiality matrix comprises 23 sustainability topics identified as relevant to Latvenergo Group. The vertical axis reflects the importance of the sustainability topics to the Group's stakeholders, and the horizontal axis reflects the importance of these topics from the Group's point of view. The matrix is divided into three parts: most material, moderately material and less material topics. The Sustainability Report covers the most material and moderately material topics. According to the GRI Guidelines, disclosures corresponding to these topics were identified. The report discloses information on 16 material sustainability topics for the Group and 32 specific standard disclosures (see the GRI Index).

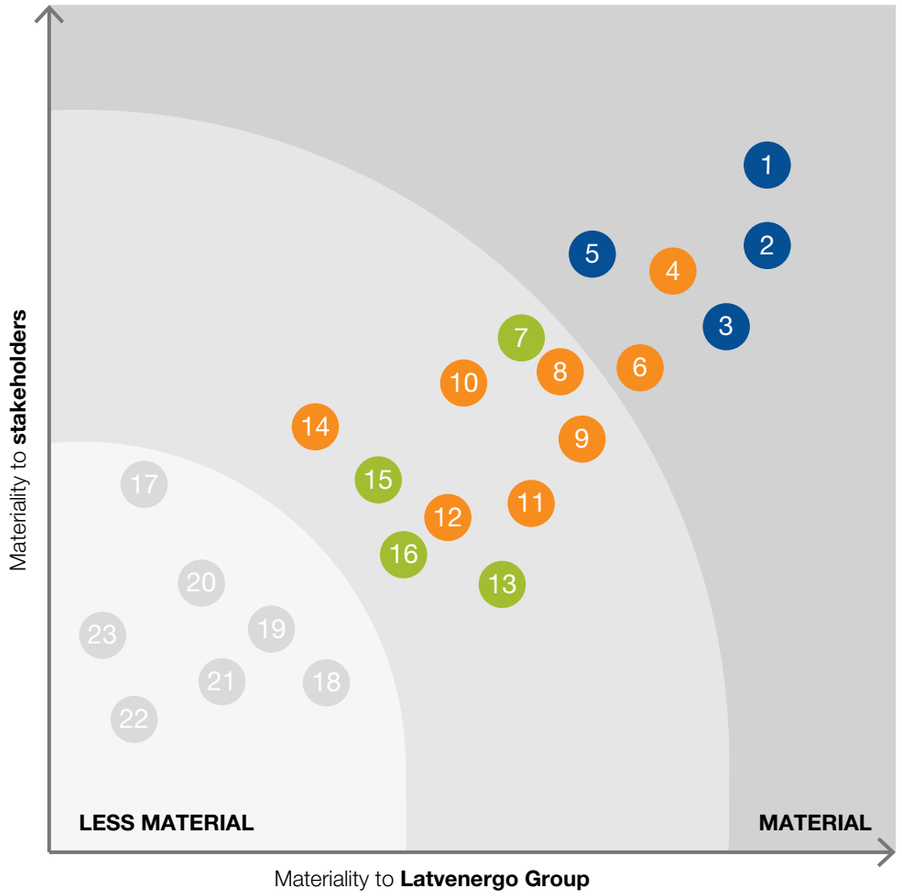
Step 4

Reassessing sustainability topics and disclosures.

The preparation of the report included the annual re-evaluation of stakeholders' opinions, the topics identified and the relevant disclosures. This was done by the persons responsible for the relevant areas, considering changes in the operational environment and the Group's operations and the feedback received from stakeholders. During this process, the Group concluded that there was no need to change the sustainability topics in 2021.

Taking into account the stakeholders' increasing interest in climate change issues, data on the indirect (Scope 2) emissions were added to the information on the topic Air pollution.

Materiality matrix



Economic topics

- 1 Efficiency of generation plants
- 2 Contribution to the economy
- 3 Efficiency and availability of distribution system
- 5 General compliance and fair business

Social topics

- 4 Customer satisfaction
- 6 Emergency planning
- 8 Occupational health and safety
- 9 Safety of distribution services
- 10 Public policy engagement
- 11 Employee involvement and development
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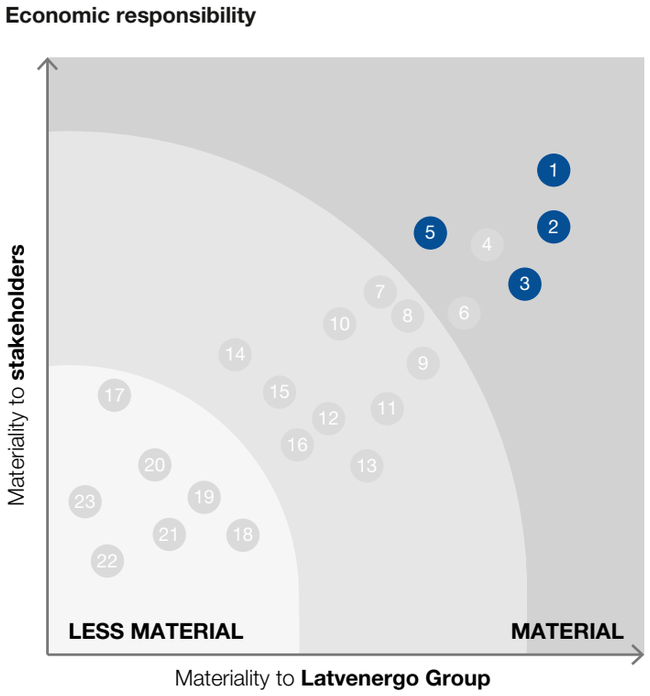
Economic Topics



1 Efficiency of generation plants
2 Contribution to the economy
3 Efficiency and availability of distribution system
5 General compliance and fair business

The energy sector has an impact on economic growth and accounts for a significant share of costs in certain sectors, especially manufacturing. As the largest provider of energy supply services in Latvia, Latvenergo Group also plays a significant role in strengthening the energy security and independence of the country and achieving climate neutrality goals. The Group's Strategy for 2022–2026 provides for a significant increase in the electricity generation capacity from renewable energy sources.

The efficiency of the Group's generation facilities and the quality of the distribution service are ensured by the efficient use of resources and prudent long-term investments in the modernisation of generation facilities and electricity network infrastructure. In its activities, the Group complies with laws and regulations and high professional ethical standards, encouraging its partners to comply with equivalent ethical principles.

1 Efficiency of generation plants

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

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

- the reconstruction of the Daugava HPPs' hydropower units continued, which will ensure an increase in capacity of up to 5% and an increase in the hydropower turbine efficiency ratio of up to 4.5%, thus also increasing the annual electricity output;
- the extensive reconstruction of Aiviekste HPP has been completed, almost doubling the plant's capacity – from 0.8 MW to 1.5 MW;
- the construction of the CHPP-2 heat storage system has been completed, which ensures both primary energy savings and reduction of CO_2 emissions.

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

Efficiency indicators of facilities are also affected by the chosen operating modes, which are adjustable to market conditions. The CHPPs of Latvenergo AS can generate energy in condensation mode and in the highly efficient cogeneration mode, which allows for the most efficient use of fuel and significantly reduces emissions per unit of energy generated. Under unfavourable market conditions, CHPPs are operated to a lesser extent using the opportunity of purchasing electricity at the Nord Pool exchange. However, electricity generation at the CHPPs increases in conditions of increased electricity market demand. The output of the Daugava HPPs is planned considering the water inflow in the Daugava River and the possibility to accumulate water in the water reservoirs of the HPPs and generate electricity during periods when the demand and the exchange price are higher.

GRI EU11

Average generation efficiency of power plants

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

In 2021, the generation efficiency indicator of the CHPPs increased by five percentage points, which can be explained by the fact that the share of electricity generated in cogeneration increased by 22% compared to 2020. Efficiency indicators of the Daugava HPPs and Liepaja plants did not change significantly in the reporting year.

Generation facility efficiency indicators

	Units	2017	2018	2019	2020	2021
Daugava HPPs	m^3/kWh	18.6	18.6	17.9	18.1	17.9
CHPPs	%	88	77	72	76	81
Liepaja plants	%	91	90	90	90	89

GRI EU30

Average plant availability factor

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

The availability factor of the Daugava HPPs increased in 2021, since by improving the preventive measures of the equipment monitoring, it has been possible to reduce unscheduled downtime. The availability factor for the CHPPs did not change significantly compared to the previous year.

In the reporting year, one hydropower unit at the Daugava HPPs was operational for an average of 2,061 hours and on backup for an average of 5,550 hours. The average annual duration of scheduled repair work per hydropower unit was 897 hours, which also included long-term reconstruction. Unscheduled repairs to all hydropower units amounted to 4,031 hours in total. The CHPPs were operational for an average of 2,036 hours and on backup for an average of 5,884 hours. The average annual duration of scheduled repairs per unit was 817 hours. Unscheduled repairs amounted to 319 hours.

Average plant availability

	Units	2017	2018	2019	2020	2021
Daugava HPPs	%	76	76	85	84	89
CHPPs	%	80	88	85	81	81

2 Contribution to the economy

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

In 2021, economic growth was observed in the Baltics and worldwide, which also had a significant impact on the energy sector. Eurostat data show that, compared to 2020, the gross domestic product (GDP) increased by 5% in Latvia and Lithuania and by 8% in Estonia. Gradual lifting of COVID-19 restrictions boosted economic activity, which increased electricity consumption as well. In the Baltics, electricity consumption increased by 4%, driven by economic recovery from COVID-19 restrictions and colder weather during the heating season and a hotter summer. Rapid demand for energy and electricity, combined with lower wind generation and the Green Deal reforms adopted by the European Commission to reduce GHG emissions in Europe, have led to the highest increase in prices of CO_2 allowances, natural gas, and electricity in the last decade.

Development of the energy sector requires significant annual investment. The amount of investment made by the Group in the reporting year was EUR 126.7 million. A significant amount of funds has been invested in environmentally friendly generation and network development projects. The largest investment project in 2021 was the renovation programme of hydropower units at the Daugava HPPs (see the annex Green Bond Report). According to the Group's Strategy for 2022–2026, in the future, the Group will significantly increase its investments in renewable energy generation capacity, which will reduce GHG emissions and help Latvia achieve climate neutrality by 2050.

The Group is one of the largest taxpayers in Latvia. In the reporting year, EUR 113.3 million was paid to the Latvian state budget and EUR 98.2 million was paid in dividends for the use of state capital. Taxes paid in Lithuania and Estonia amounted to EUR 15.2 million and 11.8 million, respectively. Latvenergo Group is also one of the largest employers in Latvia; at the end of 2021, it had 3,153 employees. The Group takes care of its employees by providing a safe working environment, competitive remuneration, contributions to the pension fund, and growth and training opportunities.

At the end of the reporting year, the Group's assets amounted to EUR 3.5 billion, while equity exceeded EUR 2.1 billion. Detailed information on the Group's performance is available in the Latvenergo Consolidated Annual Report.

Tax payments by Latvenergo Group (by cash flow)

	Units	Latvia		Lithuania		Estonia		TOTAL	
		2020*	2021	2020	2021	2020	2021	2020	2021
Taxes borne	**MEUR**	**46.1**	**42.0**	**0.5**	**0.6**	**0.3**	**0.2**	**46.9**	**42.8**
Corporate income tax	MEUR	10.6	6.8	0.1	0.0	0.1	0.0	10.8	6.8
Payroll taxes paid by the employer	MEUR	19.1	19.1	0.0	0.2	0.2	0.2	19.3	19.5
Other taxes (excise, environmental, electricity, real estate taxes)	MEUR	16.4	16.1	0.4	0.4	0.0	0.0	16.8	16.5
Taxes collected	**MEUR**	**93.1**	**71.3**	**12.1**	**14.6**	**7.1**	**11.6**	**112.3**	**97.5**
Value-added tax	MEUR	70.2	48.4	11.7	14.0	7.0	11.5	88.9	73.9
Payroll taxes paid by employees	MEUR	22.9	22.9	0.4	0.6	0.1	0.1	23.4	23.6
TOTAL	**MEUR**	**139.2**	**113.3**	**12.6**	**15.2**	**7.4**	**11.8**	**159.2**	**140.3**

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

Contributions to the pension fund

	Units	2017	2018	2019	2020	2021
Contributions	MEUR	2.2	2.2	2.1	3.5	4.7

GRI 201-3

Defined benefit plan obligations

In compliance with the Collective Bargaining Agreement, the Group makes contributions to a pension fund and pays retirement benefits. These benefits apply to 94% of the Group's employees.

Monthly contributions in the amount of 5% of the monthly remuneration are paid into Pirmais Slēgtais Pensiju Fonds AS until the employee reaches pensionable age (until April 2020, employees could redirect part of this 5% towards endowment health insurance). The accumulated private pensions become available to the Group's employees after they reach the age of 60 and to employees no longer employed at the Group after they reach the age of 55 or in case of Group 1 disability. If the employee draws on the accumulated pension after reaching the age of 60, the Group suspends contributions. In 2021, EUR 4.7 million were paid into the pension fund. The operations of Pirmais Slēgtais Pensiju fonds AS are supervised by the Financial and Capital Market Commission.

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

GRI 201-1

Direct economic value generated and distributed*

In 2021, the economic value generated by Latvenergo Group reached EUR 1.1 billion, which corresponds to 3% of Latvia's GDP. Distributed economic value reached 94% of the economic value generated and was distributed among the following stakeholders:

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

Latvenergo Group is one of the largest payers of dividends for the use of state capital in Latvia, and retained earnings brought forward from previous years were also used for the distribution of dividends. Over the last five years, more than EUR 600 million was paid as dividends into the state budget. Latvenergo AS dividends are also used as a source of funding for the state budget programme Electricity User Support, which helped to reduce the average MPC value by about 57% from 1 January 2022.

In the reporting year, the Group's retained economic value amounted to EUR 62.8 million or approximately 6% of the economic value generated. In 2021, EUR 126.7 million was earmarked for investment.

Economic value generated and distributed*

	Units	2020	2021
Economic value generated	**MEUR**	**780.2**	**1,072.8**
Revenue and other income	MEUR	778.1	1,070.7
Income from financial activities	MEUR	2.1	2.1
Economic value distributed	**MEUR**	**660.4**	**1,010.0**
Resources, materials, operational and other costs	MEUR	396.5	778.9
Employee remuneration	MEUR	106.0	105.6
Payments for the use of state capital	MEUR	127.1	98.2
Payments to providers of debt capital	MEUR	10.8	9.1
State imposed payments	MEUR	19.3	17.6
Charity and sponsorships	MEUR	0.7	0.6
Retained economic value	**MEUR**	**119.8**	**62.8**

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

GRI 201-4

Funding received from the state

In 2021, Latvenergo Group raised EU co-financing in the amount of EUR 0.7 million to establish a heat storage system at CHPP-2. The project, launched in 2019, was commissioned in March 2021 and its total EU co-financing amounts to EUR 2.3 million.

In compliance with the Electricity Market Law, the functions of the public trader in Latvia are performed by Enerģijas publiskais tirgotājs SIA, a subsidiary of the Group, which receives a targeted grant from the state budget for restriction of the MPC. Its main funding comprises revenues from dividends paid by Latvenergo AS. In 2021, Enerģijas publiskais tirgotājs SIA received a EUR 5.7 million targeted grant.

Funding received from the state and the EU

	Cofunding source	Units	2017	2018	2019	2020	2021
Liepaja plants	EU	MEUR	0	0	0.3	0.0	0.0
Energy IT platform	EU	MEUR	0	0	0.0	0.2	0.0
Heat accumulation system at CHPP-2	EU	MEUR	0	0	0.2	1.4	0.7
Grant for limiting MPC (incl. payments to energy-intensive processing industry companies)	state	MEUR	69.9	92.7	5.5	3.8	5.7
TOTAL		**MEUR**	**69.9**	**92.7**	**6.1**	**5.3**	**6.4**

3 Efficiency and availability of the distribution system

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

The key performance indicators for quality of electricity supply are the System Average Interruption Duration Index (SAIDI) and the System Average Interruption Frequency Index (SAIFI). Both indicators are calculated as an average indicator on a per-customer-per-year basis. Over the last five years, excluding mass damage, SAIFI has been reduced by 17% and SAIDI by 21%. Sadales tīkls AS conducts regular detailed analysis of these indicators and takes measures to improve them. In the reporting year:

- about 2,300 km of power lines were reconstructed, including the replacement of more than 630 km of overhead lines with cable lines and construction or reconstruction of more than 520 transformer substations;
- clearance work was carried out on power line routes totalling approximately 4,200 km;
- 124 remote-controlled circuit breakers were built, separating power lines in densely populated places and forested areas.

When performing work in the power grid, a set duration of scheduled interruptions is largely observed – up to 5 hours during winter and 6 hours during the rest of the year. To reduce electricity losses in the distribution network, older transformers are replaced with more energy-efficient equipment, monitoring of electricity consumption is improved, and the technical capabilities of smart meters are used.

Sadales tīkls AS takes care of the quality of services provided and continuously improves its customer service-related processes. Currently, one of the company's priorities is to facilitate and speed up the installation, renewal, and load change of electricity connections. Connecting electricity micro-generators to the grid is now simpler and faster, and the necessary documentation (from the application to the conclusion of the contract) can be arranged on the customer portal e-st.lv.

In 2021, the PUC approved new regulations for electricity distribution system connections, which include significant changes for the construction or reconstruction of connections if the required voltage does not exceed 400 volts, the permitted load does not exceed 100 amps and the distance to the low-voltage 0.4 kilovolt line is not more than 50 metres. For such connections an amperage fee is applied (charge for the construction of one load unit). The connection installation costs can be quickly and easily calculated on the new connection fee map on the website of Sadales tīkls AS.

For more information on distribution as a segment of the Group's operations, see the section Distribution.

GRI EU12

Distribution losses as a percentage of total energy

One of the most important indicators describing the efficiency of the distribution segment is distribution losses as a percentage of total electricity received in the grid. In 2021, Latvenergo Group reached its historically lowest electricity loss rate of 3.79%.

Distribution losses

	Units	2017	2018	2019*	2020	2021
Distribution losses	%	4.63	4.43	4.05	3.99	3.79

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

GRI EU26

Percentage of the population unserved in licensed distribution or service areas

The service area specified in the electricity distribution licence covers 99% of the territory of the Republic of Latvia. Distribution service is provided to approximately 800 thousand customers: 768.7 thousand private persons and 26.8 thousand business customers that have concluded agreements on electricity supply.

GRI EU27

Number of residential disconnections for non-payment

In 2021, electricity supply was disconnected for 7,998 households due to failure to pay in a timely manner, which is 8% less than a year earlier. 62% of disconnections lasted up to 48 hours. Cases where disconnections were longer than one month (12%) were mainly related to connections used by customers irregularly or rarely. In the reporting year, 92% of households had their electricity connection restored within 24 hours after payment.

Number of residential disconnections for non-payment

	Units	2017	2018	2019	2020	2021
Up to 48 hours	number	3,164	4,123	4,513	4,968	4,938
From 48 hours to 1 week	number	1,219	971	1,726	1,428	1,074
From 1 week to 1 month	number	1,460	1,297	1,451	1,149	1,026
From 1 month to 1 year	number	2,415	1,747	1,184	1,140	945
More than 1 year	number	3	0	13	34	15
TOTAL	**number**	**8,261**	**8,138**	**8,887**	**8,719**	**7,998**

Length of time between arrangement of payment and reconnection

	Units	2017	2018	2019	2020	2021
Up to 24 hours	number	8,069	7,217	7,799	7,820	7,371
From 24 hours to 1 week	number	192	921	1,082	887	610
More than 1 week	number	0	0	6	12	17
TOTAL	**number**	**8,261**	**8,138**	**8,887**	**8,719**	**7,998**

GRI EU28, EU29

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

Well-targeted investment in the reconstruction of distribution networks and intensive clearance work on power line routes has contributed to substantially reduced SAIFI and SAIDI. New work execution technologies allow for more and more maintenance and repair work without disconnecting the power supply to customers. Over the last five years, SAIFI has been reduced by 16% and SAIDI by 20%.

Improvement of the quality and reliability of electricity supply is one of the objectives of the Strategy of Sadales tīkls AS for 2022–2027. By 2027, SAIFI is expected to be reduced to 1.85 times and SAIDI to 160 minutes.

System Average Interruption Frequency Index (SAIFI)

	Units	2017	2018	2019	2020	2021
Unscheduled: weather conditions (massive damage)	number	0.2	0.0	0.3	0.2	0.2
Unscheduled: damage (incl. by third parties)	number	2.0	1.9	1.8	1.5	1.7
Scheduled: network maintenance and overhaul	number	0.6	0.6	0.6	0.6	0.5
TOTAL	**number**	**2.8**	**2.5**	**2.7**	**2.3**	**2.3**

System Average Interruption Duration Index (SAIDI)

	Units	2017	2018	2019	2020	2021
Unscheduled: weather conditions (massive damage)	min	18	3	33	25	15
Unscheduled: damage (incl. by third parties)	min	100	102	90	83	91
Scheduled: network maintenance and overhaul	min	143	123	123	111	102
TOTAL	**min**	**261**	**228**	**246**	**219**	**208**

5 General compliance and fair competition

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

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

The Code of Ethics also defines the types of conflict of interest and sets out measures to prevent conflicts of interest. The Group organises training and information events and has introduced declarations of conflict of interest. They are submitted annually by staff members who participate in decision-making and have been or may be subject to conflicts of interest during the performance of their duties. During the reporting year, 2,880 employees of the Group submitted declarations of conflict of interest. Upon entering employment, new employees confirm their commitment to prevent conflicts of interest within their activities.

To prevent corrupt or fraudulent activities, employees are regularly informed about ethics and compliance standards, and the internal regulations of the Group are continuously improved. In 2021, the Code of Ethics and the Conflict-of-Interest Declaration Form were updated. The Code of Ethics has been approved by the Supervisory Board of Latvenergo AS.

According to the new version of the Code of Ethics, employees inform their employer about their participation in meetings or negotiations with third parties who, in the context of a conflict of interest, could influence the employee's decisions while performing duties at Latvenergo Group. Employees use the reporting channels or information tools specified by the employer to provide the information.

In 2021, guidelines were also developed on how to recognise the bad faith influence or attempted influence on decisions and how to deal with such situations. The purpose of the document is to acquaint employees with the forms, general characteristics and tactics of bad faith influencing, as well as possible actions to prevent the bad faith influence on decisions.

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

The Group also urges its partners to comply with the same ethical principles and, when entering contracts, it asks for confirmation that cooperation will be based on the principles of fair business cooperation. The Code of Ethics and basic principles for cooperation with contractual partners are published on the Group's website.

GRI 205-2

Communication and training on anti-corruption policies and procedures

All Latvenergo Group employees have access to the Fraud and Corruption Risk Management Policy and the Code of Ethics. Both documents can be found in the Group's internal document system. The Code of Ethics is also available on the Group's website, where it can be viewed by any third party, including all cooperation partners of the Group.

During the reporting year, the e-learning developed in 2020 on the requirements of the Code of Ethics, prevention of conflicts of interest, and prevention of fraud and corruption continued. Employees of Elektrum Lietuva UAB and Elektrum Eesti OÜ participated in the e-learning, as well as new employees of Latvenergo AS and Sadales tīkls AS and employees who returned from long-term absence. By 31 December 2021, 3,047 or 99% of the Group's employees mastered this programme and passed a test. Employees of Liepājas enerģija SIA do not take this course, since the company has its own Code of Ethics, which also includes the most important principles from the Code of Ethics of the Group.

GRI 205-3

Confirmed incidents of corruption and actions taken

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

GRI 206-1

Legal actions for anti-competitive behaviour and monopoly practices

Latvenergo Group has approved the Competition Law Compliance Policy, prohibiting activities that violate the restrictions specified in the competition law. In 2021, no cases of anti-competitive behaviour or misuse of the dominant position by Latvenergo Group were identified, and no court proceedings against Latvenergo Group were initiated or were ongoing.

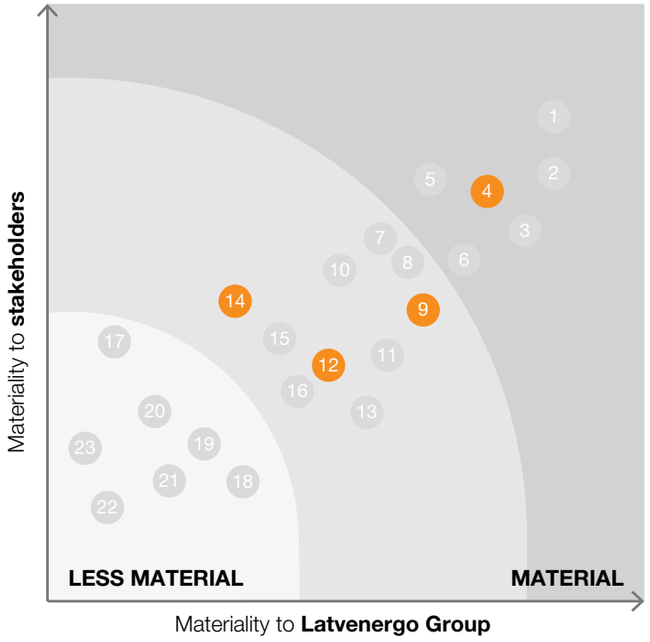
GRI 419-1

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

No significant fines or non-monetary sanctions were applied in 2021 for any failure by the Group to comply with laws and regulations in the social and economic area.

Social Topics

Product responsibility



4 Customer satisfaction
9 Safety of distribution services
12 Security of personal data
14 Information availability

Latvenergo Group's brand *Elektrum* offers competitive products and services related to electricity, natural gas, electricity consumption and energy efficiency that meet customer needs. Distribution services are based on the provision of high-quality and secure electricity supply in Latvia. The goal of the Group is to build long-term and mutually beneficial relationships with customers, and the Group uses innovative solutions and the basic principles of cost-effectiveness and operational excellence to achieve this goal.

4 Customer satisfaction

Trade

Since 2018, Latvenergo AS has been implementing a digital transformation programme to improve the availability of *Elektrum* products and services and the quality of customer service. Information campaigns are regularly run for household customers and businesses to update and supplement digital contact information and to promote the use of self-service tools.

For several years now, the *Elektrum* customer portal has been providing remote use of all services. To improve digital self-service, the portal implemented several improvements in 2021 that facilitate access to information and various transactions:

- guides to recalculating electricity and natural gas bills and balanced payments have been published;
- a report on natural gas consumption has been introduced;
- a new section has been introduced – *Energo analytics* – which enables customers with many objects to analyse the electricity consumption of their objects in the Power BI system easily and in depth;
- the design of the invoice archive, refund and redirection applications, and payment plan calculator has been improved;
- a virtual assistant Lelde has been introduced, who advises customers in both guided and free-form dialogue;
- the functionalities of the balanced payment have been improved;
- the possibility for business customers to pay for electric car charging on an open account has been introduced.

In the reporting year, the product range and functional possibilities of elektrumveikals.lv were supplemented.

In 2021, the procedure for granting and providing aid to protected customers was changed. Latvenergo AS has adapted the aid application process accordingly, including the possibility to extend the aid to another person's electricity contract, in which the service is used by the beneficiary.

***Elektrum* customer service key performance indicators in Latvia**

	Units	KPI	2017	2018	2019	2020	2021
Calls answered	%	85	89	83	91	91	88
Calls answered within 30 seconds	%	75	76	64	79	82	77
E-mails answered within 24 hours	%	70	90	58	87	73	76
Claims answered within 3 days	%	80	n/a	80	90	85	84
First call resolution for the household segment	%	90	90	91	90	91	90

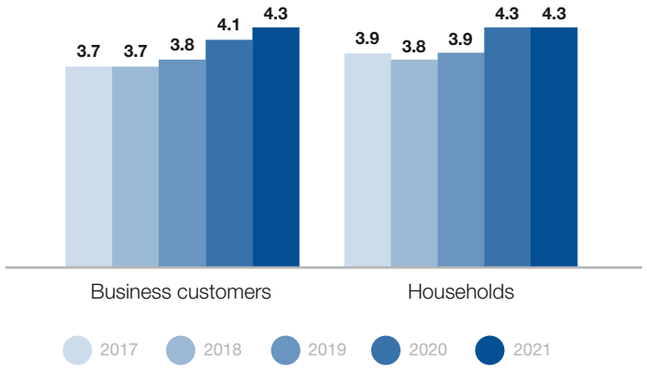
To assess the quality of customer service and identify opportunities for its improvement in a timely manner, several customer service key performance indicators have been defined at the Group. In the reporting year, the level of all indicators corresponded to or exceeded the level specified in the performance indicators.

Elektrum customer satisfaction and loyalty surveys in the household and business customer segments in Latvia are also conducted on a regular basis. These surveys measure customer satisfaction with the Group, its services, customer service, payment options, and the availability and content of information. Customer satisfaction is also assessed in comparison with the reference group – a sample of companies operating in the energy and services sector. In 2021, *Elektrum* customer satisfaction was 5% higher than the average of the reference group.

To evaluate customer satisfaction with service in more depth, the net promoter score (NPS) is monitored in all customer service channels.

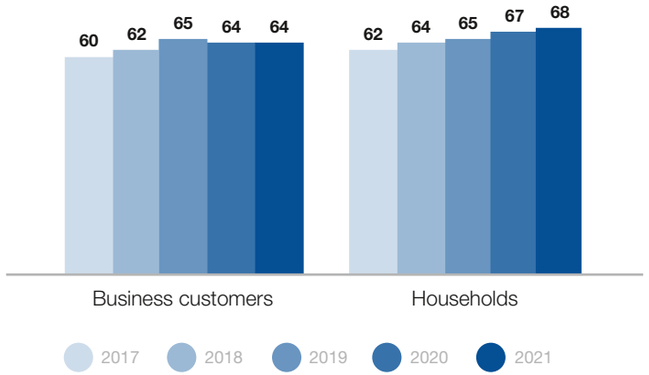
Elektrum customer satisfaction index

- Shows customer satisfaction with the service provider.
- Measured on a scale from 1 to 6.
- In 2021, customer satisfaction remained at the level of the previous year in the household customer segment and increased slightly in the corporate customer segment..



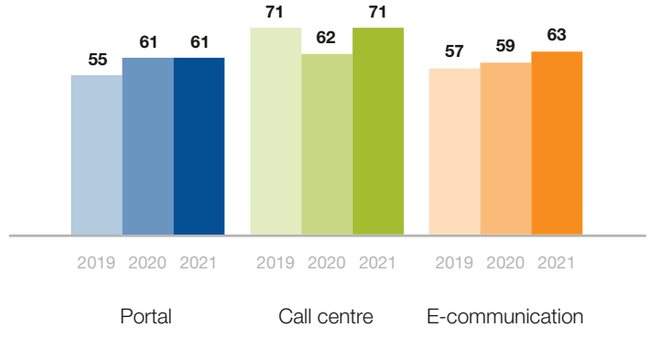
Elektrum customer loyalty index

- Shows the level of customer loyalty – commitment to the service provider and readiness to continue cooperation in the long term.
- Measured on a scale from 1 to 100.
- In 2021, customer loyalty remained stable with a slight increase in the household customer segment.



Elektrum net promoter score

- Shows the readiness of customers to recommend the service provider based on their service experience.
- Measured on a scale from -100 to +100 (according to the international NPS methodology).
- The recommendation index for all customer service channels is consistently high, and in 2021, the rating of the contact centre increased significantly.



Distribution

During the reporting year, Sadales tīkls AS continued to develop digital and automated services in its customer service processes. Multichannel communication capabilities make it possible to ensure continuous and fully-fledged availability of services and high-quality customer service remotely and at any time.

- The renewed website sadalestikls.lv provides extensive information about services, several e-calculators, digital maps, and e-consultations. The virtual assistant Valts, which was introduced in 2021, provides significant support and immediate answers to questions at any time of the day or night.
- In the self-service portals e-st.lv and saskano.sadalestikls.lv, customers can do everything from a service application to the conclusion of a contract, and they can coordinate projects and plans and get permits for construction, forestry, and excavation work.
- Power network faults may be reported 24/7 by calling the toll-free number 8404.

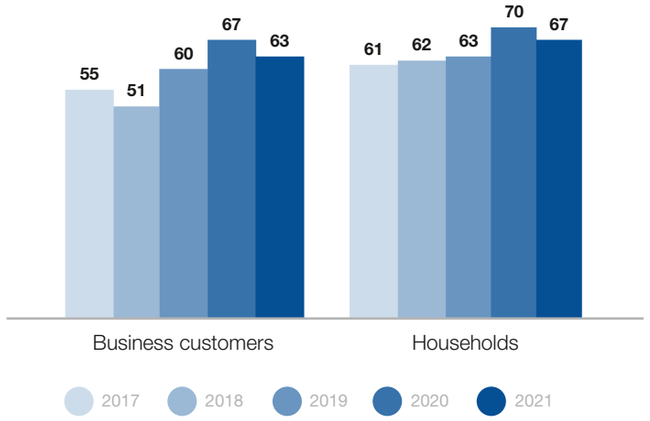
In 2021, Sadales tīkls AS customer satisfaction remained at a moderately high level and corresponded to the European benchmark for the energy, heat, and gas industry, which is 65 index points. The decline compared to 2020 stems from the fact that Latvian companies are becoming more active in raising their level of customer service; therefore, the assessment of the competitive advantages of Sadales tīkls AS is decreasing.

The essential elements for customers remain the same over time: the quality of service, the cost-effectiveness of the company, and the reputation and cooperation of the company. In their experience with Sadales tīkls AS, customers highly value the quality of electricity supply and the reputation (safe, reliable) of the company, while in cooperation they value the timeliness and availability of information, including the availability of data.

The availability of data is particularly important for large business clients. Therefore, in the reporting year, Sadales tīkls AS started to offer automated information delivery to customers' data systems, providing the hourly electricity consumption data of the previous day. In the long term, in the segment of large business clients (also in the segment of local government clients), the gradual and stable growth of customer satisfaction continues.

Sadales tīkls AS customer satisfaction index

- Shows customer satisfaction with the service provider.
- Measured on a scale from 1 to 100.
- In 2021, customer satisfaction remained at a moderately high level in both the corporate and household customer segments.



9 Safety of distribution services

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

Sadales tīkls AS organises and supports informative and educational programmes and campaigns aimed at preventing electrical injuries caused by the negligent use of electrical appliances and performing business activities in the vicinity of the electrical network. In the reporting year:

- the company's employees, who are ambassadors of electrical safety, conducted 220 onsite and online electrical safety classes in which around 6,200 children and young people were educated;
- a campaign for parents was organised – *Do not test electricity's patience* – and an extensive electrical safety campaign was implemented in the media for both economic operators and households;
- in cooperation with the research centre SKDS, a study initiated by Sadales tīkls AS was conducted – *Electrical Safety Index* – to assess the general public's awareness and understanding of electrical safety.

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

GRI EU25

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

In 2021, three accidents involving third parties occurred in the electrical installations of Sadales tīkls AS. All three accidents were caused by the electrical line being touched by a fishing rod. To prevent such cases, Sadales tīkls AS regularly reports to the media, emphasising the importance of observing electrical safety requirements in the vicinity of overhead lines.

Number of accidents to third parties involving company assets

	Units	2017	2018	2019	2020	2021
Fatal	number	1	0	1	0	1
Serious	number	0	0	1	0	1
Not serious	number	5	3	1	0	1
TOTAL	**number**	**6**	**3**	**3**	**0**	**3**
Legal cases	number	0	0	0	0	0

12 Security of personal data

To ensure compliance with the requirements of General Data Protection Regulation (EU) 2016/679, Latvenergo Group constantly improves its personal data processing and introduces measures to reduce the risks of personal data processing. Employees whose duties involve working with personal data take part in workshops, knowledge tests and e-training on a regular basis. In 2021, mandatory e-learning on personal data and related processes in daily work was organised for the employees of Latvenergo AS and Enerģijas publiskais tirgotājs SIA. It is envisaged that in 2022, e-learning will be adapted and made compulsory for the employees of Sadales tīkls AS, Elektrum Eesti OÜ and Elektrum Lietuva UAB.

The processing and maintenance of personal data stored in the information systems of the Group is carried out in accordance with the requirements of the laws and regulations for the security of personal data and confidentiality. Personal data processing within the *Elektrum* customer portal, the e-st.lv portal and direct communication activities is adjusted to ensure the confidentiality of personal data. To reduce the risks of personal data processing during the reporting year, a new functionality was introduced on the *Elektrum* customer portal which ensures that changes to a mobile phone number are only saved after the customer has verified them with a code received in a text message. Other risk mitigation measures have also been taken in the *Elektrum* customer portal and service processes.

GRI 418-1

Complaints regarding breaches of customer privacy and losses of customer data

In 2021, no complaints were received at Latvenergo Group from the supervisory authorities or other institutions regarding breaches of personal data, and no incidents involving theft or loss of personal data were registered. No incidents causing high risk to the rights and freedoms of natural persons were identified.

14 Information availability

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

Trade

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

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

The most popular customer service channel is the portal elektrum.lv, which was used by 63% of *Elektrum* customers in the reporting year. The *Elektrum* mobile application is used by more than 124 thousand customers, which is 19% of the total number of customers. In Lithuania and Estonia, customer service is ensured via the elektrum.lt and elektrum.ee customer service portals, as well as by phone. To facilitate access to information, customer service is also provided in Russian and English.

Latvenergo Group also informs customers and the public about energy efficiency and electrical safety – in the customer newsletter *Elektrum Tavām mājām*, in *Elektrum* social network accounts, in the customer service portal, and in activities organised by the *Elektrum* Energy Efficiency Centre. To promote energy-efficient electricity consumption and heating, two marketing communication campaigns were implemented in 2021: *Participate in the Clean-up of Electrical Appliances* and *Keep the Heat In*. An analysis of the campaigns' effectiveness confirms that about 70% of the population is acquainted with one of the materials of the energy efficiency campaigns and about 90% of the audience reached confirms that it will consider one of the *Elektrum* energy efficiency tips.

Distribution

All services of Sadales tīkls AS are available electronically 24/7. On average, 96% of customer activities took place in the e-environment in the reporting year since customers were informed about the e-environment capabilities of the company. Digital maps show information on scheduled and unscheduled disconnections, cleaning of tracks and protection zones of power lines, and ongoing and scheduled reconstruction work. The following items were developed in 2021:

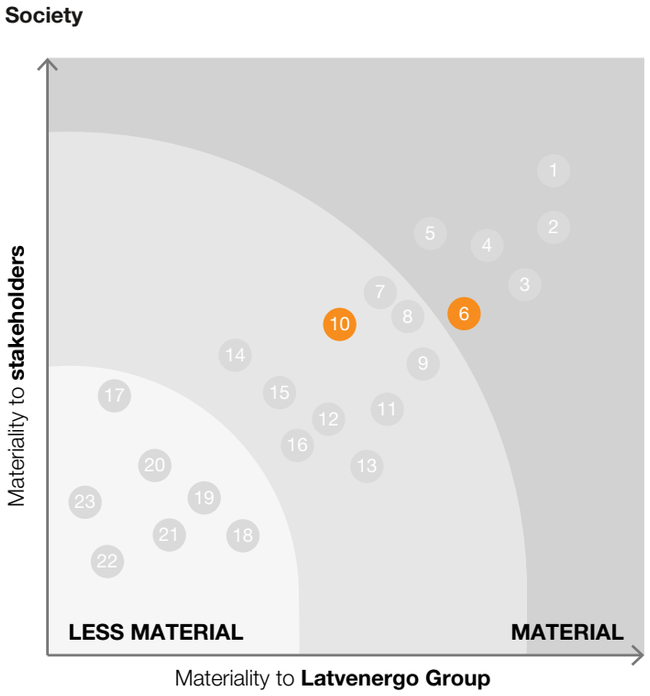
- a map where customers can find out how much it will cost to install a new electricity connection (if the property is in the amperage area);
- an available capacity map for customers who plan to build a connection with high consumption or generation capacity.

The digital transformation objective of Sadales tīkls AS is to introduce a standardised and centralised exchange of data between market participants and system operators by 2027 and to ensure that 99% of operations are carried out in the e-environment.

GRI 417-3

Incidents of non-compliance concerning marketing communications

No cases of non-compliance of Latvenergo Group's marketing activities with legal or voluntary provisions were identified in 2021.



6 Emergency planning

10 Public policy engagement

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

6 Emergency planning

Latvenergo Group has developed an emergency and crisis management system. It aims at a common approach to addressing such situations to ensure the continuous and safe operation of the Group or its rapid and effective restoration. Emergency response involves cooperation with the Crisis Management Council, the Energy Crisis Centre, local governments, the Department of Management and Operations of the State Fire and Rescue Service (SFRS), the National Armed Forces and Augstsprieguma tīkls AS. Civil protection plans have been developed for the plants, which have been coordinated with the SFRS. The plans are implemented, updated, and supplemented annually.

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

10 Public policy engagement

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

Experts of the Group make recommendations for the development of various Latvian regulatory and policy planning documents for the energy sector. The most important documents in 2021:

- amendments to the Electricity Market Law and the Energy Law, which include the new requirements of EU Directive 2019/944 on common rules for the internal market for electricity;
- amendments to the Regulations of the Cabinet of Ministers of the Republic of Latvia, which improve the existing regulation to produce electricity in cogeneration and from renewable resources;
- development of a new model of trade service for the protected customers;
- establishment of an aid programme for electricity users to temporarily cover the costs of the distribution system service and MPC from the state budget.

The Group's involvement in shaping energy sector policy is ensured through its participation in the association of the European electricity industry Eurelectric and the technical association of power plant operators VGB PowerTech e.V. During the reporting year, experts of the Group participated in the development of the Eurelectric position on the revision of the EU Directive on the promotion of the use of energy from renewable sources, on the revision of the TEN-E Regulation, and in the European Commission's public consultation on social taxonomy. Latvenergo AS also signed the European electricity executives' message on high energy prices.

Representatives of the Group have also participated in 21 VGB working groups and committees. Translation of the VGB standard *Technical and Commercial Key Indicators for Power Plants* has been completed. A study by Romāns Oļekšijs, Project Manager at the Wind and Solar Park Development, on the impact of cyclic operation on the availability and operational readiness of the basic electrical equipment of the power plant, received the VGB Award for special advances in research with practical application.

Latvenergo Group participates in energy and energy efficiency-related forums and conferences to promote the exchange of opinions on the future of the industry. The most important issues discussed in 2021 are the development of the energy sector and technologies, the development of a sustainable transport sector, charging points and solutions for electric transport, the green deal in the electricity supply, smart solutions for changing everyday habits, consumer flexibility for energy system balancing and digitalisation of generation facilities.

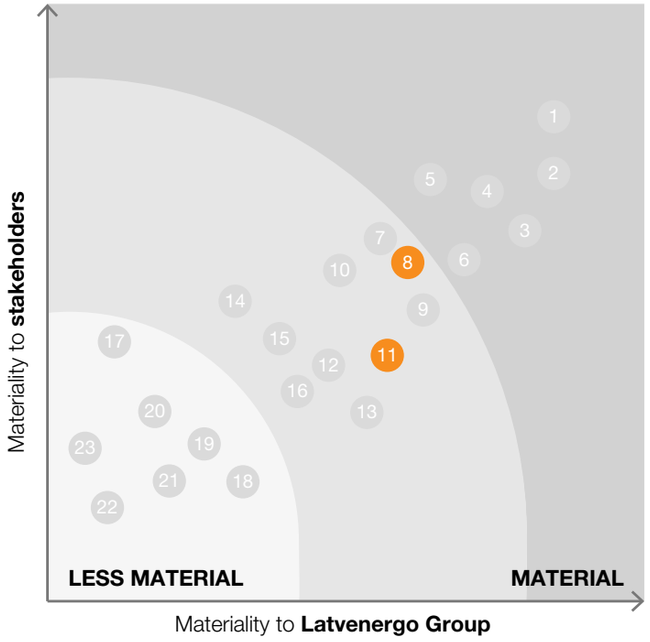
In the reporting year, Sadales tīkls AS organised the first energy supply innovation forum in Latvia, *AC/DC Tech*, to open a dialogue between decision-makers, industry experts, market participants, and start-ups on the transformation of the electricity supply industry and changes expected in the coming years.

GRI 415-1

Political contributions

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

Employees and the work environment



8 Occupational health and safety

11 Employee involvement and development

Latvenergo Group's priorities include strengthening employee engagement, motivation, and development and providing a safe work environment that promotes innovation. Motivated, loyal, and satisfied employees are an essential precondition for the sustainable development of the Group. In 2021, in parallel with the development of the strategy for the next period, a cultural transformation programme was launched, the aim of which is to implement new values and working approaches at Latvenergo Group to develop an innovative, dynamic, and development-orientated organisation.

Personnel management policy and basic principles

The goal of Latvenergo Group's personnel management is to promote employee involvement, motivation, and compliance with the values of the Group. The Personnel Management Policy is subject to the strategy of the Group and covers the following areas of personnel management:

- employee engagement to promote growth, productivity, and innovation;
- management of excellence-orientated skills and competences and leadership development;
- comprehensive diversity management, enabling employees to realise their potential regardless of possible limiting factors;
- a balanced motivation system that supports excellence and leadership.

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

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

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

GRI 102-8,102-41

Number of employees and the Collective Bargaining Agreement

At the end of the reporting year, Latvenergo Group had 3,153 employees. The efficiency programme launched in 2017 comprises the revision, centralisation, and digitalisation of processes, with plans to downsize the number of employees by about a quarter by the end of 2022. At the end of the reporting year, the Group had approximately one thousand fewer employees than before the start of the efficiency programme.

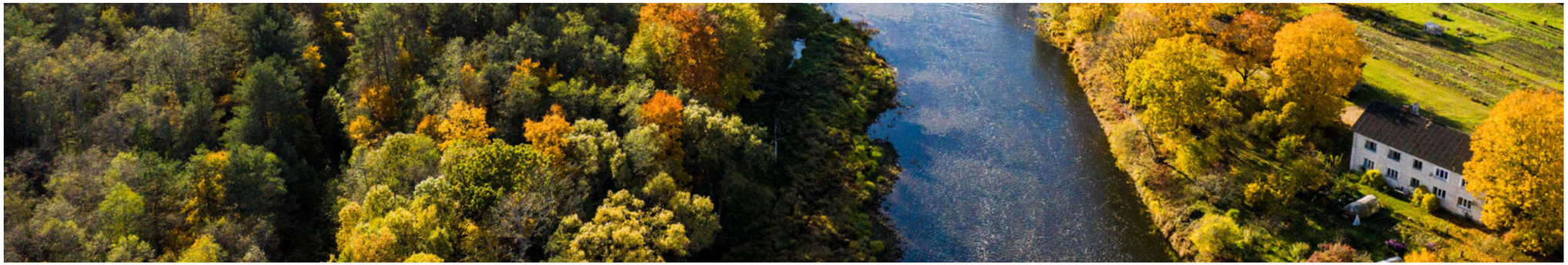
The energy industry is characterised by its high number of technical positions; therefore, the workforce structure of the Group has a relatively high proportion of male individuals: 70% of all employees in 2021 were male and 30% were female. Most employment contracts are concluded as full-time open-ended contracts. In 2021, only 7 employees or 0.2% of the workforce had part-time agreements (0.1% of male and 0.2% of female employees). 1.7% of the workforce had employment contracts for a fixed term (0.7% of male and 1% of female employees). These figures did not change significantly compared to the previous years.

The companies of the Group – Latvenergo AS, Sadales tīkls AS and Enerģijas publiskais tirgotājs SIA – have signed a Collective Bargaining Agreement with the trade union Enerģija. In addition to meeting the requirements of laws and regulations, the Collective Bargaining Agreement provides protection for employees' economic and social interests; it was applicable to 94% of the employees of the Group in 2021. The Collective Bargaining Agreement applies not only to trade union members, but to all the employees of the above companies.

Number of employees by operating segments

	Units	2017	2018	2019	2020	2021
Generation and trade	number	949	877	880	875	912
Distribution	number	2,344	2,019	1,957	1,876	1,681
Lease of transmission system assets*	number	9	8	6	0	0
Corporate functions	number	606	604	580	544	560
TOTAL	**number**	**3,908**	**3,508**	**3,423**	**3,295**	**3,153**

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



8 Occupational health and safety

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

Occupational health and safety management

The companies of the Group ensure internal monitoring and management of the working environment in accordance with legislation and occupational health and safety (OHS) systems. OHS management systems have been introduced on a voluntary basis and adapted to the needs of each company. According to the plan for occupational health and safety measures, employees are provided with personal protective equipment, technical resources, training, and regular briefing.

A safe working environment is one of the priorities of Latvenergo Group. Occupational safety specialists, in cooperation with employees, managers, and trustees, identify risks in the work environment in a timely manner and record near misses. Risk assessment is performed annually, determining the degree of risk and considering the possible effects on the health of employees. In connection with the introduction of remote work in 2021, employees were more actively involved in the assessment of work environment risks.

When developing the work environment assessment plan, occupational health and safety specialists consider evaluations of the remote workplace provided by employees and identify the general and specific work environment risks. In addition, employees can receive advice from a health and safety specialist or trustee on specific work environment issues, including recommendations for ergonomic workplaces, reducing psycho-emotional risk and balancing private and working life. With the involvement of the heads of the organisational units, possibilities for arranging an individual workplace are being addressed.

Employees are regularly introduced to occupational health and safety requirements; places that may pose a danger in the performance of work are identified and arranged. Occupational safety days are organised periodically in compliance with the epidemiological safety requirements, during which attention is paid to occupational safety at the facilities. Employees may report dangerous situations or non-compliances to occupational safety specialists, heads of organisational units or trustees. Job instructions include clauses about situations when it is forbidden to start work. In accordance with the Labour Protection Law, an employee may refuse to perform work in dangerous conditions by informing the head of the organisational unit or the trustee orally or in writing. In 2021, Latvenergo Group had 28 trustees, who are elected by the employees, trained in accordance with the procedures established by the Cabinet of Ministers of the Republic of Latvia, and represent the interests of employees in labour protection. Employees can also turn to trustees in situations when direct communication with the employer is difficult.

Latvenergo Group provides employees with both professional development training and occupational safety training. According to the needs of employees, the Group organises training in first aid, electrical safety, work at height, work with hazardous equipment, and other specific training. The Group fully covers the costs of training, and employees can attend training during working hours. In 2021, both training and group briefings were mostly held remotely.

Accidents at the Group are registered and investigated in compliance with the laws and regulations. In addition, near accidents are listed and analysed. Any conclusions and insights are used for the improvement of the OHS management system.

Employee health

In accordance with the respective position, assessment of the work environment risk and the requirements of regulatory enactments, each employee is sent for mandatory health checks. These checks are included in the employees' health insurance policy and can be performed during working hours. Information about the health condition of employees and the examinations performed is processed in accordance with the Personal Data Processing Law, respecting confidentiality and employee privacy. The health insurance of Latvenergo Group employees also includes specialist and inpatient services, rehabilitation, and vaccination. Additional health promotion measures include accident insurance and additional sickness guarantees under the collective agreement.

Effects of COVID-19 and disease control measures

In 2021, the COVID-19 pandemic created additional challenges for the working environment. Several epidemiological precautions have been taken to limit the spread of the virus:

- employees whose job specifics allow it were invited to work remotely;
- restrictions were imposed on onsite work (number of staff in the room, distance, use of face masks) and flexible working hours were introduced to avoid peak hours in public transport;
- disinfectants, soap, easy-to-empty waste bins (without contact with the contents), and regular cleaning or disinfection of surfaces were provided at workplaces;
- training took place remotely or in groups with a limited number of participants who presented certificates of vaccination against COVID-19, of recovery from COVID-19 or of the results of COVID-19 laboratory tests;
- COVID-19 testing was provided to employees whose job responsibilities included onsite work and/or contact with customers and visitors;
- for the convenience of employees, vaccination against COVID-19 was also organised at the Group's facilities or at public vaccination points available in the immediate vicinity;
- seminars were organised with specialists in the field who provided an explanation of the current situation, informed employees about possible actions, and answered their questions.

To ensure the continuity of Latvenergo Group's operations and identify possible risks of the spread of COVID-19 in a timely manner, as well as to promptly implement the recommendations of the Centre for Disease Prevention and Control of Latvia and government decisions, special working groups were organised. They drew up action plans setting out the following actions:

- identification and self-isolation of COVID-19-infected workers;
- identification of possible contacts, including contractors;
- obtaining information from employees in the case of a positive test;
- providing vaccination at the Group's facilities for employees and their family members;
- testing Latvenergo AS employees and contractors before the commencement of work.

Even before the requirement to work in the green regime was established in Latvia, Latvenergo AS supported the initiative of large companies to work in this regime, i.e., only employees with a certificate of vaccination against COVID-19 or of recovery from COVID-19 worked onsite.

Contractors

Before starting work at the Group's facilities, all contractors are introduced to the risks of the work environment. Briefings can be organised remotely or in person, depending on the epidemiological situation. Onsite contractors' representatives instruct their staff on the specific work environment risks associated with the performance of the work in question and ensure appropriate occupational safety measures.

Contractors are also bound by the epidemiological safety measures, which include testing workers, keeping a distance and providing face masks and disinfectants.

GRI EU18

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

In accordance with the legislation and the internal regulations of the Group, all partners, subcontractors, and their employees are instructed on the safety of the work to be performed. The briefings are organised onsite or remotely, and employees sign that they are familiar with the instructions. Subcontractors must familiarise their employees with safe work practices at the site and provide a health check before commencing work.

GRI 403-8

Workers covered by the OHS management system

The internally audited OHS management system covers all operating segments and employees of the Group.

The OHS management system implemented by Latvenergo AS complies with the requirements of regulatory enactments and the ISO 45001:2018 standard, and it is externally audited and certified. No non-compliances were identified during the 2021 supervisory audit. The OHS management systems of other companies of the Group are designed and maintained in accordance with the requirements of regulatory enactments.

	Units	2017	2018	2019	2020	2021
Workers covered by OHS management system	number	3,908	3,508	3,423	3,295	3,153
	%	100	100	100	100	100
Workers covered by an internally-audited OHS management system	number	515	3,508	3,423	3,295	3,153
	%	13	100	100	100	100
Workers covered by an externally-audited or externally-certified OHS management system	number	515	3,508	3,423	1,419	1,269
	%	13	100	100	43	40

GRI 403-9

Work-related injuries

Accidents at the Group are registered and investigated in compliance with the laws and regulations. Data on Elektrum Eesti, OÜ and Elektrum Lietuva, UAB are not included.

	Units	2017	2018	2019	2020	2021
Recordable work-related injuries	number	8	10	8	8	7
	index*	0.23	0.33	0.28	0.28	0.27
Low-consequence work-related injuries	*number*	*6*	*7*	*5*	*7*	*5*
	*index**	*0.18*	*0.23*	*0.17*	*0.25*	*0.19*
High-consequence work-related injuries	*number*	*2*	*3*	*3*	*1*	*2*
	*index**	*0.06*	*0.10*	*0.10*	*0.04*	*0.08*
Fatalities	*number*	*0*	*0*	*0*	*0*	*0*
	*index**	*0*	*0*	*0*	*0*	*0*
Number of hours worked		6,842,263	6,037,998	5,772,056	5,636,983	5,262,582

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

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

In 2021, the Group received information on four accidents that occurred among employees of contractors (4 in 2020).

11 Employee involvement and development

Employee involvement

Employee involvement is a prerequisite for the growth, development, and achievement of the goals of the Group. Performance and productivity also depend on whether employees feel motivated and have a sense of belonging to the company. The Group conducts an anonymous employee survey annually to find out employees' views on various factors of the work environment. In 2021, a comprehensive employee survey was also conducted using the TRI*M methodology, which, in addition to involvement, assessed employee satisfaction, loyalty, resilience, and motivation, as well as several work environment factors.

Almost 2,100 respondents or 70% of the Group's employees participated in the survey. In 2021, the total employee engagement rate of Latvenergo Group remained unchanged, and with 66 index points, the target for engagement was reached (63–66 index points). This indicator is considered to be moderately high and indicates a good and stable working environment in the Group. Employees have rated the content and quality of their work the highest, whereas communication on the compliance of remuneration with work performance and the labour market situation in the country have been recognised as areas for improvement.

In the survey, employees were also able to express comments and objections about the work environment, as well as make proposals for its improvement. Employees can easily submit their proposals for improvements in working processes, new products, and services to the *Idea Bank* in the Group's intranet, where they can also follow the progress of these proposals. In 2021, 122 ideas were submitted to the *Idea Bank*; five have been implemented, 61 are in the process of evaluation or execution, and the rest have been postponed or rejected. Two suggestions have been implemented together with the members of the Excellence Programme, such as the development of the *LEwiki* knowledge platform, which contains instructions for the use of the most popular internal information systems.

To inform employees about current developments in the Group, achievements and plans, in 2021, remote conversations between the Management Board of Latvenergo AS and employees were held, and remote meetings of the management of Sadales tīkls AS with employees were organised.

During the reporting year, employees of the Group were also able to engage in a series of activities to maintain mutual communication and cooperation, enliven the Group's values in daily work and strengthen the sense of belonging to the company.

- Employees of Latvenergo AS had the opportunity to participate in their own team-building events outdoors – *Once again, united in energy* – and in a virtual recognition campaign at the end of the year: *Highlight your heroes*.
- Employees of Sadales tīkls AS participated in the virtual challenge game *Human Connection* and maintained their athletic spirit in the summer sports games, during the activities of the virtual sports club and in the unity trip of the Latvian Cycling Team. The company's online radio was also developed, and new internal communication projects were launched: the podcast *Kontakts* for employees, a series of talks with experts of Sadales tīkls AS on important issues in the company and a series of stories about employees of the company *ST Lietaskoki*.
- Employees of Elektrum Lietuva UAB and Elektrum Eesti OU organised team building events outdoors.

These activities were of particular importance in view of the significant changes that the ongoing COVID-19 pandemic and the full or partial reorientation to remote work brought to the daily lives of each employee and company.

Cultural transformation

To achieve the ambitious goals set in the Strategy of Latvenergo Group for 2022–2026, the internal culture of the organisation, which supports innovation, the free exchange of knowledge and ideas and cooperation at all levels, is essential. Therefore, in 2021, in parallel to the development of the strategy for the next period, a cultural transformation programme was launched, the aim of which is to implement the new values and working approaches of Latvenergo to develop an innovative, dynamic, and development-orientated organisation.

Workshops were organised to develop the cultural transformation programme, involving the Management Board of Latvenergo AS and managers and specialists of various levels. Employee surveys, focus group discussions and discussions with the management of the subsidiaries (Sadales tīkls AS, Elektrum Lietuva UAB and Elektrum Eesti OU) were also held. As a result, the purpose, vision, and mission of the Group were formulated, as well as the values and work approaches that are the expression of the values of the Group in day-to-day processes.

Cultural transformation can only take place if there is a change in the decision-making, work processes and day-to-day communication at all levels, as well as in the behaviour and actions of every manager and employee. The Growth Programme has been launched to implement the changes; it is expected to be implemented by the end of 2023. Latvenergo AS (as the parent company) plays a leading role in the implementation of the programme, and it also envisages the involvement and mutual coordination of subsidiaries.

Leaders play an important role in the successful course of cultural transformation; therefore, a leadership evaluation project was launched in the reporting year in which we plan to evaluate 50–80 leaders by the end of 2022. The aim of the project is to create individual plans for developing managerial competencies and strengthening authentic leadership.

Employee development

Latvenergo Group's employees can improve their skills and knowledge both on the recommendation of managers and on their own initiative. In 2021, considering the epidemiological situation caused by COVID-19, both internal and external training was mostly organised remotely, incl. using the Group's e-learning platform.

More than 60 training courses have been developed in the Group's e-learning environment on the internal processes and regulations of the Group and on various professional fields. In 2021, new teaching materials on financial literacy were developed. For employees without a computerised workplace, e-learning materials are available on smart devices that provide the opportunity to learn at a convenient place and time. Several organisational units of the Group also develop e-learning and webinars relevant to their field of activity.

In the reporting year, Latvenergo AS also launched a new competency expansion model – the employee rotation *Apply for a vacancy*. Those interested could temporarily rotate to a vacant position and decide whether to stay in this position or return to the previous position after the end of the rotation period. In 2021, two rotation projects were launched.

Knowledge exchange and continuity

One of the most effective ways to develop competencies is knowledge exchange between employees. Its implementation in daily processes is a prerequisite for transforming the organisational culture, and it improves the involvement and motivation of employees. For the fourth year, the Excellence Programme strengthened employee engagement and willingness to implement innovative ideas. In 2021, its members set up the *LEwiki* knowledge platform to store employee-generated learning materials. Currently, the platform has video tutorials and tips for using internal information systems, and it will be regularly updated with staff-generated webinars and other knowledge-sharing materials.

Traditionally, Latvenergo Group pays great attention to providing high-quality practical training to students of higher education and secondary vocational education institutions. The Group annually provides paid internships, which in 2021 were used by 54 interns. The Group cooperates with Latvian educational institutions to promote young people's interest in studying in STEM programmes, as well as to promote the development of the future workforce in Latvia in general.

GRI EU15

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

The Group maintains a balanced succession and generational change in accordance with the specifics of the work. Compared to the previous year, the share of employees of retirement age in 2021 did not change significantly.

Expected retirement rate

Profession group		5 years		10 years	
	Units	women	men	women	men
Managers	%	0.3	0.5	0.5	1.3
Specialists	%	1.6	4.2	3.4	8.2
Craft and related trades workers	%	0.1	2.5	0.1	5.0
Other professions	%	0.6	0.5	1.6	1.1
TOTAL	**%**	**2.6**	**7.7**	**5.6**	**15.6**

GRI 402-1

Minimum notice period regarding operational changes

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

GRI 404-1

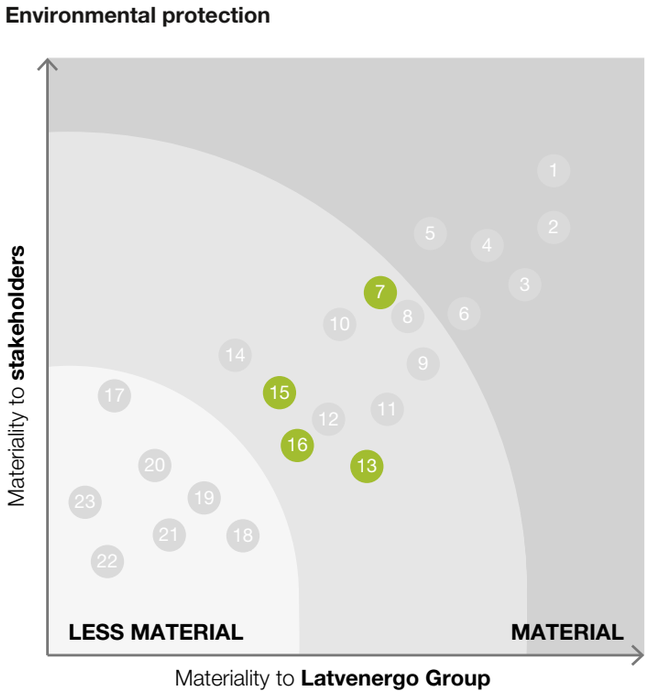
Average hours of training per year

In 2021, about 70,000 hours were dedicated to training, which was attended by 2,318 employees of the Group. An average of 23 hours per employee was devoted to training. Male employees spent an average of 22 hours in training, while female employees spent an average of 25 hours in training. A total of seventeen employees obtained professional qualifications through training financed by the employer, devoting 10,000 hours to training.

Average hours of training (TH) per employee

Profession group (PG)	Units	2017	2018	2019	2020	2021
Managers						
Average number of TH	number	29	32	25	26	28
% of employees who have undertaken training	%	93	78	64	68	71
Specialists						
Average number of TH	number	17	23	17	16	19
% of employees who have undertaken training	%	60	58	56	57	71
Craft and related trades workers						
Average number of TH	number	18	56	33	30	28
% of employees who have undertaken training	%	76	97	88	87	87
Other professions						
Average number of TH	number	13	6	13	24	31
% of employees who have undertaken training	%	59	42	66	68	82
Average number of hours, TOTAL	**number**	**18**	**28**	**20**	**20**	**23**
Percentage of all employees who have undertaken training	**%**	**67**	**66**	**64**	**66**	**75**

Environmental Topics



7 Environmental compliance
13 Air pollution
15 Resource and energy consumption
16 Renewable energy

Wider use of renewable energy in the future and emission-free electricity generation at the Latvenergo Group HPPs ensure its progress towards EU climate neutrality objectives. The Group's strategy is to double the generation capacity of renewable electricity by 2030.

In the field of environmental protection, the Group's operations are planned in accordance with the basic principles of sustainable development, the requirements of environmental legislation and the ISO 14001 Standard. In 2021, the Environmental Policy of the Group was approved, which was renewed in accordance with the Strategy of Latvenergo Group for 2022–2026 and European Green Deal trends in the field of economic sustainability and environmental protection.

Environmental policy and management

At the end of 2019, the European Commission presented the Green Deal, the main objective of which is to make Europe the first climate-neutral part of the world by 2050. In 2020, European countries agreed to reduce CO_2 emissions by 55% by 2030 compared to 1990 levels, and in 2021, intensive work continued on policy initiatives and legislation that will help to achieve the objectives set in the Green Deal. The Green Deal covers all sectors of the economy and pays particular attention to energy, transport, and agriculture; the involvement of countries, businesses, and citizens is important in achieving its goals.

Latvenergo Group's activities in the field of environmental protection are defined by the Environmental Policy of the Group and are closely linked to the objectives of the Green Deal. Solving climate problems, efficient use of natural resources, incl. increased use of renewable energy resources, reduction of industrial pollution, and preservation and restoration of biodiversity are the priorities that contribute to the implementation of the Group's sustainable growth strategy.

The ability of Latvenergo Group to continuously improve its environmental performance is confirmed by a certified ISO 14001-compliant environmental management system and an ISO 50001-compliant energy management system. The commitment of the Group to the efficient use of energy resources has been established in the Energy Management Policy. Systematic work in the field of environmental protection is also confirmed by the annual Sustainability Index assessment by the Institute of Corporate Sustainability and Responsibility. In 2021, Latvenergo AS scored almost 97% in the field of environmental performance and Sadales tīkls AS scored almost 94%.

Basic principles of the Environmental Policy of Latvenergo Group

The Group complies with the requirements of environmental and nature protection legislation and considers environmental, economic, and social aspects.	**The Group organises its operations in accordance with the requirements of the ISO 14001 standard, the European Green Deal, and the UN Sustainable Development Goals.**
Main Tasks	Main Tasks
• to introduce the best available techniques and cleaner production principles, thus reducing the environmental impact of generation processes • to expand the energy generation from renewable resources and to implement balanced and economically justified measures that reduce or eliminate the impact of the Group on climate change or ensure adaptation to it • to identify and reduce the risks of industrial accidents • to use resources efficiently and to implement the principles of the circular economy • to evaluate the environmental aspects of investment projects to identify and reduce the impact on the environment and the public interest at all stages of the project • to include the principles of green procurement in the procurement procedures • to inform interested parties regularly and openly about the Group's activities in the field of the environment, to improve and expand the content and scope of the information provided	• to identify and propose risk management measures that reduce adverse effects on the environment in all areas of operations • to improve the environmental impact assessment methods of the Group • to promote the decoupling of the Group's development from the increase in CO_2 emissions and to ensure progress towards climate neutrality • to ensure the competence of the responsible employees in the field of the environment, to inform employees about significant environmental aspects of the Group's operations and to promote the formation of employees' environmental awareness • to ensure the conservation and protection of biodiversity in the areas affected by the generation and distribution of electricity, to plan mitigation measures and assess their sustainability

7 Environmental compliance

In its operations, Latvenergo Group complies with the environmental requirements set forth in EU and Latvian legislation and in installation operating permits. Compliance of operations is ensured by modernising equipment and introducing the best available technologies, as well as by the professional conduct of employees. The Group actively cooperates with the state environmental authorities by providing information related to environmental protection, fulfilling the conditions of permits for polluting activities and use of water resources, and consulting on the application of the environmental requirements. In 2021, no reprimands were received from the environmental authorities, while complaints received from the public were evaluated and resolved.

Reduction of industrial pollution and sustainable management of chemicals and mixtures are also important elements of the European Green Deal. Latvenergo Group ensures that the risk of pollution caused by the storage and use of chemicals and mixtures is properly managed at its facilities. In the reporting year:

- The cleaning, dismantling, and commissioning of the heavy fuel oil equipment of the former CHPP-2 was completed in accordance with the requirements of regulatory enactments.
- An additional study of the historically polluted territory of the former reinforced concrete plant in Aizkraukle was commenced to ensure appropriate remediation of the territory and prevent the risk of environmental pollution and danger to the safety of Plavinas HPP structures. Remediation of this site has been identified as one of the priority projects to be supported at the national level; Latvenergo AS has also provided significant support, including financial.
- In co-operation with experts of the Latvian Association for Environmental Management, CHPP-2 specialists have reviewed the Industrial Accident Prevention Programme (IAPP), developing a new version in accordance with the IAPP preparation guidelines for lower-tier establishments. The aim of the project is to develop a common understanding of the information to be included in the documents, as well as to improve the preparation and evaluation of the documentation of the safety management system.

To reduce the impact of its operations on biodiversity, the Group makes annual payments to replenish fish stocks in the Daugava River Basin in accordance with the requirements of regulatory enactments. In the reporting year, approximately 1.2 million salmon, sea trout, pikeperch, whitefish, vimba, and pike fry and 5.1 million lamprey larvae were released into the rivers. In addition, the Group also implements other projects to improve fish habitats and migration, e.g., it places fish spawning nests in the Daugava River and cleans small rivers in the Daugava River Basin.

To meet the conditions of security and safety of the electricity supply and reduce the mortality of white storks on power lines, in 2021, in coordination with the environmental authorities, about 900 potentially dangerous nests were removed from power line poles and about 650 new nesting platforms were introduced. During the nesting season, birds are only disturbed in rare cases where the security and/or safety of the energy supply and public safety is threatened.

GRI 307-1

Non-compliance with environmental laws and regulations

In 2021, the Group had seven inspections by the State Environmental Service and two by the Health Inspectorate. No significant admonishments or sanctions have been received from the controlling institutions.

13 Air pollution

In addition to water and wind energy resources, Latvenergo Group also uses natural gas and biomass for energy generation, which release NO_x, CO and solid particles into the air through combustion. To ensure that emissions do not exceed the emission levels specified in legislation and permits, the Group monitors and records these emissions.

Direct emissions from the combustion plants of CHPP-1 and CHPP-2 are measured continuously, allowing real-time monitoring of the emission levels. Since 2021, data from continuous emission monitoring equipment have been automatically collected and processed to assess the compliance of emissions with the requirements of permits and regulatory enactments and to calculate the tax on natural resources for the emission of pollutants into the atmosphere. ENVItech s.r.o programs are used for the data processing and visualisation.

Involvement of the Group in climate change mitigation

One of the global environmental challenges facing the energy sector is climate change caused by GHGs. The work of Latvenergo Group goes hand in hand with the activities of Latvia and the EU in achieving their climate goals. The EU has set the goal of achieving climate neutrality in 2050, and achieving this objective will require new, efficient technologies and solutions. The objectives and target indicators of the Energy and Climate Policy of Latvia are defined in the National Energy and Climate Plan for 2021–2030.

An important instrument of EU climate policy is the Emissions Trading Scheme (ETS), which aims to promote GHG reductions and investment in low-carbon solutions. The ETS is one of the key mechanisms for achieving the objectives of the Green Deal in the sectors covered by the scheme. For fuel combustion plants with a total rated thermal input above 20 MW, participation in the ETS is mandatory; both CHPPs of Latvenergo AS and the CHPP and gas boiler house of Liepājas Enerģija SIA meet this criterion.

On 1 January 2021, the fourth period of the ETS commenced, and it will continue until 2030. ETS participants have set a target of reducing GHG emissions by 60% compared to 2005. In the fourth period, the plan is to significantly and more rapidly reduce the total amount of emission allowances, phasing out free allowances (after 2026); to allocate allowances according to the generation volume; and to establish several financing instruments, including a Modernisation Fund to support industry and the electricity sector in terms of innovation and investment.

Since 2012, no free CO_2 allowances have been allocated for electricity generation, but around 20-30% of the required allowances have been allocated for free for thermal energy generation. The number of free allowances is adjusted annually in line with the actual activity levels of the installations in the previous two years. At the end of the reporting year, a draft decision on the allocation of free allowances in 2021 was published in accordance with the actual activity levels of installations in 2019 and 2020.

Although Latvenergo Group is already one of the greenest electricity producers in Europe and the largest producer of green electricity in the Baltics, the Group purposefully invests in developing a portfolio of zero-emission and low-emission plants, thus contributing to climate change mitigation. The main investment directions are:

- developing new generation capacities based on renewable energy sources (WPPs, SPPs);
- increasing the efficiency of energy generation and maximising use of renewable energy resources (including the reconstruction of Daugava HPPs);
- developing a public electric car charging network;
- developing a distribution network suitable for electric car charging and distributed RES generation;
- developing products and services that promote microgeneration, energy efficiency and the use of electricity instead of other energy sources.

The climate neutrality objective of the EU is to reduce GHG emissions from the transport sector by 90% by 2050. One of the preconditions for such a reduction is the electrification of the transport sector and the availability of electric charging infrastructure. The Group is actively developing the public electric charging network and offers customers electric car charging with electricity generated from renewable energy sources.

Latvenergo assesses risks and plans actions that promote adaptation to climate change, based on the forecasts of climate change in Latvia and on the Climate Change Adaptation Plan of Latvia for the period up to 2030.

GRI 305-1, 305-4

Direct (Scope 1) greenhouse gas emissions and emission intensity

Direct or Scope 1 greenhouse gas emissions are emissions from sources that are owned or controlled by the company. The volume and intensity of these emissions in Latvenergo Group are influenced by several factors: the share of renewable energy resources in the consumption of primary energy resources, the amount of energy generated and the operating modes of generation facilities. CO_2 emission intensity is measured per unit of electricity generated in the Group (MWh). The lower this ratio, the more electricity is generated from RES and the more efficient the CHPPs are.

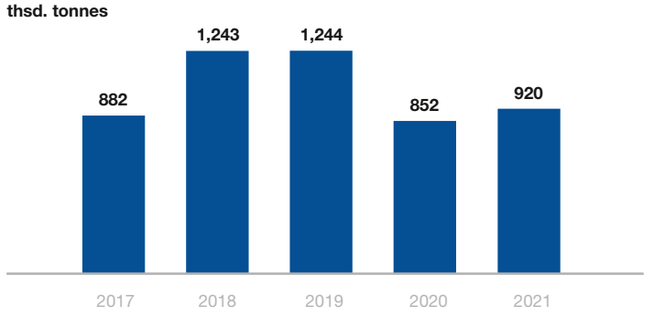
During the reporting year, the volume of CO_2 emissions and specific CO_2 emissions remained at the level of the previous year. CO_2 emission figures are calculated in accordance with the requirements specified in the emission permits and in the Latvian and EU legislation. The total emissions of the Group consist of:

- emissions from the installations participating in the EU ETS (combustion installations with a rated thermal input exceeding 20 MW);
- emissions from installations not participating in the scheme that during the reporting year emitted approximately 11 thousand tonnes of CO_2, corresponding to 1.2% of total emissions.

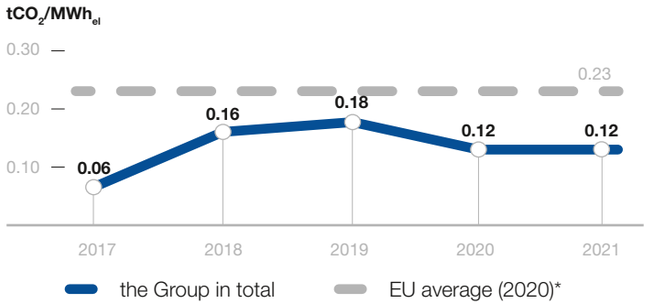
The total amount also includes emissions related to ensuring the energy generation process. In addition to the indicated amount, the fuel used for transport emits CO_2. The amount of CO_2 emissions caused by road transport in 2021 was 7.6 thousand tonnes.

The Group also operates equipment containing sulphur hexafluoride (SF_6) gas and refrigeration equipment containing gas with negligible global warming potential. These are closed installations where no gas leaks have been detected and are therefore not included in the calculation.

CO_2 emissions from combustion plants



CO_2 emission intensity per unit of electricity output



**Source: Agora Energiewende & Ember (2021), The European Power Sector in 2020*

GRI 305-2

Indirect (Scope 2) greenhouse gas emissions

Indirect Scope 2 GHG emissions are emissions that result from the generation of purchased electricity and heat consumed by an organisation.

Latvenergo Group not only generates energy, but also consumes heat and electricity for the maintenance of technological and administrative buildings. Heat and electricity are purchased from various suppliers, and the consumption of heat and electricity registered by the Group, as well as data provided by the suppliers and publicly available statistical reports, are used to compile its emissions. In 2021, the generation of thermal energy and electricity purchased for the Group's consumption amounted to 6.2 thousand tonnes of CO_2, which corresponds to 0.7% of the Group's direct CO_2 emissions.

GRI 305-7

NO_x, SO_2 and other significant air emissions

Emissions of pollutants into the atmosphere directly depend on the amount of energy generated, the fuel used, the efficiency of its use and the type of technology.

- Natural gas is used by Latvenergo AS CHPPs and in part of the Liepaja plants. When natural gas burns, nitrogen oxides (NO_x) and carbon monoxide (CO) are released into the atmosphere.
- Latvenergo AS CHPPs use diesel fuel as an emergency fuel. Combustion produces negligible emissions of sulphur dioxide (SO_2) and particulate matter. Hydrocarbon emissions occur during the storage of diesel fuel.
- The use of wood in the Liepaja plants emits NO_x, CO, and particulate matter.

Emissions from the combustion plants that meet the conditions of the Industrial Emissions Directive are determined based on the results of emission measurements. Emissions from small and medium combustion plants (with an input capacity of up to 50 MW) are calculated using the emission factors specified in the regulatory enactments.

NO_x, CO, SO_2 and other emissions

	Units	2017	2018	2019	2020	2021
NO_x	t	613	904	912	648	686
NO_x from combustion plants	kg/MWh	0.15	0.18	0.20	0.19	0.17
NO_x for the Group combined	kg/MWh	0.07	0.12	0.14	0.11	0.10
CO	t	318	426	427	319	363
CO from combustion plants	kg/MWh	0.08	0.09	0.09	0.09	0.09
CO for the Group combined	kg/MWh	0.04	0.06	0.06	0.05	0.06
SO_2	t	5	5	4	5	5
Other*	t	19	15	14	15	19

* incl. emissions of solid particulate matter and hydrocarbons

GRI EU5

Allocation of CO_2 emission allowances in ETS

The EU ETS stipulates that emission allowances are only allocated free of charge for the generation of thermal energy. One tonne of CO_2 emissions is equivalent to one quota. See Note 13b to the Annual Report for an overview of the allowances purchased, used, and sold.

CO_2 emission allowances granted

	Units	2017	2018	2019	2020	2021
Latvenergo AS CHPPs	number	295,942	250,091	205,721	112,760	67,301
Liepaja plants	number	18,218	15,374	12,624	12,334	8,664

15 Resource and energy consumption

The Group has a balanced and environmentally friendly energy generation portfolio, consisting mostly of hydropower plants and highly efficient combined heat and power plants. The efficiency of energy use in CHPPs is significantly influenced by the chosen operating mode:

- cogeneration – both heat and electricity are generated at the same time;
- condensation – only electricity is generated.

Operating CHPPs in cogeneration mode allows for the most efficient use of fuel and significantly reduces emissions per unit of energy generated. In 2021, the construction of the heat storage system was completed in CHPP-2. The system makes it possible to accumulate the thermal energy generated in cogeneration mode and optimise the adjustment of the CHPP operating modes to the changing market conditions and to cover peak loads. In the first part of the year (September to December), the system:

- saved almost 600 MWh of primary energy;
- reduced CO_2 emissions by more than two thousand tonnes.

During the reporting year, the fuel utilisation rate in the CHPP cogeneration mode ranged from 75% to 91%, while in condensation mode it was on average 53%. Using cogeneration potential, CHPP-1 saved 28% of primary energy resources and CHPP-2 saved 19%.

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

Most important energy management improvements of 2021

- Construction of the heat storage system at CHPP-2
- Reconstruction of Aiviekste HPP
- Replacement of transformers for HPPs' own consumption
- Renovation and insulation of buildings, modernisation of lighting, ventilation, and heating systems
- Purchase of electric vehicles
- Construction of a new woodchip boiler house for Liepājas Enerģija SIA
- Optimisation of boiler house generation and management modes

GRI 301-1, 302-1

Material and energy consumption

In 2021, renewable energy sources accounted for 39% of the total primary energy consumption, while fossil fuels accounted for 61%, which is about the same level as in 2020. The proportion of primary energy sources between renewables and fossil fuels is different for the generation of electricity and thermal energy. After the consumption of primary energy resources, the share of renewable energy resources in electricity generation was 51%, while in the generation of thermal energy it was 12%. The share of renewable energy resources in energy consumption is significantly influenced by the amount of energy generated by HPPs, which is mainly determined by hydrological conditions and market factors (see the section Generation and Trade).

The Group's own consumption of electricity for the provision of generation processes in 2021 was 75 GWh or 4% of the energy output.

In the reporting year, the Group used approximately 0.5 million litres of petrol and 2.4 million litres of diesel fuel for transport. Petrol consumption fell by approximately 20% compared to the previous year, while diesel consumption remained stable. The total mileage of vehicles decreased by 9%. Electricity consumption for transport increased by 47%. In 2021, about 13 MWh of electricity was used to charge the Group's electric vehicles, thus saving 6.6 thousand litres of fuel. Cars were purchased in accordance with the requirements of green procurement, including 46 electric cars which will be delivered in 2022.

Consumption of primary energy resources

	Units	2017	2018	2019	2020	2021
Water, wind*	TJ	15,391	8,584	7,386	9,109	9,506
Wood	TJ	767	842	752	905	1,060
Renewable energy resources	*TJ*	*16,158*	*9,426*	*8,138*	*10,014*	*10,566*
Natural gas	TJ	15,607	22,440	21,784	14,958	16,542
Diesel fuel	TJ	1	1	1	1	1
Fossil energy resources	*TJ*	*15,608*	*22,441*	*21,785*	*14,959*	*16,543*
TOTAL	**TJ**	**31,766**	**31,867**	**29,922**	**24,973**	**27,109**

Consumption of primary energy resources for electricity generation

	Units	2017	2018	2019	2020	2021
Water, wind*	TJ	15,391	8,584	7,386	9,109	9,506
Wood	TJ	189	61	1	145	62
Renewable energy resources	*TJ*	*15,580*	*8,645*	*7,387*	*9,254*	*9,568*
Natural gas	TJ	6,477	14,300	15,864	9,438	9,308
Fossil energy resources	*TJ*	*6,477*	*14,300*	*15,864*	*9,438*	*9,308*
TOTAL	**TJ**	**22,057**	**22,945**	**23,251**	**18,692**	**18,876**

Consumption by primary energy resources for thermal energy generation

	Units	2017	2018	2019	2020	2021
Wood	TJ	578	781	751	760	998
Renewable energy resources	*TJ*	*578*	*781*	*751*	*760*	*998*
Natural gas	TJ	9,130	8,141	5,920	5,520	7,234
Diesel fuel	TJ	1	1	1	1	1
Fossil energy resources	*TJ*	*9,131*	*8,142*	*5,921*	*5,521*	*7,235*
KOPĀ	**TJ**	**9,709**	**8,923**	**6,672**	**6,281**	**8,233**

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

The accounting and calculation of energy resources is performed based on measurements or in accordance with the documentation and internal accounting of the fuel supplier, as well as in accordance with the requirements specified in the emission permits and in the Latvian and EU legislation.

GRI 303-3

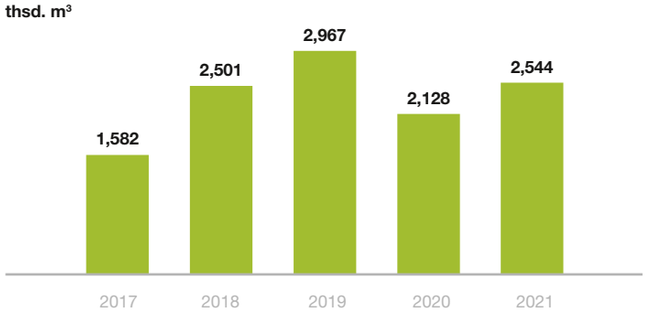
Water consumption

The Group mainly uses water resources to ensure generation processes and, in small quantities, for other business needs and for the water supply to external consumers. In accordance with the Water Resources Atlas of the World Resources Institute, Latvia is in a low to low-medium water stress zone; therefore, there are no specific water consumption restrictions and no areas with increased water stress are indicated in the water consumption data. The amount of surface and/or groundwater consumption is specified in the permits of each facility.

The water consumption balance of the Group includes surface water, groundwater, and tap water. In 2021, a total of 2.5 million m^3 of water was consumed, of which 98% was surface and groundwater obtained in the low-medium water stress zone. Of the water used for operations in 2021, 95% was surface water, 3% was groundwater and 2% was tap water. The largest consumer of surface water is CHPP-2, which consumed 2.4 million m^3 of water in the reporting year, 88% of which was cooling water. Consumption at CHPP-2 is mainly influenced by the operating modes of the generation facilities and the amount of energy generated. The largest consumers of groundwater are CHPP-1 and CHPP-2; each used 28 thousand m^3 of groundwater.

Water consumption data are obtained from meter readings.

Water withdrawal



16 Renewable energy

Increasing the share of renewable energy resources in energy generation is one of the cornerstones in achieving climate objectives, and it is also envisaged in the strategy of Latvenergo Group. The Group already generates a significant part of its electricity and heat using renewable energy resources: water, wood, and wind. In 2021:

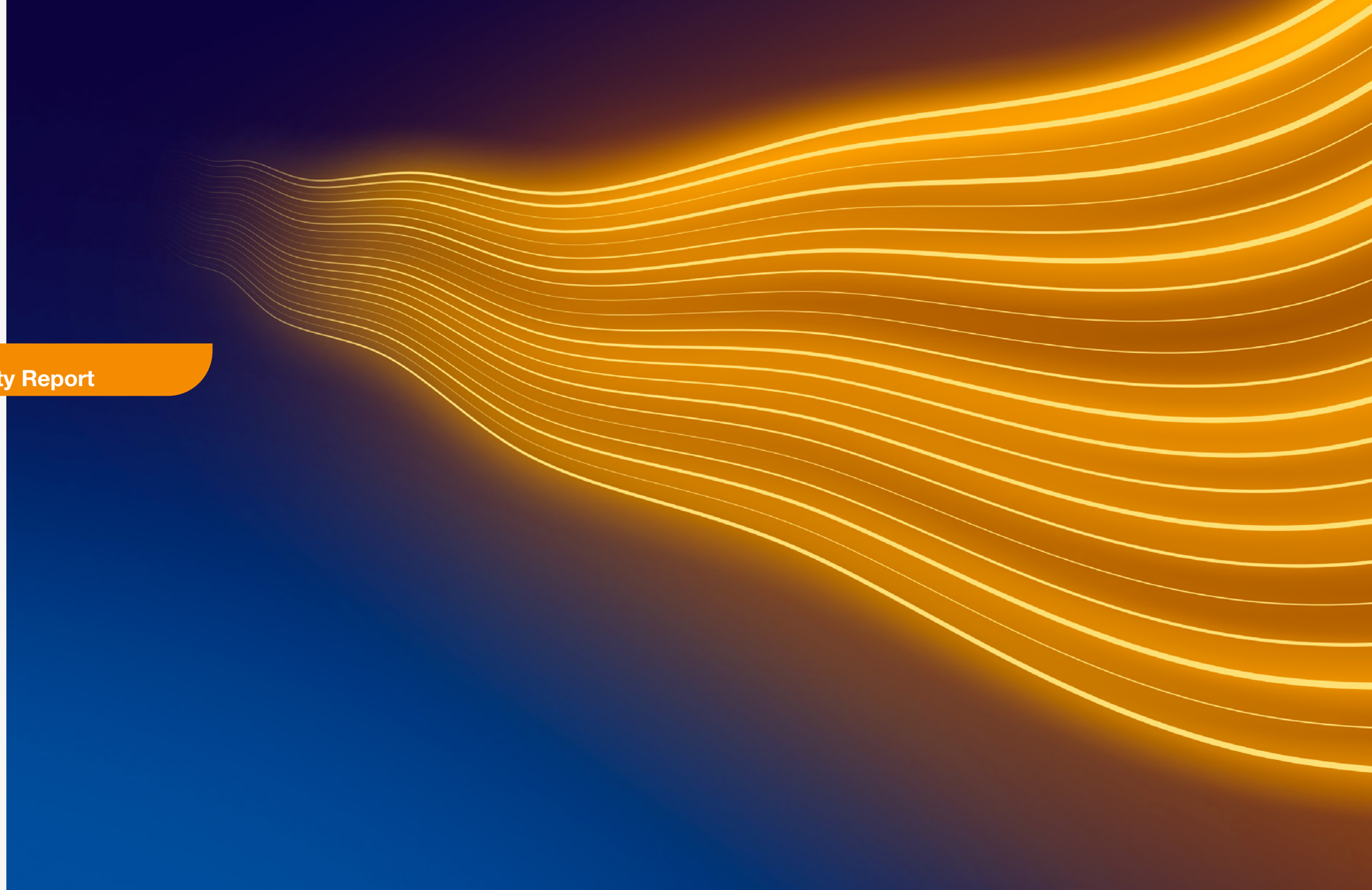
- renewable sources accounted for 39% of the approximately 27 thousand TJ of primary energy consumption (for more information, see GRI indicators 301-1 and 302-1);
- of the 6.6 TWh of heat and electricity generated, 44% was generated from renewable resources (for more information, see the section Generation).

To maintain a high share of renewable energy, the maintenance and renewal of the Daugava HPPs' capacity is especially important. In 2021, reconstruction of Daugava HPPs continued and reconstruction of Aiviekste HPP was completed, increasing the capacity of the plant to 1.5 MW.

The Group also promotes the use of renewable energy through product offerings to customers. The *Elektrum Solar* service is available to customers in all three Baltic countries, enabling the use of independently generated solar electricity. Construction of the *Elektrum* solar parks is also continuing in Lithuania and Estonia. For more information, see the section Trade.

In addition, the Group is exploring opportunities for energy storage and usage of wind energy. During the reporting year, the development of high-capacity wind power plants (WPPs) was commenced, i.e., possible construction areas have been identified and an initial evaluation of the situation has been performed to start the environmental impact assessment procedure. To reduce the impact of the WPPs on wild bird populations, an agreement has been concluded with the Latvian Ornithological Society on cooperation in the protection of wild birds, as well as on informing and involving the public.

Annexes to the Sustainability Report



Latvenergo

Green Bond Report

Latvenergo AS has issued green bonds within two bond offering programmes:

- The green bond programme was launched in 2015, with the first tranche of EUR 75 million. Thus, Latvenergo AS became the first state-owned company in Eastern Europe to issue green bonds. In 2016, Latvenergo AS released an additional tranche in the amount of EUR 25 million, thus, concluding a green bond programme in the amount of EUR 100 million;
- In May 2021, EUR 50 million worth of green bonds were issued. This tranche is part of a bond programme totalling EUR 200 million. Tranches under this programme are expected to continue in 2022.

Green bonds issued by Latvenergo AS are listed on the Nasdaq Riga AS Baltic Bond List. At the end of the reporting year, the amount of outstanding bonds was EUR 150 million, constituting 19% of the Group's total borrowings.

The main requirement for green bonds is that the funds raised are used exclusively for environmentally friendly projects. The Green Bond Framework, which was updated in 2020, sets out the selection procedure and criteria for eligible projects, the creation of a special account, and regular reporting until the bonds are fully repaid.

Both the initial Green Bond Framework approved in 2015 and the one updated in 2020 were awarded the highest possible rating – Dark Green – by CICERO, an independent environmental expert. This indicates the compliance of the planned eligible projects with long-term environmental protection and climate change mitigation targets as well as good corporate governance and transparency. Internal audits were conducted on the management of proceeds from the issuance of all green bonds and the compliance of the selection of eligible projects. The audits concluded that, in all material respects, the procedures applied and actions taken comply with the Green Bond Framework.

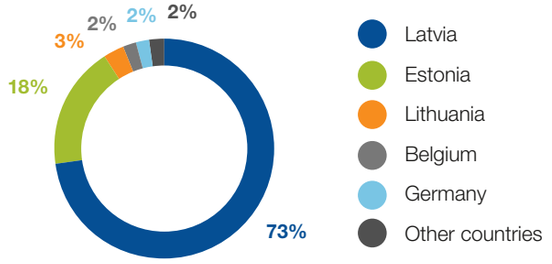
The funds raised within the green bond programme were allocated to generation and distribution projects. The largest eligible projects are the Daugava HPP hydropower unit reconstruction programme and the building and reconstruction of distribution power lines and transformer points.

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

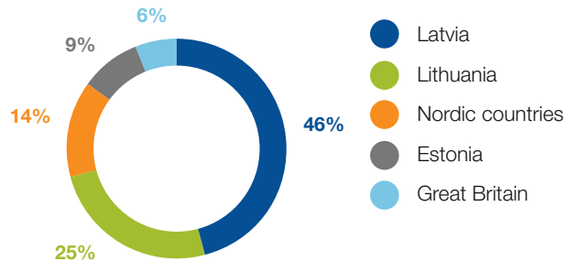
- renewable energy and related infrastructure – reconstruction of existing hydropower units, as well as construction of new bioenergy and wind energy capacities and reconstruction of existing capacities;
- energy efficiency – building and reconstruction of distribution networks, including smart grid projects, and development of low emission transport infrastructure;
- sustainable management of living natural resources and land use – research and development in the field of nature protection and biodiversity, as well as protection of ecosystems and biodiversity.

ISIN code	LV0000801777	LV0000802460
Issuance year	2015-2016	2021
Issuance amount	EUR 100 million	EUR 50 million
Issuance organised by	SEB banka AS	Luminor Bank AS and Swedbank AB (publ.)
Maturity date	10 June 2022	17 May 2028
Fixed annual interest rate (coupon)	1.9%	0.5%

Investors by region

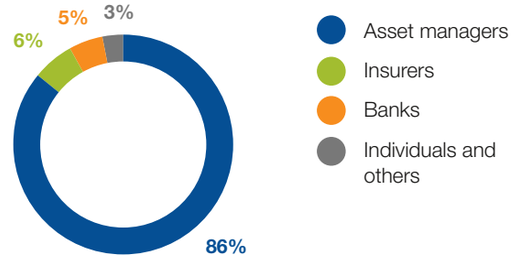


according to the coupon payment of June 2021

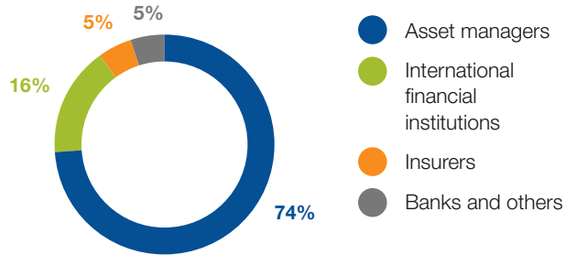


according to the bond issuance of May 2021

Investors by type

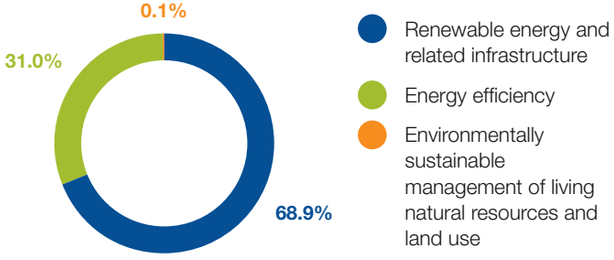


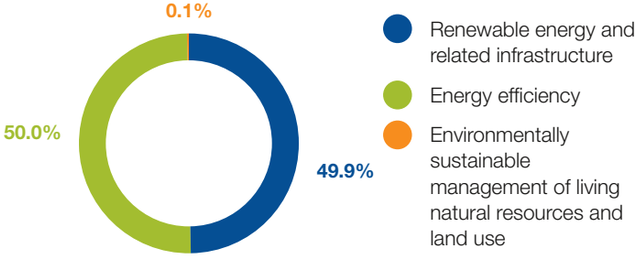
according to the coupon payment of June 2021



* according to the bond issuance of May 2021

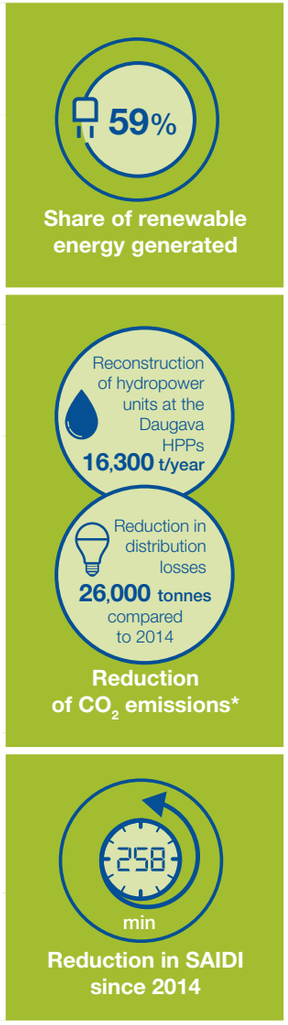
Investment by project group





Use of proceeds and benefits from the project implementation

Group operating segment (share of total allocated proceeds)	Eligible projects	Allocated proceeds, MEUR	Allocated proceeds, 2015-2016 issues	Allocated proceeds, 2021 issue	Project objectives and benefits
GENERATION 63%	Reconstruction of hydropower units and technological equipment at the Daugava and Aiviekste HPPs	**75.85**	50.9	24.95	Extending the service life of the hydropower units and increasing their capacity and efficiency ratios. Maintaining a high share of renewables in energy generation. Increasing the safety of operation of the Daugava HPPs. Reducing the oil leakage risk. Implementation of the programme allows for a reduction of CO_2 emissions of up to 16,300 tonnes per year. In 2021, the share of electricity generated from renewable energy sources by the Group was 59%. Full reconstruction of the Aiviekste HPP was completed in the reporting year.
	Renovation of hydroengineering structures at the Daugava HPPs and Aiviekste HPP	**18.1**	18.1	0	Improving the resilience and safety of hydroengineering structures and dams and extending their service life. Reducing accident risk probability at dams and managing flood risk more efficiently, thus diminishing the potential impact on the public, property and the environment.
	Protection of biodiversity	**0.12**	0.07	0.05	Reducing the impact of the Daugava HPPs on fish stocks and biodiversity in the Daugava River basin. Every year, around 400 fish spawning nests are placed in the Daugava River. A 40 km long stretch of the Perse River has been cleaned from obstructions and the impact of such cleaning on biodiversity has been assessed.
DISTRIBUTION 37%	Building and reconstruction of electricity lines and transformer points	**51.4**	29.1	22.3	Reducing the duration of power interruptions and electricity losses. Extending the service life of the distribution grid. Since 2014, interruption duration and interruption frequency indexes have been reduced substantially (SAIFI by 39% and SAIDI by 55%). The reduction of CO_2 emissions resulting from the decrease in distribution losses is around 26,000 tonnes compared to 2014.
	Smart meters	**4.6**	1.9	2.7	Reducing the duration of power interruptions and electricity losses. Opportunities for more efficient electricity consumption and use of smart energy efficiency products and services. Since 2014, 970 thousand smart meters have been installed; these account for around 90% of the total fleet of electricity meters and measure 94% of the total amount of electricity consumed by customers.
	Annual monitoring of white storks	**0.004**	0.004	0	Reducing the impact on biodiversity. Data on the stork population and the proportion of their nests located on electricity line poles have been obtained.
	TOTAL	**150.0****	**100.0****	**50.0****	



* The potential reduction in CO_2 emissions resulting from the reconstruction of the Daugava HPP hydropower units is up to 16,300 tonnes per year (at specific CHPP-2 emissions in the condensation mode of 0.384 t CO_2/MWh). Compared to 2014, the reduction in CO_2 emissions resulting from the decrease in distribution losses is 26,000 tonnes.
** 100% of the proceeds from green bonds are used to finance projects completed within one year prior to the issue or later.

GRI Index

General Disclosures

		Page	External assurance
	Organisation profile		
102-1	Name of the organization	8	✓
102-2	Activities, brands, products, and services	8, 41	✓
102-3	Location of headquarters	8	✓
102-4	Location of operations	8	✓
102-5	Ownership and legal form	8	✓
102-6	Markets served	8	✓
102-7	Scale of the organization	8	✓
102-8	Information on employees and other workers	77	✓
102-9	Supply chain	34–35	✓
102-10	Significant changes to the organization and its supply chain	8, 34–35, 41	✓
102-11	Precautionary principle or approach	31–33	✓
102-12	External initiatives	16	✓
102-13	Membership of associations	39	✓
EU1	Installed capacity, broken down by primary energy source and by regulatory regime	43–47	✓
EU2	Net energy output broken down by primary energy source and by regulatory regime	43–47	✓
EU3	Number of residential, industrial, institutional and commercial customer accounts	48, 54	✓
EU4	Length of above and underground transmission and distribution lines by regulatory regime	54–55	✓
EU5	Allocation of CO_2 emissions allowances or equivalent, broken down by carbon trading framework	87	✓
	Strategy		
102-14	Statement from senior decision-maker	5–6	✓
	Ethics and integrity		
102-16	Values, principles, standards, and norms of behavior	8, 22, 31–33	✓
	Governance		
102-18	Governance structure	22–26, 30	✓
	Stakeholder engagement		
102-40	List of stakeholder groups	36–38	✓
102-41	Collective bargaining agreements	77	✓
102-42	Identifying and selecting stakeholders	36	✓
102-43	Approach to stakeholder engagement	36–38	✓
102-44	Key topics and concerns raised	36–38	✓
	Reporting practice		
102-45	Entities included in the consolidated financial statements	8	✓
102-46	Defining report content and topic Boundaries	60	✓
102-47	List of material topics	61	✓
102-48	Restatements of information	7	✓
102-49	Changes in reporting	7, 60	✓
102-50	Reporting period	7	✓
102-51	Date of most recent report	7	✓
102-52	Reporting cycle	7	✓
102-53	Contact point for questions regarding the report	7	✓
102-54	Claims of reporting in accordance with the GRI Standards	7	✓
102-55	GRI content index	94–97	✓
102-56	External assurance	31–33, 101–102	✓

Specific standard disclosures

Sustainability topic	Materiality in the Group: Generation and Trade	Materiality in the Group: Distribution	GRI Standard		GRI disclosure	Page	External assurance
ECONOMIC TOPICS							
Efficiency of generation plants	✓		103 Management Approach 2016			63	✓
			Electric Utilities Sector Disclosures (G4)	EU11	Average generation efficiency of plants	63	✓
				EU30	Average plant availability factor	63	✓
Contribution to the economy	✓	✓	103 Management Approach 2016			64	✓
			201 Economic Performance 2016	201-1	Direct economic value generated and distributed	65	✓
				201-3	Defined benefit plan obligations and other retirement plans	64	✓
				201-4	Financial assistance received from government	65	✓
Efficiency and availability of distribution system		✓	103 Management Approach 2016			66	✓
			Electric Utilities Sector Disclosures (G4)	EU12	Distribution losses as a percentage of total energy	66	✓
				EU26	Percentage of population unserved in licensed distribution or service areas	66	✓
				EU27	Number of residential disconnections for non-payment	66	✓
				EU28	Power outage frequency (SAIFI)	67	✓
				EU29	Average power outage duration (SAIDI)	67	✓
Compliance and fair business	✓	✓	103 Management Approach 2016			68	✓
			205 Anti-corruption 2016	205-2	Communication and training about anti-corruption policies and procedures	68	✓
				205-3	Confirmed incidents of corruption and actions taken	68	✓
			206 Anti-competitive Behavior 2016	206-1	Legal actions for anti-competitive behavior, anti-trust, and monopoly practices	68	✓
			419 Socioeconomic Compliance 2016	419-1	Non-compliance with laws and regulations in the social and economic area	68	✓

SOCIAL TOPICS							
Customer satisfaction	✓	✓	103 Management Approach 2016			70–72	✓
Emergency planning	✓	✓	103 Management Approach 2016			75	✓
Occupational health and safety	✓	✓	103 Management Approach 2016			78–79	✓
			403 Occupational Health and Safety 2018	403-1	OHS management system	78–79	✓
				403-2	Hazard identification, risk assessment, and incident investigation	78–79	✓
				403-3	Occupational health services	78–79	✓
				403-4	Worker participation, consultation, and communication on OHS	78–79	✓
				403-5	Worker training on OHS	78–79	✓
				403-6	Promotion of worker health	78–79	✓
				403-7	Prevention and mitigation of OHS impacts directly linked by business relationships	78–79	✓
				403-8	Workers covered by an OHS management system	79	✓
				403-9	Work-related injuries	79	✓
			Electric Utilities Sector Disclosures (G4)	EU18	Percentage of contractor and subcontractor employees that have undergone relevant health and safety training	79	✓
Safety of distribution services		✓	103 Management Approach 2016			72	✓
			Electric Utilities Sector Disclosures (G4)	EU25	Number of injuries and fatalities to the public involving company assets	72	✓
Public policy engagement	✓	✓	103 Management Approach 2016			75	✓
			415 Public Policy 2016	415-1	Political contributions	75	✓
Employee involvement and development	✓	✓	103 Management Approach 2016			80–81	✓
			402 Labor-Management Relations 2016	402-1	Minimum notice periods regarding operational changes	81	✓
			404 Training and Education 2016	404-1	Average hours of training per year	81	✓
			Electric Utilities Sector Disclosures (G4)	EU15	Percentage of employees eligible to retire in the next 5 and 10 years	81	✓
Personal data security	✓	✓	103 Management Approach 2016			73	✓
			418 Customer Privacy 2016	418-1	Complaints concerning breaches of customer privacy and losses of customer data	73	✓
Information availability	✓	✓	103 Management Approach 2016			73	✓
			417 Marketing and Labeling	417-3	Incidents of non-compliance concerning marketing communications	73	✓

ENVIRONMENTAL TOPICS							
Environmental compliance	✓	✓	103 Management Approach 2016			84	✓
			307 Environmental Compliance 2016	307-1	Non-compliance with environmental laws and regulations	84	✓
Air pollution	✓		103 Management Approach 2016			85	✓
			305 Emissions 2016	305-1	Direct (Scope 1) GHG emissions	86	✓
				305-2	Indirect (Scope 2) GHG emissions	86	✓
				305-4	GHG emissions intensity	86	✓
				305-7	NO_x, SO_x, and other significant air emissions	87	✓
Resource and energy consumption	✓		103 Management Approach 2016			87	✓
			301 Materials 2016	301-1	Materials used by weight or volume	88	✓
			302 Energy 2016	302-1	Energy consumption within the organization	88	✓
			303 Water 2018	303-3	Water withdrawal	88	✓
Renewable energy	✓		103 Management Approach 2016			89	✓

Terms and Abbreviations

autotransformer	transformer with one winding, which is the highest voltage winding, but part of this winding forms the lowest voltage winding
auxiliary consumption (of electricity)	the part of electricity consumed by auxiliary equipment of the main energy generating or converting equipment
biodiversity	the diversity of all living things – plants, animals, fungi, microorganisms, their genes and ecosystems
bioenergy	energy from biomass
biogas	gas from the decomposition of organic matter which can be used as fuel
biomass	the biodegradable fraction in products and waste of agriculture, forestry and related industries, as well as the biodegradable fraction in industrial and municipal waste
bonds	a security that gives its holder an income in the form of pre-determined interest
cable line	a power line created with a special insulated wire (cable) and installed in the ground, on the walls of a building, in cable ducts, pipes, etc.
CAPEX	capital expenditures
CHPP	see *combined heat and power plant*
CICERO	Center for International Climate and Environmental Research
climate neutrality	maintaining a balance between carbon emissions and carbon absorption from the atmosphere through carbon sequestration systems
cogeneration	cogeneration of heat and electricity in one energy installation; significantly reduces fuel consumption compared to separate heat and electricity generation
combined heat and power plant	a power plant that produces electricity from thermal energy obtained by burning fossil fuels; thermal power plant
condensation	electricity generation mode in which heat is not generated
COSO	Committee of Sponsoring Organizations of the Treadway Commission
coupon (bond coupon)	the amount of interest on a security for a predetermined period of time
credit rating	assessment of a borrower's creditworthiness, which is expressed by a special index or combination of letters and which indicates the degree of risk
critical infrastructure	facilities and systems, the destruction or malfunction of which would significantly affect the implementation of state functions
CSR	corporate social responsibility
derivative financial instruments	bilateral agreements, the value of which depends on and changes according to fluctuations in the value of the guarantee (shares, currency, bonds, interest rates) underlying the instrument
direct greenhouse gas emissions	greenhouse gas emissions from sources owned or controlled by the organisation
distribution system	system which ensures the flow of electricity from the electricity transmission network and electricity generators connected to the distribution networks to electricity consumers
EBITDA	earnings before interest, taxes, depreciation, and amortization
EC	European Commision
EEOS	energy efficiency obligation scheme
electricity balance sheet	an overview of the electricity produced, sold and purchased by the company as well as consumed by its auxiliary equipment
electromobility	an integral part of the transport sector, consisting of environmentally friendly electric motor vehicles
energy efficiency	more optimal and efficient use of energy
energy infrastructure	the set of material objects, communication and service possibilities necessary for ensuring the operation of the energy sector
energy management	a set of energy consumer actions aimed at reducing energy consumption
energy sources	fuel stocks and energy sources that can be used for direct use or energy generation
ESG	environment, society, and governance
ETS	Emissions Trading System

EU	European Union
European Green Deal	the growth strategy aspiring to transform the EU into a climate-neutral, fair and prosperous society with a modern, resource-efficient and competitive economy
fossil energy sources	non-renewable energy sources, the use of which results in the release of greenhouse gas emissions into the atmosphere, which have a significant impact on climate change (oil products, natural gas, peat and coal)
futures	standardised contracts to buy or sell something at a certain price at some point in the future
Global Reporting Initiative	international guidelines for reporting on the organisation's economic, environmental and social impacts
global warming potential	the value (coefficient) that shows how much heat is absorbed into the atmosphere by a given greenhouse gas compared to the same amount of CO_2
green bonds	bonds used to finance projects that have a positive impact on the environment and/or the climate
green energy	energy from renewable sources
green procurement	procurement which includes criteria for the purchase of goods and services with the least possible impact on the environment
greenhouse gases	gases that absorb and re-emit infrared radiation and whose accumulation in the atmosphere contributes to the acceleration of climate change (the main GHGs are CO_2, CH_4, N_2O, SF_6, HFC, PFC)
GRI	see *Global Reporting Initiative*
high voltage	electrical voltage greater than 1000 volts; in Latvia, it is defined as 110 kV–330 kV voltage
HPP	see *hydropower plant*
hydropower plant	a power plant in which energy from the movement of water is converted into electricity
hydropower unit	equipment for converting water stream energy into electrical energy
IFRS	International Financial Reporting Standards
indirect greenhouse gas emissions	emissions that result from the generation of purchased electricity and heating consumed by an organisation
ISIN	International Securities Identification Number
ISO	International Organization for Standardization
KPI	key performance indicator
LLU	Latvia University of Life Sciences and Technologies
low voltage	voltage ratings for use in electricity distribution, the maximum value of which in alternating voltage networks does not exceed 1000 V
mandatory procurement	the support mechanism established by the Latvian state for electricity generators, which until 2012 could be obtained by generators that produce electricity in efficient cogeneration or from renewable energy sources
medium voltage	voltage rating (6kV–20kV) between low voltage and high voltage
MP	mandatory procurement
MPC	mandatory procurement component
National Energy and Climate Plan	a document for long-term energy and climate policy planning, which sets the basic principles, goals and action lines of the national energy and climate policy of Latvia
NGO	non-governmental organisation
OECD	Organization for Economic Cooperation and Development
OPEX	operating expenses
overhead line	power line, the wires of which are fixed in supports on insulators at a certain height above the ground (there may also be overhead lines with insulated wires or aerial cables)
peak load	maximum electricity demand
plant availability	the condition of the installation/plant in which it can perform its intended functions
power exchange	an electricity trading site where electricity exchange participants buy and sell electricity through supply and demand
primary energy sources	energy sources (e.g. fossil, renewable, nuclear) from which electricity and heat are derived
PUC	Public Utilities Commission
renewable energy sources	energy sources available indefinitely that regenerate faster than their consumption rate (wind, water, solar radiation, biomass, geothermal energy, waves, tides)
RES	see *renewable energy sources*

RTU	Riga Technical University
SET	subsidised electricity tax
SFRS	State Fire and Rescue Service
SPP	solar power plant
smart meter	an electricity meter that records hourly consumption and can be served remotely
solar collector	equipment designed to convert solar radiation into heat
solar panel	equipment designed to convert solar radiation into electricity
Sustainability Index	assessment of corporate sustainability and responsibility, which is carried out annually by the Institute for Corporate Sustainability and Responsibility in Latvia, based on an internationally recognised methodology
sustainability indicator	an indicator that describes the economic, environmental or social topic significant for the company and/or its stakeholders
sustainability topic	an economic, environmental or social topic significant for the company and/or its stakeholders
Sustainable Development Goals	global development goals set by the UN that are to be achieved by 2030
targeted grant	state budget funds allocated for a defined, specific purpose
transformer	electrical equipment for increasing (step-up transformer) or decreasing (step-down transformer) alternating voltage
transmission system	330 kV and 110 kV power transmission lines, substations and distribution points that ensure electricity transmission
UN	United Nations
water stress	set of risks related to freshwater availability (pollution, consumption, impact of climate change)
WPP	wind power plant

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Independent Auditors' Assurance Report

To the management board of Latvenergo AS:

Scope

We have been engaged by Latvenergo AS to perform a 'limited assurance engagement,' as defined by International Standards on Assurance Engagements, hereinafter referred to as ‚the engagement', to report on Latvenergo AS and its subsidiaries (hereinafter 'the Group') Sustainability Report on pages 4 to 100 (the ‚Subject Matter') as of 31 December 2021.

Criteria applied by Group

In preparing the Sustainability Report, the Group applied requirements of the Core level application of Global Reporting Initiative Guidelines ("GRI Guidelines"), issued by Global Reporting Initiative, a network based non-profit organization with secretariat based in Amsterdam, the Netherlands. (‚Criteria').

Group's responsibilities

Group's management is responsible for selecting the Criteria, and for presenting the Sustainability Report in accordance with that Criteria, in all material respects. This responsibility includes establishing and maintaining internal controls, maintaining adequate records and making estimates that are relevant to the preparation of the Subject Matter, such that it is free from material misstatement, whether due to fraud or error.

EY's responsibilities

Our responsibility is to express a conclusion on the presentation of the Subject Matter based on the evidence we have obtained.

We conducted our engagement in accordance with the International Standard for Assurance Engagements Other Than Audits or Reviews of Historical Financial Information ('ISAE 3000'). Those standards require that we plan and perform our engagement to obtain limited assurance about whether, in all material respects, the Subject Matter is presented in accordance with the Criteria, and to issue a report. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risk of material misstatement, whether due to fraud or error.

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

Our Independence and Quality Control

We have maintained our independence and confirm that we have met the requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, and have the required competencies and experience to conduct this assurance engagement.

EY also applies International Standard on Quality Control 1, Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Description of procedures performed

Procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for a reasonable assurance engagement. Consequently the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. Our procedures were designed to obtain a limited level of assurance on which to base our conclusion and do not provide all the evidence that would be required to provide a reasonable level of assurance.

Although we considered the effectiveness of management's internal controls when determining the nature and extent of our procedures, our assurance engagement was not designed to provide assurance on internal controls. Our procedures did not include testing controls or performing procedures relating to checking aggregation or calculation of data within IT systems.

A limited assurance engagement consists of making enquiries, primarily of persons responsible for preparing the Sustainability report and related information, and applying analytical and other appropriate procedures.

Our procedures included:

- interviews with the responsible management, at Group level, subsidiary level, and at selected business units in order to assess if the qualitative and quantitative information stated in the Sustainability Report is complete, accurate and sufficient;
- review of internal and external documents in order to assess if the information stated in the Sustainability Report is complete, accurate and sufficient;
- an evaluation of the design of the systems and processes used to obtain, manage and validate sustainability information;
- verifying the information included in the Sustainability Report through enquires to the relevant management of the Group;
- a reconciliation of financial information with the Group's Consolidated Annual Report for the financial year 2021;
- an assessment of the overall impression of the Sustainability Report, and its format, taking into consideration the consistency of the stated information with applicable criteria;
- testing performance data, on a selective basis, substantively at both an operational and corporate level;
- inspecting documentation to corroborate statements of management and senior executives in our interviews;
- a reconciliation of the reviewed information with the sustainability information in the Group's Consolidated Annual Report for the financial year 2021.

We also performed such other procedures as we considered necessary in the circumstances.

Conclusion

Based on our procedures and the evidence obtained, we are not aware of any material modifications that should be made to Sustainability report as of 31 December 2021 in order for it to be in accordance with the Criteria.

Ernst & Young Baltic SIA
Licence No. 17

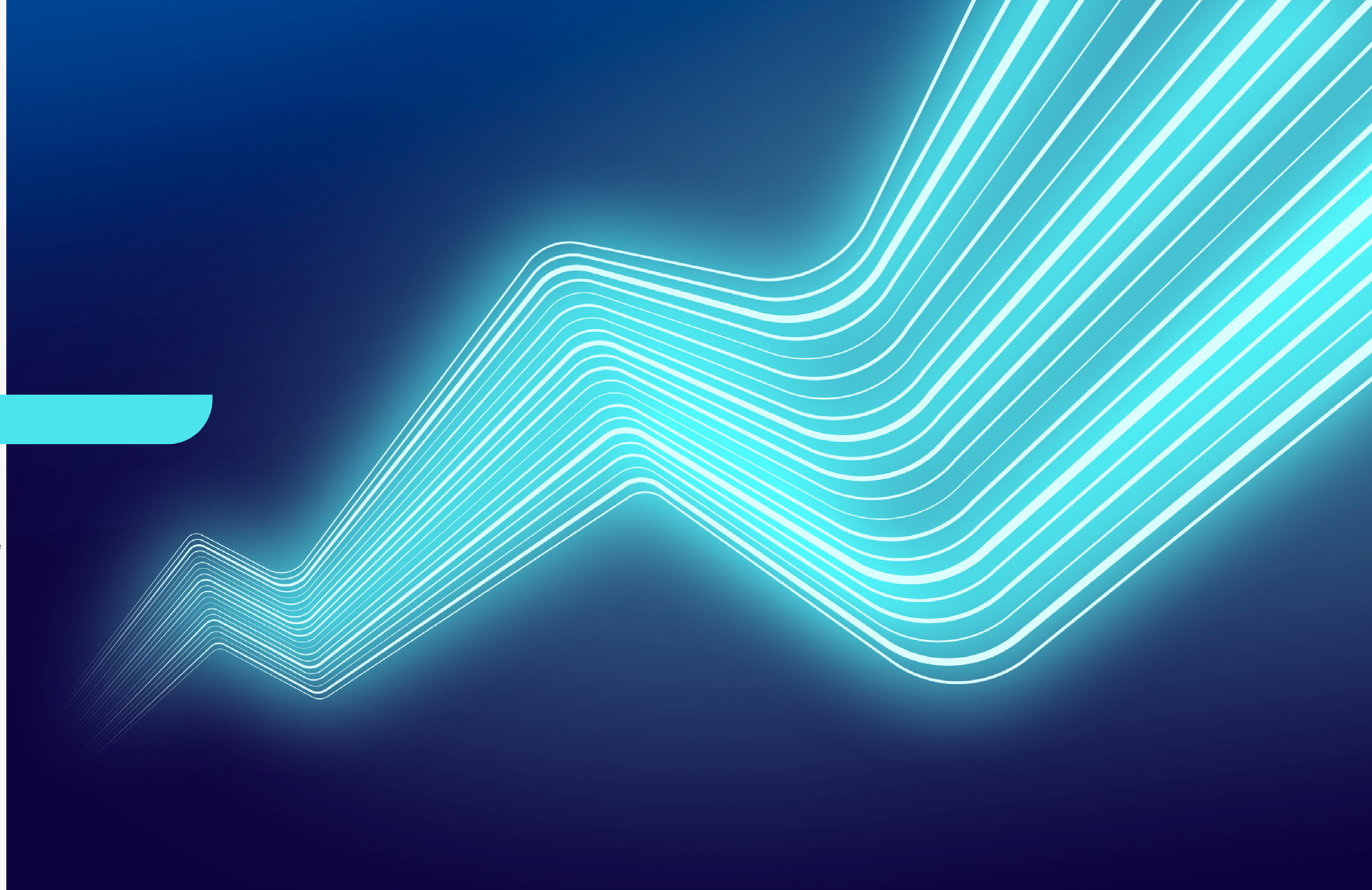
Diāna Krišjāne
Chairperson of the Board
Latvian Certified Auditor
Certificate No. 124

Riga,

DOCUMENT DATE IS THE TIME OF ITS ELECTRONIC SIGNATURE

Annual Report

Latvenergo



Latvenergo Group Consolidated and Latvenergo AS Annual Report

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

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

Contents

FINANCIAL CALENDAR

Interim Condensed Financial Statements:

For the 3 months of 2022 (unaudited) – 31.05.2022

For the 6 months of 2022 (unaudited) – 31.08.2022

For the 9 months of 2022 (unaudited) – 30.11.2022

Key figures

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

Latvenergo Group

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

EUR'000

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

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

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 debt[1)]; adjusted FFO[2)]/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

Latvenergo AS

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

EUR'000

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

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

* 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

Management Report

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

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

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

Operating Environment

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

Record-high electricity and energy resource prices

Average Nordpool electricity market price, EUR/MWh

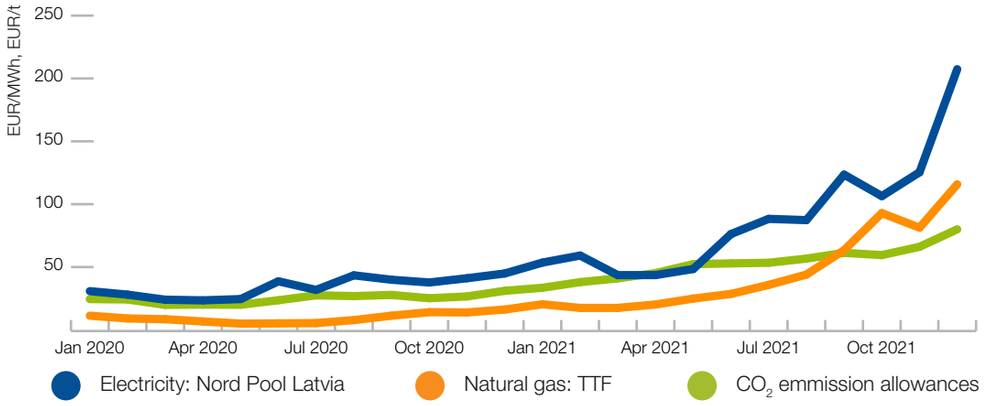
	2021	2020	Δ, %
Latvia	88.8	34.0	161%
Estonia	86.7	33.7	157%
Lithuania	90.5	34.0	166%
Poland	86.7	40.8	113%
Sweden	57.9	19.0	205%
Finland	72.3	28.0	158%
Denmark	88.0	26.7	230%
Norway	56.9	9.3	512%
Germany	96.9	30.5	218%
France	109.2	32.2	239%
Great Britain	137.1	39.6	246%

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

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

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

Energy resource prices



Significant Events

Unbundling transmission system asset ownership

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

Changes in the Management Board of Latvenergo AS

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

Impact of COVID–19 on Latvenergo Group operations

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

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

State aid for the reduction of energy prices

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

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

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

Russia's invasion of Ukraine

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

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

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

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

Operating Results

Generation

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

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

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

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

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

Trade

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

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

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

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

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

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

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

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

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

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

Distribution

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

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

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

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

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

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

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

Financial Results

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

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

Group's revenue increased by 38%

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

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

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

Investments

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

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

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

Daugava HPPs reconstruction

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

Daugava HPP reconstruction

MEUR

Funding

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

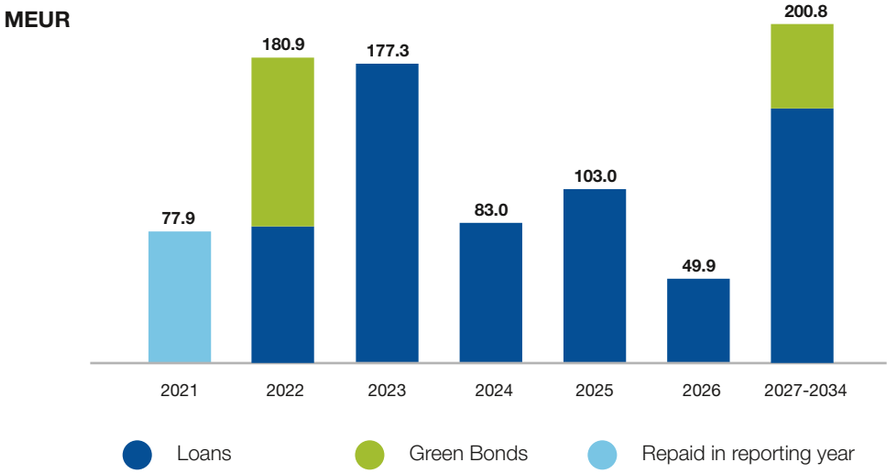
On 17 May 2021, Latvenergo AS issued seven–year green bonds with a total nominal value of EUR 50 million, a maturity date of 17 May 2028 and a fixed annual interest rate (coupon) of 0.5% (yield: 0.543%). The bonds were issued under the third Latvenergo AS EUR 200 million programme, and they are listed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

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

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

Latvenergo Group's debt repayment schedule

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



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

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

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

Corporate Governance

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

Non-financial Report

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

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

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

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

Further Development

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

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

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

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

The financial targets are set to ensure:

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

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

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

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

Financial Risk Management

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

a) Market risks

I) Price risk

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

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

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

II) Interest rate risk

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

III) Currency risk

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

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

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

b) Credit risk

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

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

c) Liquidity risk and cash flow risk

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

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

Events after the reporting period

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

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

Statement of management responsibility

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

Profit distribution

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

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The Management Board of Latvenergo AS:

Mārtiņš Čakste 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

Financial Statements

Statement of Profit or Loss

EUR'000

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

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

The notes on pages 118 to 166 are an integral part of these Financial Statements

Statement of Comprehensive Income

EUR'000

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

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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

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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The Management Board of Latvenergo AS:

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Kaspars Cikmačs
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Harijs Teteris
Member of the Management Board

Liāna Ķeldere
Accounting director of Latvenergo AS

12 April 2022

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**

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Accounting director of Latvenergo AS

12 April 2022

Statement of Cash Flows

EUR'000

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

EUR'000

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

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12 April 2022

Notes to the Financial Statements

1. Corporate information

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

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

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

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

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

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

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

The Management Board of Latvenergo AS:

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

The Supervisory Board of Latvenergo AS:

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

The Supervisory body – Audit Committee:

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

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

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

2. Summary of significant accounting policies

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- **IFRS 17: Insurance Contracts**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Consolidation

a) Subsidiaries

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

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

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

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

b) Transactions with non–controlling interests and owners

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

c) Distributions of non-cash assets to owners

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

Foreign currency translation

a) Functional and presentation currency

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

b) Transactions and balances

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

Financial assets and liabilities

Financial Assets

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

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

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

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

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

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

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

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

Debt instruments

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

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

Equity instruments

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

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

Financial Liabilities

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

De-recognition

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

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

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

Impairment

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

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

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

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

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

Derivative financial instruments

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

3. Financial risk management

3.1. Financial risk factors

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

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

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

EUR'000

	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 l	–	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 l	–	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 l	–	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 l	–	14,504	–	–	14,504	–
Lease liabilities	15	8,344	–	–	4,540	–	–
Trade and other financial current payables	26	76,429	–	–	51,664	–	–
		827,972	**14,504**	**–**	**789,596**	**14,504**	**–**

a) Market risk

I) Foreign currencies exchange risk

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

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

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

II) Interest rate risk

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

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

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

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

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

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

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

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

III) Price risk

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

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

b) Credit risk

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

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

Assessment of maximum possible exposure to credit risk

EUR'000

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

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

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

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

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

EUR'000

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

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

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

EUR'000

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

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

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

c) Liquidity risk

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

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

Liquidity analysis (contractual undiscounted gross cash flows)

EUR'000

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

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

3.2. Capital management

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

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

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

The capital ratio figures were as follows

EUR'000

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

4. Critical accounting estimates and judgements

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

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

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

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

a) Estimates concerning property, plant and equipment

I) Useful lives of property, plant and equipment

The Group and the Parent Company make estimates concerning the expected useful lives and residual values of property, plant and equipment. These are reviewed at the end of each reporting period and are based on the past experience as well as industry practice. For the assets that are planned to be

reconstructed, the remaining useful life is determined to be till the date of reconstruction. Previous experience has shown that the actual useful lives have sometimes been longer than the estimates. Values of fully depreciated property, plant and equipment are disclosed in Note 14 a. Quantifying an impact of potential changes in the useful lives is deemed impracticable therefore sensitivity analysis is not disclosed.

II) Recoverable amount of property, plant and equipment

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

III) Revaluation

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

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

For detailed most recent revaluation results see Note 14 c.

b) Impairment of financial assets

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

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

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

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

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

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

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

None of the Group's and the Parent Company's other financial investments measured at amortised cost (investments in State Treasury bonds) have significant increase in credit risk and therefore are

considered to have low credit risk (Moody's credit rating – A3) and are in Stage 1, the loss allowance therefore was immaterial and wasn't recognised.

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

c) Estimates concerning revenue recognition from contracts with customers

I) Recognition of mandatory procurement PSO fees

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

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

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

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

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

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

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

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

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

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

d) Recognition and reassessment of provisions

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

e) Evaluation of effectiveness of hedging instruments

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

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

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

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

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

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

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

h) Deferred tax recognition

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

i) Recognition of financial security for participating in commodities exchange

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

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

j) Fair values

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

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

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

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

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

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

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

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

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

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

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

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

5. Operating segment information

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

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

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

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

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

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

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

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

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)

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 2021	Group 2020	Parent Company 2021	Parent Company 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 31/12/2021	Group 31/12/2020	Parent Company 31/12/2021	Parent Company 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 31/12/2021	Group 31/12/2020	Parent Company 31/12/2021	Parent Company 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

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**

7. Other income

EUR'000

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

8. Raw materials and consumables

EUR'000

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

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

9. Personnel expenses

EUR'000

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

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

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

Number of employees

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

10. Other operating expenses

EUR'000

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

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

11. Finance income and costs

a) Finance income

EUR'000

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

b) Finance costs

EUR'000

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

12. Income tax

Accounting policy

Corporate income tax

Latvia

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

Lithuania

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

Estonia

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

Deferred income tax

Latvia and Estonia

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

Lithuania

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

EUR'000

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

13. Intangible assets

a) Intangible assets

Accounting policy

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

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

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

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

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

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

EUR'000

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

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

b) Current intangible assets (Greenhouse gas emission allowances)

Accounting policy

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

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

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

Current intangible assets

EUR'000

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

14. Property, plant and equipment

a) Property, plant and equipment

Accounting policy

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

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

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

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

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

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

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

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

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

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

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

EUR'000

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

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

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

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

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

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

b) Investment property

Accounting policy

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

EUR'000

	Group		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

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).

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		Net profit / (loss) for the year		Dividends from subsidiaries*		Carrying amount of interest from investment	
	31/12/2021	31/12/2020	2021	2020	2021	2020	31/12/2021	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		Current assets		Non-current liabilities		Current liabilities	
	31/12/2021	31/12/2020	31/12/2021	31/12/2020	31/12/2021	31/12/2020	31/12/2021	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		Equity		Net profit (Consolidated result after acquisition)	
	31/12/2021	31/12/2020	31/12/2021	31/12/2020	2021	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.

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

	Notes	Group		Parent Company	
		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

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

c) Other non-financial receivables

EUR'000

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

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

19. Cash and cash equivalents

Accounting policy

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

EUR'000

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

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

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

20. Share capital

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

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

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

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

21. Reserves, dividends and earnings per share

a) Reserves

EUR'000

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

22. Other financial investments

Carrying (amortised cost) amount of other financial investments

EUR'000

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

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

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

23. Borrowings

EUR'000

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

Movement in borrowings

EUR'000

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

Borrowings by categories of lenders

EUR'000

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

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

EUR'000

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

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

EUR'000

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

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

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

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

I) Pledges

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

II) Un–drawn borrowing facilities

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

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

III) Weighted average effective interest rate

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

IV) Issued and outstanding debt securities (bonds)

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

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

24. Derivative financial instruments

Accounting policy

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

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

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

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

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

Cash flow hedge

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

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

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

I) Outstanding fair values of derivatives and their classification

EUR'000

	Notes	Group 31/12/2021 Assets	Group 31/12/2021 Liabilities	Group 31/12/2020 Assets	Group 31/12/2020 Liabilities	Parent Company 31/12/2021 Assets	Parent Company 31/12/2021 Liabilities	Parent Company 31/12/2020 Assets	Parent Company 31/12/2020 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 31/12/2021 Assets	Group 31/12/2021 Liabilities	Group 31/12/2020 Assets	Group 31/12/2020 Liabilities	Parent Company 31/12/2021 Assets	Parent Company 31/12/2021 Liabilities	Parent Company 31/12/2020 Assets	Parent Company 31/12/2020 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 2021	Group 2020	Parent Company 2021	Parent Company 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 2021 Assets	Group 2021 Liabilities	Group 2020 Assets	Group 2020 Liabilities	Parent Company 2021 Assets	Parent Company 2021 Liabilities	Parent Company 2020 Assets	Parent Company 2020 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

	Notes	Group				Parent Company			
		2021		2020		2021		2020	
		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.

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: Fair value measurement using – Significant observable inputs (Level 2)	Group: Fair value measurement using – Significant unobservable inputs (Level 3)	Group: TOTAL	Parent Company: Fair value measurement using – Quoted prices in active markets (Level 1)	Parent Company: Fair value measurement using – Significant observable inputs (Level 2)	Parent Company: Fair value measurement using – 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: Carrying amount 31/12/2021	Group: Carrying amount 31/12/2020	Group: Fair value 31/12/2021	Group: Fair value 31/12/2020	Parent Company: Carrying amount 31/12/2021	Parent Company: Carrying amount 31/12/2020	Parent Company: Fair value 31/12/2021	Parent Company: Fair value 31/12/2020
Financial assets								
Fixed rate loans to related parties	–	86,620	–	89,409	534,065	611,096	545,297	641,936
Other financial investments	–	16,836	–	18,031	–	16,836	–	18,031
Financial liabilities								
Issued debt securities (bonds)	151,139	101,256	151,683	103,762	151,139	101,256	151,683	103,762

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

26. Trade and other payables

EUR'000

	Notes	Group		Parent Company	
		31/12/2021	31/12/2020	31/12/2021	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		Parent Company	
	31/12/2021	31/12/2020	31/12/2021	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		Parent Company	
		2021	2020	2021	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		Parent Company	
		2021	2020	2021	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.

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.

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

EUR'000

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

29. Related party transactions

Accounting policy

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

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

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

EUR'000

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

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

EUR'000

	Notes	Group		Parent Company	
		31/12/2021	31/12/2020	31/12/2021	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		Parent Company	
	31/12/2021	31/12/2020	31/12/2021	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.

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**

I) Non–current loans, including current portion

Concluded non–current loan agreements with Sadales tīkls AS

EUR'000

Agreement conclusion date	Principal amount of the loan	Outstanding loan amount 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).

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

31. Changes in liabilities arising from financing activities

The changes in lease liabilities (Note 15):

EUR'000

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

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

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

32. Commitments and contingent liabilities

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

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

33. Events after the reporting year

Accounting policy

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

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

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

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

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

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

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

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

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

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

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

The Management Board of Latvenergo AS:

Mārtiņš Čakste
Chairman of the Management Board

Dmitrijs Juskovecs
Member of the Management Board

Guntars Baļčūns
Member of the Management Board

Kaspars Cikmačs
Member of the Management Board

Harijs Teteris
Member of the Management Board

Liāna Ķeldere
Accounting director of Latvenergo AS

12 April 2022

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INDEPENDENT AUDITORS' REPORT

DOCUMENT DATE IS THE TIME OF ITS ELECTRONIC SIGNATURE

To the Shareholder of Latvenergo AS

Report on the Audit of the Financial Statements

Opinion

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

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

Basis for Opinion

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

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Key audit matters

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

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

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

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

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

Reporting on other information

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

- the Latvenergo Group Key Figures, Latvenergo AS Key Figures, as set out on pages 105 to 106 of the accompanying Annual Report;
- the Management Report, as set out on pages 107 to 113 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 111 of the accompanying Annual Report,

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

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

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

We confirm that:

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

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

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

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

Description of a subject and applicable criteria

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

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

Responsibilities of management and those charged with governance

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

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

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

Auditor's responsibility

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

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

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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