Latvenergo Group Consolidated and Latvenergo AS 2019 Annual Report

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

Content

Financial calendar

Interim Condensed Financial Statements:

For the 3 months of 2020 (unaudited) – 29.05.2020
For the 6 months of 2020 (unaudited) – 28.08.2020
For the 9 months of 2020 (unaudited) – 27.11.2020

Latvenergo

Latvenergo Group Key Figures

Financial Figures

EUR’000

	2019	2018	2017	2016	2015
Revenue	841,636	838,805	881,212	885,740	884,977
EBITDA[1]	243,526	281,947	497,731	347,312	263,293
Operating profit[2]	100,365	81,983	214,462	151,101	88,694
Profit before tax[3]	92,072	74,734	224,114	148,945	92,535
Profit	94,359	75,955	322,021	130,593	85,039
Dividends[4]	132,936	156,418	90,142	77,413	31,479
Total assets	3,864,941	3,798,819	4,415,725	3,901,231	3,517,372
Non–current assets	2,798,712	3,364,534	3,343,404	3,388,954	3,113,719
Total equity	2,265,487	2,320,065	2,846,891	2,418,713	2,096,702
Borrowings	882,671	814,343	826,757	791,566	797,483
Net debt (adjusted)[5]	563 959	505 419	496 730	528 980	605,112
Net cash flows from operating activities	315,433	302,869	338,209	341,186	246,278
Investments	229,427	220,607	243,811	200,677	190,461

Financial figures and ratios are presented by excluding discontinuing operations (unbundling transmission system asset ownership) – see Note 30 to the Financial Statements.

[1] EBITDA – earnings before interest, income tax, share of result of associates and depreciation, amortisation and impairment of intangible assets, property, plant and equipment and right-of-use assets

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

[3] Profit before tax – earnings before income tax

[4] Dividends paid to the equity holder of the Parent Company. (see Note 21 b)

[5] Net debt = (borrowings at the end of the year minus Latvijas elektriskie tīkli AS borrowings) minus (cash and cash equivalents at the end of the year minus Latvijas elektriskie tīkli AS cash and cash equivalents at the end of the year)

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

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

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

The definitions and components of the financial figures and ratios are described on the right side. Except excluding discontinued operations, the reported financial figures and ratios have not changed over previous period.

Financial ratios

	2019	2018	2017	2016	2015
EBITDA margin[6]	29%	34%	56%	39%	30%
Operating profit margin[7]	11.9%	9.8%	24.3%	17.1%	10.0%
Profit before tax margin[8]	10.9%	8.9%	25.4%	16.8%	10.5%
Profit margin[9]	11.2%	9.1%	36.5%	14.7%	9.6%
Equity–to–asset ratio[10]	59%	61%	64%	62%	60%
Net debt / EBITDA (adjusted)[11]	2.2	1.8	1.0	1.6	2.3
Net debt / equity (adjusted)[12]	0.25	0.22	0.17	0.22	0.29
Current ratio[13]	1.2	1.5	3.2	1.7	1.9
Return on assets (ROA)[14]	2.5%	1.8%	7.7%	3.5%	2.4%
Return on equity (ROE)[15]	4.1%	2.9%	12.2%	5.8%	4.1%
Return on capital employed (ROCE) (adjusted)[16]	3.4%	2.5%	6.4%	5.1%	3.2%
Dividend pay–out ratio[17]	62%	104%	66%	82%	90%

Operational figures

		2019	2018	2017	2016	2015
Total electricity supply, incl.:	GWh	9,259	9,984	10,371	10,140	9,868
Retail*	GWh	6,505	6,954	6,923	7,665	7,961
Wholesale**	GWh	2,754	3,030	3,448	2,474	1,907
Retail natural gas	GWh	303	147	33	–	–
Electricity generated	GWh	4,880	5,076	5,734	4,707	3,882
Thermal energy generated	GWh	1,842	2,274	2,612	2,675	2,408
Number of employees		3,423	3,508	3,908	4,131	4,177
Moody’s credit rating		Baa2 (stable)	Baa2 (stable)	Baa2 (stable)	Baa2 (stable)	Baa2 (stable)

[6] EBITDA margin = EBITDA / revenue

[7] Operating profit margin = operating profit / revenue

[8] Profit before tax margin = profit before tax / revenue

[9] Profit margin = profit / revenue

[10] Equity–to–asset ratio = total equity at the end of the year / total assets at the end of the year

[11] Net debt / EBITDA = (net debt at the beginning of the year + net debt at the end of the year) * 0.5 / EBITDA (12-months rolling)

[12] Net debt / equity = net debt at the end of the year / equity at the end of the year

[13] Current ratio = current assets at the end of the year / current liabilities at the end of the year

[14] Return on assets (ROA) = profit / average value of assets ((assets at the beginning of the year + assets at the end of the year) / 2)

[15] Return on equity (ROE) = profit / average value of equity ((equity at the beginning of the year + equity at the end of the year) / 2)

[16] Return on capital employed (ROCE) = operating profit / (average value of equity ((equity at the beginning of the year + equity at the end of the year) / 2) + average value of borrowings ((borrowings at the beginning of the year without Latvijas elektriskie tīkli AS + borrowings at the end of the year without Latvijas elektriskie tīkli AS) / 2))

[17] Dividend pay–out ratio = dividends / profit of the Parent Company

* Including operating consumption

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

Latvenergo AS Key Figures

Financial figures

EUR'000

	2019	2018	2017	2016	2015
Revenue	437,529	435,199	498,580	513,563	521,146
EBITDA[1]	112,651	160,927	387,100	241,606	180,982
Operating profit[2]	45,108	33,803	177,416	141,071	90,475
Profit before tax[3]	101,227	212,760	185,906	156,290	103,212
Profit	101,227	212,733	150,891	137,441	94,750
Dividends[4]	132,936	156,418	90,142	77,413	31,479
Total assets	3,136,958	3,141,109	3,649,200	3,204,394	3,124,054
Non–current assets	2,615,113	2,661,307	2,546,014	2,626,560	2,638,048
Total equity	1,949,287	1,993,823	2,382,638	2,177,069	2,114,900
Borrowings	872,899	802,268	814,772	778,323	782,965
Net debt[5]	751,638	674,714	581,917	597,126	681,146
Net cash flows from operating activities	378,142	394,395	449,352	201,427	174,797
Investments	48,269	41,350	89,278	79,913	78,694

[1] EBITDA – earnings before interest, income tax, share of result of associates and depreciation, amortisation and impairment of intangible assets, property, plant and equipment and right-of-use assets
[2] Operating profit – earnings before income tax, finance income and costs
[3] Profit before tax – earnings before income tax
[4] Dividends paid to the equity holder of the Parent Company. (see Note 21 b)
[5] Net debt = borrowings at the end of the year minus cash and cash equivalents at the end of the year

Financial ratios

	2019	2018	2017	2016	2015
EBITDA margin[6]	25.7%	37.0%	77.6%	47.0%	34.7%
Operating profit margin[7]	10.3%	7.8%	35.6%	27.5%	17.4%
Profit before tax margin[8]	23.1%	48.9%	37.3%	30.4%	19.8%
Profit margin[9]	23.1%	48.9%	30.3%	26.8%	18.2%
Equity–to–asset ratio[10]	62 %	63%	65%	68%	68%
Net debt / equity[11]	0.39	0.34	0.24	0.27	0.32
Current ratio[12]	1.8	2.0	4.3	2.3	3.0
Return on assets (ROA)[13]	3.2%	6.3%	4.4%	4.3%	3.0%
Return on equity (ROE)[14]	5.1%	9.7%	6.6%	6.4%	4.6%
Return on capital employed (ROCE)[15]	1.6%	1.1%	5.8%	4.8%	3.1%
Dividend pay–out ratio[16]	62%	104%	66%	82%	90%

Operational figures

		2019	2018	2017	2016	2015
Total electricity supply, incl.:	GWh	5,502	5,826	6,265	6,039	5,693
Retail*	GWh	4 211	4,406	4,619	5,290	5,422
Wholesale**	GWh	1,290	1,419	1,645	749	272
Retail natural gas	GWh	294	145	33	–	–
Electricity generated	GWh	4,832	5,028	5,687	4,660	3,833
Thermal energy generated	GWh	1,603	2,007	2,354	2,422	2,179
Number of employees		1,328	1,355	1,431	1,472	1,464
Moody's credit rating		Baa2 (stable)	Baa2 (stable)	Baa2 (stable)	Baa2 (stable)	Baa2 (stable)

[6] EBITDA margin = EBITDA / revenue
[7] Operating profit margin = operating profit / revenue
[8] Profit before tax margin = profit before tax / revenue
[9] Profit margin = profit / revenue
[10] Equity–to–asset ratio = total equity at the end of the year / total assets at the end of the year
[11] Net debt / equity = net debt at the end of the year / equity at the end of the year
[12] Current ratio = current assets at the end of the year / current liabilities at the end of the year
[13] Return on assets (ROA) = profit / average value of assets ((assets at the beginning of the year + assets at the end of the year) / 2)
[14] Return on equity (ROE) = profit / average value of equity ((equity at the beginning of the year + equity at the end of the year) / 2)
[15] Return on capital employed (ROCE) = operating profit / (average value of equity ((equity at the beginning of the year + equity at the end of the year) / 2) + average value of borrowings ((borrowings at the beginning of the year + borrowings at the end of the year) / 2))
[16] Dividend pay–out ratio = dividends / profit of the Parent Company

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

Latvenergo

Management Report

Latvenergo Group (the Group) is one of the largest power supply providers in the Baltics operating in electricity and thermal energy generation and trade, natural gas trade, electricity distribution services and lease of transmission system assets.

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

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

Operating environment

In 2019, electricity prices in the Nordics and the Baltics were lower compared to the previous year due to the improvement of the Nordic hydrobalance and lower prices of other energy resources. In addition to the factors mentioned above, the price of electricity in the Baltics was affected by lower electricity generation in the Baltics, especially in Estonia, which resulted in higher electricity imports compared to the year 2018. The electricity spot price in Latvia was 7% lower than in 2018.

Electricity prices declined

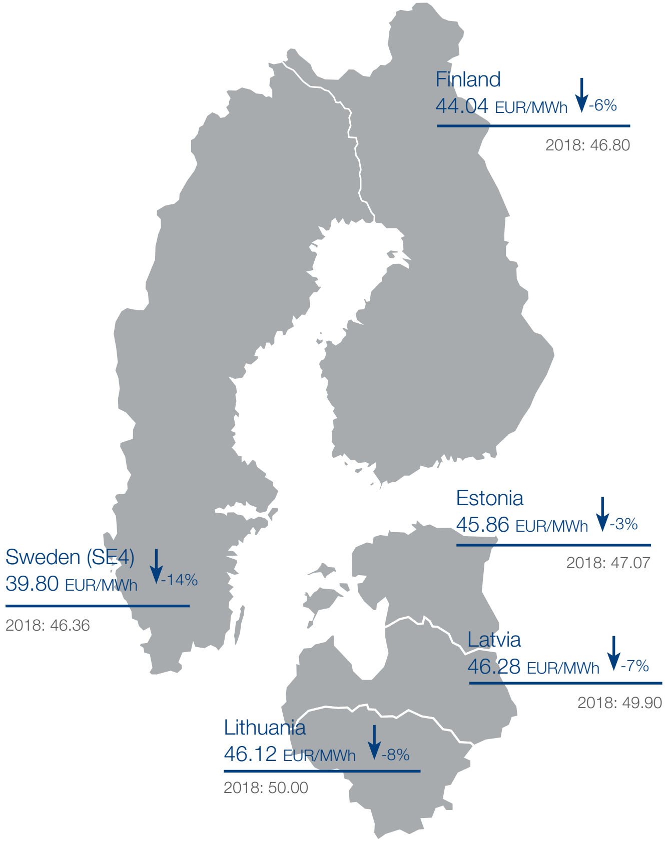
Due to the decrease in oil and coal prices, there was a decline in the price of natural gas. In 2019, the average price of natural gas at the *GASPOOL* and TTF trading platforms was 34% lower than a year earlier. The average price of CO_2 emission allowances in 2019 reached 25.2 EUR/t, which was almost twice as high as in 2018. CO_2 emission allowance prices increased due to the reform of the EU emissions trading system (ETS), reducing the permits available on the market.

Significant Events

Lower revenue from the installed electrical capacity at the Latvenergo AS CHPPs

In 2017, Latvenergo AS received a one-off compensation from the state in the amount of EUR 454.4 million, at the same time opting out of the receipt of 75% of the annual electrical capacity payments for Latvenergo AS cogeneration power plants CHPP-1 and CHPP-2. The compensation was financed by the capital release of Latvenergo AS. It was divided into two parts: EUR 140 million were to be recognized as other income in the profit and loss statement of Latvenergo AS in 2017, while EUR 314.4 million were to be recognized as income spread evenly over the following reporting periods until fulfilment of liabilities at the end of the support period in 2028. On 26 September 2018, the Cabinet of Ministers of Latvia decided to extend additional compensation in 2018 in the amount of EUR 51.7 million by reducing the remaining part of the compensation proportionally to this amount until the end of the support period. In 2019, EUR 24.0 million of the compensation were recognized as other income of Latvenergo AS (in 2018, the amount was EUR 81.0 million).

Electricity wholesale price on *Nord Pool* power exchange



As of 1 January 2020, the average distribution service tariff is reduced by 5.5%

Considering the changes in the methodology of calculation of distribution tariffs set by the Public Utilities Commission of Latvia (PUC), on 27 November 2019, the PUC approved a project on the electricity distribution service tariff for a period of 5 years until 2024 which was submitted by Sadales tīkls AS. The project provides for a reduction of the tariff of 5.5% on average.

Lower distribution tariffs are possible due to the ambitious operational efficiency improvement programme of Sadales tīkls AS, which includes process improvement and reduction of personnel and the number of vehicles and real estate bases.

Unbundling transmission system asset ownership

An independent system operator model was introduced in Latvia and it was certified by the PUC. The transmission system assets were invested in Latvijas elektriskie tīkli AS (LET), while LET leases the assets to the transmission system operator (Augstsprieguma tīkls AS). The lease payment is calculated according to the methodology set by the PUC. LET is a subsidiary of Latvenergo AS, which provides management of Latvian power transmission network assets as well as fundraising for the maintenance of existing transmission networks and the construction of new ones. In 2019, the revenue of LET was EUR 41.1 million, and its profit was EUR 9.5 million. The asset value of the transmission system asset leasing segment at the end of 2019 was EUR 663 million.

Given that this model is one of the rarest in Europe, and based on an assessment by the Ministry of Economics of the Republic of Latvia, on 8 October 2019 the Cabinet of Ministers of the Republic of Latvia (CM) decided to support full unbundling of ownership of the electricity transmission system operator (TSO) until 1 July 2020, providing that transmission assets will be taken over from Latvenergo AS by Augstsprieguma tīkls AS. Since Latvenergo AS and Augstsprieguma tīkls AS are both state-owned companies, the change of ownership of assets will occur through the reduction of the share capital of Latvenergo AS by withdrawing the capital shares of LET from the base of assets of Latvenergo AS. After the capital shares of LET become property of the state, they will be invested in the share capital of Augstsprieguma tīkls AS. After the disposal of LET shares, the share capital of Latvenergo AS will be increased by investing retained earnings from previous years, but not in excess of the market value of LET shares determined by independent assessors. The market value of 100% LET shares is determined by KPMG Baltics AS.

In accordance with the CM informative report of 8 October 2019 "On the Directive 2009/72/EK requirements specified for the electricity transmission system operator in revaluating implementation of unbundling", in December 2019 Latvenergo AS carried out a capital increase of LET by investing all real estate assets in amount of EUR 35 million and liabilities in amount of EUR 26 million belonging to the transmission system in LET. The value of LET equity as of December 31 is EUR 234 million.

On 15 October, 2019, the international credit rating agency *Moody's* affirmed the credit rating of Latvenergo AS at investment grade Baa2 with a stable outlook, also taking into account the planned unbundling of transmission system asset ownership.

Operating Results

Generation

In 2019, the total amount generated by Latvenergo Group's power plants comprised 4,880 GWh of electricity and 1,842 GWh of thermal energy (Latvenergo AS – 4,832 GWh and 1,603 GWh respectively).

The amount of power generated at the Daugava HPPs decreased by 14% compared to the previous year, reaching 2,047 GWh. The amount of power generated at the Daugava HPPs was impacted by lower water inflow in the Daugava river. The average water inflow in the Daugava River in 2019 was 401 m^3/s, while a year earlier it was 485 m^3/s. The share of electricity generated from renewable energy sources at Latvenergo Group was 42% (in 2018 it was 47%).

For the second year in a row, Latvenergo CHPPs had record-high electricity generation

In 2019, the amount generated at the CHPPs reached 2,780 GWh, which was 5% more than in the previous year and which is the most electricity produced historically. Such high generation was influenced by higher electricity demand in the region due to the fact that in 2019 electricity output at oil shale plants in Estonia fell significantly on account of high emission allowance prices. However, after reconstruction the Latvenergo AS CHPPs have minimized their CO_2 emissions and use energy resources to produce electricity in the most efficient way.

In 2019, the total amount of thermal energy generated by Latvenergo Group decreased by 19% compared to the previous year. The decrease was impacted by warmer weather conditions during the heating season and by competition. Data from the Central Statistical Bureau show that the average air temperature in Riga in the reporting year during the heating season was +4.1 C°, whereas in 2018 it was +2.1 C°.

Trade

In 2019, Latvenergo Group was one of the largest energy trading companies in the Baltics, while continuing to actively expand the range of products offered to customers.

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

In 2019, the Group supplied 6,505 GWh of electricity in the Baltics. The overall amount of retail electricity trade outside Latvia accounted for 1/3 of the total. The electricity trade volume in Latvia was 4.2 TWh, while in Lithuania it was 1.3 TWh and in Estonia it was 1.0 TWh. The total number of electricity customers comprised approximately 757 thousand, including more than 35 thousand foreign customers.

The natural gas retail sales volume doubled compared to the previous year and amounted to 303 GWh. In 2019, Latvenergo Group's natural gas consumption in the Baltics was 7.1 TWh, which was 3% more than in 2018. Currently, Latvenergo Group is the second largest natural gas consumer in the Baltics. At the end of 2019, the natural gas portfolio consisted of 770 business customers; meanwhile, the launch of gas trading to households in Latvia in February 2019 increased the natural gas portfolio by more than 5.4 thousand households.

In the reporting year, the retail activities of other services in the Baltic states continued. The number of solar panel contracts reached 320 with substantial growth in sales in Lithuania. In 2019, Latvenergo Group's market share in the Baltic solar panel market was approximately 9%. The number of Elektrum Insured customers continued to increase, reaching 65.9 thousand. Since launching in May 2019, the total turnover of the e-shop has continued to grow, providing more than 2,200 units sold. In August, the first Elektrum fast electric vehicle charging stations were launched and by the end of the reporting year approximately 1,450 charges had been made.

Financial Results

In 2019, Latvenergo Group's revenue reached EUR 841.6 million, which was EUR 2.8 million more than in the previous year. Meanwhile, the Groups profit increased by EUR 18.4 million or 24% compared to the previous year. Latvenergo Group's EBITDA decreased by 14% compared to the previous year, reaching EUR 243.5 million. EBITDA was impacted mainly by EUR 57.0 million lower compensation for the Latvenergo AS CHPPs' capacity payments recognised in the profit and loss statement of Latvenergo AS. In 2019, EUR 24.0 million of the compensation were recognized as other income of Latvenergo AS (in 2018, the amount was EUR 81.0 million).

Stable financial results

In 2019, the Latvenergo Group's results were negatively impacted by 14% or 333 GWh lower electricity output at the Daugava HPPs. Meanwhile, the higher sales price of electricity and the decrease in costs as a result of the approved efficiency programme, which was launched in 2017, had a positive impact on the results in 2019.

The Group's ROE in 2019 reaches 4.1% which is 1.2 percentage points more than in 2018. The 2019 financial indicators of the capital structure ensured achievement of the goals set, exceeding the average industry indicators as well. For information on achievement of the financial goals, see the Sustainability Report section "Group Strategy".

Investments

In 2019, the total amount of investment comprised EUR 229.4 million, which was EUR 8.8 million more than in the previous year.

Latvenergo AS investment amounted EUR 48.3 million in 2019 (2018: EUR 41.4 million).

To ensure high-quality power network service, technical parameters and operational safety, a significant amount is invested in the modernization of the power network. In 2019, the amount invested in power network assets represented 79% of total investment.

Investments in distribution remained at the same level as in 2018 and comprised EUR 95.1 million. The purpose of investments in the distribution segment is to promote the quality and security of the energy supply, reduce the frequency and duration of power supply disruptions caused by planned and unplanned maintenance, and ensure the appropriate voltage quality. Investments in modernization of distribution assets have increased the quality of distribution services by lowering SAIFI and SAIDI indicators. Since 2016, both the SAIFI and SAIDI decreased by 14%.

Investment in power network assets – approximately 80% of the total

In 2019, investments in transmission system assets remained at the same level as a year earlier and comprised EUR 87.4 million. The largest investment project in the transmission system asset leasing segment was *Kurzeme Ring*. In 2019, EUR 26.1 million was invested in this energy infrastructure project (in 2018: EUR 65.2 million). The *Kurzeme Ring* project will increase the safety level of power supply in the Kurzeme region and Latvia as a whole, providing an opportunity for more efficient use of the Lithuania-Sweden marine cable NordBalt and allowing further integration of the Baltics into the Nordic electricity market.

Contributing to environmentally friendly projects, in 2019, EUR 16.6 million was invested in the Daugava HPPs' hydropower unit reconstruction. Gradual overhaul of eleven Daugava HPPs hydropower units is planned for completion until 2023. It will provide for further 40–year operation of the units. As of 31 December 2019, five reconstructed hydropower units have been put into operation within the programme. The estimated total reconstruction costs will exceed EUR 200 million. At the end of the reporting year, work completed within the scope of the contract reached EUR 166.1 million.

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.

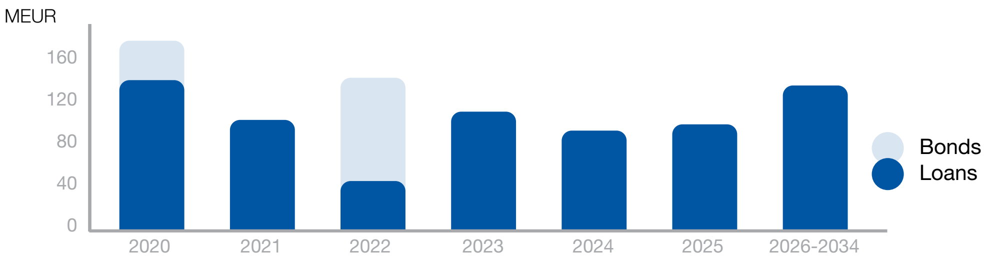
Diversified sources of funding

As of 31 December 2019, the Group's borrowings amounted to EUR 882.7 million (31 December 2018: EUR 814.3 million), comprising loans from commercial banks, international investment banks, and bonds amounting to EUR 135 million, of which EUR 100 million are green bonds.

At the end of 2019, Latvenergo AS attracted a loan of EUR 100 million from a foreign investment bank to finance investment projects.

Latvenergo Group's debt repayment schedule

Total borrowings as of 31 December 2019 – 882.7 MEUR



On 10 March 2020, the international credit rating agency *Moody's* repeatedly affirmed the credit rating of Latvenergo AS at investment grade Baa2 with a stable outlook. *Moody's* credit rating for Latvenergo AS has been stable for five 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 2019 is published. For detailed information see the Sustainability Report 2019.

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 in accordance with the GRI Standards

For detailed information on corporate social responsibility (CSR) activities, description of the policies and procedures in relation to those matters, the outcome of the policies, risks and risk management, and non-financial key performance indicators, please see the Sustainability Report 2019 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 and others.

Further Development

Latvenergo Group's strategy for 2017–2022 foresees:

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

Taking into consideration the defined development directions of the Group, Latvenergo AS approved the Strategic Development and Efficiency Programme in 2017. While the strategic development section includes major strategic projects, the efficiency section provides for the revision, centralization and digitalization of the Group's processes in order to maintain the Group's profitability in the long term considering the increase in costs due to inflation. The estimated efficiency potential for the Group's EBITDA is up to EUR 30 million. This is the Group's largest optimization plan in the last decade, and it will allow the Group to increase its value in the long run and to remain competitive in an open market and a changing energy industry.

The activities planned in the strategy have been successfully implemented in 2019. For more information please see the Sustainability Report section "Group Strategy".

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

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.

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

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. Due to natural gas price volatility demand-supply factors and seasonal fluctuations, may have a negative effect on the difference between fixed retail electricity prices in contracts with customers and variable generation costs at CHPPs.

In order to hedge the price risk, the Latvenergo Group and Latvenergo AS enter into long-term fixed price customer contracts, uses electricity and natural gas financial derivatives and enter into fixed price contracts for natural gas supply. The impact of price risk on generation is hedged gradually – price has been fixed for 80%–90% of projected electricity output prior to the upcoming year. Further hedging of risk is limited by the seasonal generation pattern of the Daugava HPPs.

II) Interest rate risk

Latvenergo Group's and Latvenergo AS interest rate risk mainly arises from non-current borrowings at variable interest rates. They expose the Group and the Parent Company to the risk that finance costs might increase significantly when the reference rate surges. Most of the borrowings from financial institutions have a variable interest rate, comprising 3, 6 or 12-month EURIBOR and a margin. The Group's Financial Risk Management Policy stipulates maintaining at least 35% of its borrowings as fixed interest rate borrowings (taking into account the effect of interest rate swaps and issued bonds) with a duration of 2–4 years. Taking into account the effect of interest rate swaps and bonds with a fixed interest rate, 45% of the Group's and of the Parent Company's borrowings had a fixed interest rate with an average period of 1.8 years both for the Group and the parent Company as of 31 December 2019. All necessary actions will be taken during the year 2020 to ensure the average fixed interest rate period within the limits stipulated by the Group's Financial Risk Management Policy.

III) Currency risk

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

As of 31 December 2019, 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.

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 short-term 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 2019, Latvenergo Group's liquid assets (cash and short-term deposits up to 3 months) reached EUR 122.7 million (31 December 2018: EUR 129.5 million), while the Latvenergo AS liquid assets reached EUR 121.3 million (31/12/2018: EUR 127.6 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

At the beginning of 2020, the existence of the new coronavirus (Covid-19) was approved and it has currently spread all over the world, also in Latvia, disturbing business and affecting economic development. Latvenergo Group is constantly evaluating the impact of spreading of Covid-19 and implements measures for safety of customers and employees, as well ensures appropriate working regime in strategically important facilities – Daugava hydropower plants, combined heat and power plants in Riga and facilities of Sadales tīkls AS. Latvenergo Group continues to provide all services to its customers and any customer service issues are resolved using remote means of communication.

Spreading of the virus does not have a significant effect on the provision of services by Latvenergo Group. The Group continues to ensure continuity and availability to all customers of electricity generation, electricity and natural gas trading and distribution services. Management of Latvenergo Group considers that the spread of the virus is a non-adjusting event after the reporting period. Since the situation is unclear and is developing rapidly, it is currently not possible to provide a statistical estimate of the potential effect of spreading of the virus on Latvenergo Group, however COVID-19 influence could lead to economic downturn, with the most significant impact on electricity consumption and receivables.

All other significant events that would materially affect the financial position of the Latvenergo Group and Latvenergo AS after the reporting period are disclosed in Note 32 of the Group's and the Parent Company's Financial Statements.

Statement of management responsibility

Based on the information available to the Management Board of Latvenergo AS, the Latvenergo Group Consolidated and Latvenergo AS Annual Report 2019, 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 state regulations, the expected amount of dividends to be paid by Latvenergo AS for the use of state capital in 2020 (for the reporting year 2019) amounted to EUR 127.1 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.

The Management Board of Latvenergo AS:

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Āris Žīgurs
Chairman of the Management Board

Guntars Baļčūns
Member of the Management Board

Uldis Bariss
Member of the Management Board

Kaspars Cikmačs
Member of the Management Board

7 April 2020

Financial Statements

Statement of Profit or Loss

EUR'000

	Notes	Group 2019	Group 2018	Parent Company 2019	Parent Company 2018
Revenue	6	841,636	838,805	437,529	435,199
Other income	7	25,863	91,098	23,558	91,181
Raw materials and consumables used	8	(477,660)	(497,148)	(271,069)	(284,592)
Personnel expenses	9	(101,349)	(103,359)	(45,039)	(42,396)
Other operating expenses	10	(44,964)	(47,449)	(32,328)	(38,465)
EBITDA		**243,526**	**281,947**	**112,651**	**160,927**
Depreciation, amortisation and impairment of intangible assets, property, plant and equipment and right-of-use assets	13 a,14 a, 15	(143,161)	(199,964)	(67,543)	(127,124)
Operating profit		**100,365**	**81,983**	**45,108**	**33,803**
Finance income	11	1,187	1,157	12,995	11,446
Finance costs	11	(9,480)	(8,406)	(11,734)	(10,135)
Dividends from subsidiaries	16	–	–	54,858	177,646
Profit before tax		**92,072**	**74,734**	**101,227**	**212,760**
Current income tax	12	(8,565)	(261)	–	(27)
Deferred income tax	12	620	(8,948)	–	–
Profit for the year from continuing operations		**84,127**	**65,525**	**101,227**	**212,733**
Profit for the year from discontinued operation	30	10,232	10,430	–	–
Profit for the year		**94,359**	**75,955**	**101,227**	**212,733**
Profit attributable to:					
– Equity holder of the Parent Company		92,660	73,423	101,227	212,733
– Non–controlling interests		1,699	2,532	–	–
Basic earnings per share (in euros)	21 c	0.111	0.080	0.121	0.234
Diluted earnings per share (in euros)	21 c	0.111	0.080	0.121	0.234

The notes on pages 15 to 62 are an integral part of these Financial Statements

Statement of Comprehensive Income

EUR'000

	Notes	Group 2019	Group 2018	Parent Company 2019	Parent Company 2018
Profit for the year		**94,359**	**75,955**	**101,227**	**212,733**
Other comprehensive (loss) / income to be reclassified to profit or loss in subsequent periods:					
– (losses) / gains from change in hedge reserve	21 a, 24	(11,771)	9,531	(11,771)	9,531
Net comprehensive (loss) / income to be reclassified to profit or loss in subsequent periods		**(11,771)**	**9,531**	**(11,771)**	**9,531**
Other comprehensive (loss) / income not to be reclassified to profit or loss in subsequent periods:					
– (losses) / gains as a result of re–measurement on defined post–employment benefit plan	21 a, 24	(2,043)	436	(1,148)	(108)
Net other comprehensive (loss) / income not to be reclassified to profit or loss in subsequent periods		**(2,043)**	**436**	**(1,148)**	**(108)**
Other comprehensive (loss) / income for the year		**(13,814)**	**9,967**	**(12,919)**	**9,423**
TOTAL comprehensive income for the year		**80,545**	**85,922**	**88,308**	**222,156**
Attributable to:					
– Equity holder of the Parent Company		78,846	83,390	88,308	222,156
– Non–controlling interests		1,699	2,532	–	–

The notes on pages 15 to 62 are an integral part of these Financial Statements

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Member of the Management Board

Kaspars Cikmačs
Member of the Management Board

Liāna Ķeldere
Accounting director of Latvenergo AS

7 April 2020

Statement of Financial Position

EUR'000

	Notes	Group 31/12/2019	Group 31/12/2018	Parent Company 31/12/2019	Parent Company 31/12/2018
ASSETS					
Non–current assets					
Intangible assets	13 a	22,587	19,079	26,111	22,813
Property, plant and equipment	14 a	2,752,945	3,297,093	1,109,001	1,133,886
Right–of–use assets	15	5,522	–	3,476	–
Investment property	14 b	301	467	39,435	61,796
Non–current financial investments	16	39	40	831,350	830,542
Non–current loans to related parties	29 e	–	–	588,434	595,004
Other non–current receivables	18 b	433	30,920	421	331
Other financial investments	22	16,885	16,935	16,885	16,935
Total non–current assets		**2,798,712**	**3,364,534**	**2,615,113**	**2,661,307**
Current assets					
Inventories	17	104,927	71,975	89,522	58,410
Receivables from contracts with customers	18 a	111,530	117,955	82,973	81,025
Other current receivables	18 b, c	77,085	84,830	13,328	14,445
Deferred expenses		3,015	2,598	2,082	1,552
Current loans to related parties	29 e	–	–	205,822	170,811
Prepayment for income tax		140	11,619	140	10,152
Derivative financial instruments	24	6,717	15,853	6,717	15,853
Cash and cash equivalents	19	122,422	129,455	121,261	127,554
Current assets excluding assets held for distribution		**425,836**	**434,285**	**521,845**	**479,802**
Assets held for distribution	30	640,393	–	–	–
Total current assets		**1,066,229**	**434,285**	**521,845**	**479,802**
TOTAL ASSETS		**3,864,941**	**3,798,819**	**3,136,958**	**3,141,109**

Statement of Financial Position (continued)

EUR'000

	Notes	Group 31/12/2019	Group 31/12/2018	Parent Company 31/12/2019	Parent Company 31/12/2018
EQUITY AND LIABILITIES					
EQUITY					
Share capital	20	834,883	834,791	834,883	834,791
Reserves	21 a	1,075,235	1,125,466	778,162	794,555
Retained earnings		318,555	351,350	336,242	364,477
Reserves of disposal group classified as held for distribution	30	28,936	–	–	–
Equity attributable to equity holder of the Parent Company		**2,257,609**	**2,311,607**	**1,949,287**	**1,993,823**
Non–controlling interests		7,878	8,458	–	–
Total equity		**2,265,487**	**2,320,065**	**1,949,287**	**1,993,823**
LIABILITIES					
Non–current liabilities					
Borrowings	23	702,129	700,028	696,863	690,568
Lease liabilities	15	4,349	–	3,126	–
Deferred income tax liabilities	12	8,327	12,297	–	–
Provisions	27	18,491	20,178	8,489	8,625
Derivative financial instruments	24	6,149	3,923	6,149	3,923
Deferred income from contracts with customers	28 I a	143,330	143,494	877	–
Other deferred income	28 I b, c	194,033	303,519	186,297	210,105
Total non–current liabilities		**1,076,808**	**1,183,439**	**901,801**	**913,221**
Current liabilities					
Borrowings	23	180,542	114,315	176,036	111,700
Lease liabilities	15	1,216	–	376	–
Trade and other payables	26	115,708	135,010	78,381	92,062
Deferred income from contracts with customers	28 II a	13,764	13,271	63	–
Other deferred income	28 II b, c	24,857	26,438	24,031	24,022
Derivative financial instruments	24	6,983	6,281	6,983	6,281
Current liabilities excluding liabilities held for distribution		**343,070**	**295,315**	**285,870**	**234,065**
Liabilities directly associated with the assets held for distribution	30	179,576	–	–	–
Total current liabilities		**522,646**	**295,315**	**285,870**	**234,065**
Total liabilities		**1,599,454**	**1,478,754**	**1,187,671**	**1 147,286**
TOTAL EQUITY AND LIABILITIES		**3,864,941**	**3,798,819**	**3,136,958**	**3 141,109**

The notes on pages 15 to 62 are an integral part of these Financial Statements

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Kaspars Cikmačs
Member of the Management Board

Liāna Ķeldere
Accounting director of Latvenergo AS

7 April 2020

Latvenergo

Annual Report

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– Independent Auditor's Report

Statement of Changes in Equity

EUR'000

		Group							Parent Company			
		Attributable to equity holder of the Parent Company										
	Note	**Share capital**	**Reserves**	**Retained earnings**	**Reserves classified as held for distribution**	**TOTAL**	**Non–con-trolling interests**	**TOTAL**	**Share capital**	**Reserves**	**Retained earnings**	**TOTAL**
As of 1 January 2018		**1,288,715**	**1,125,728**	**424,116**	**–**	**2,838,559**	**8,042**	**2,846,601**	**1,288,715**	**791,681**	**301,613**	**2,382,009**
Decrease of share capital	20	(454,413)	–	–	–	**(454,413)**	–	(454,413)	(454,413)	–	–	**(454,413)**
Increase of share capital	14 a, 20	489	–	–	–	**489**	–	489	489	–	–	**489**
Dividends for 2017	21 b	–	–	(156,418)	–	**(156,418)**	(2,116)	(158,534)	–	–	(156,418)	**(156,418)**
Disposal of non–current assets revaluation reserve	21 a	–	(10,229)	10,229	–	**–**	–	–	–	(6,549)	6,549	**–**
Total transactions with owners and other changes in equity		**(453,924)**	**(10,229)**	**(146,189)**	**–**	**(610,342)**	**(2,116)**	**(612,458)**	**(453,924)**	**(6,549)**	**(149,869)**	**(610,342)**
Profit for the year		–	–	73,423	–	**73,423**	2,532	75,955	–	–	212,733	**212,733**
Other comprehensive income for the year	21 a	–	9,967	–	–	**9,967**	–	9,967	–	9,423	–	**9,423**
Total comprehensive income for the year		**–**	**9,967**	**73,423**	**–**	**83,390**	**2,532**	**85,922**	**–**	**9,423**	**212,733**	**222,156**
As of 31 December 2018		**834,791**	**1,125,466**	**351,350**	**–**	**2,311,607**	**8,458**	**2,320,065**	**834,791**	**794,555**	**364,477**	**1,993,823**
Increase of share capital	14 a, 20	92	–	–	–	**92**	–	92	92	–	–	**92**
Dividends for 2018	21 b	–	–	(132,936)	–	**(132,936)**	(2,279)	(135,215)	–	–	(132,936)	**(132,936)**
Disposal of non–current assets revaluation reserve	21 a	–	(7,481)	7,481	–	**–**	–	–	–	(3,474)	3,474	**–**
Discontinued operation	30	–	(28,936)	–	28,936	**–**	–	–	–	–	–	**–**
Total transactions with owners and other changes in equity		**92**	**(36,417)**	**(125,455)**	**28,936**	**(132,844)**	**(2,279)**	**(135,123)**	**92**	**(3,474)**	**(129,462)**	**(132,844)**
Profit for the year		–	–	92,660	–	**92,660**	1,699	94,359	–	–	101,227	**101,227**
Other comprehensive loss for the year	21 a	–	(13,814)	–	–	**(13,814)**	–	(13,814)	–	(12,919)	–	**(12,919)**
Total comprehensive (loss) / income for the year		**–**	**(13,814)**	**92,660**	**–**	**28,936**	**1,699**	**80,545**	**–**	**(12,919)**	**101,227**	**88,308**
As of 31 December 2019		**834,883**	**1,075,235**	**318,555**	**28,936**	**2,257,609**	**7,878**	**2,265,487**	**834,883**	**778,162**	**336,242**	**1,949,287**

The notes on pages 15 to 62 are an integral part of these Financial Statements

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Liāna Ķeldere
Accounting director of Latvenergo AS

7 April 2020

Latvenergo

Statement of Cash Flows

EUR'000

	Notes	Group 2019	Group 2018	Parent Company 2019	Parent Company 2018
Cash flows from operating activities					
Profit before tax		92,072	74,734	101,227	212,760
Profit before tax from discontinued operation	30	12,667	13,779	–	–
Profit before tax, total		104,739	88,513	101,227	212,760
Adjustments:					
– Amortisation, depreciation and impairment of intangible assets, property, plant and equipment (PPE) and right-of-use assets	13 a, 14 a, 15	167,918	225,820	67,543	127,124
– Loss from disposal of non–current assets		26,980	17,638	21,965	12,320
– Interest costs	11	9,346	8,267	11,590	10,020
– Interest income	11	(1,034)	(1,114)	(12,842)	(11,403)
– Fair value loss on derivative financial instruments	8	293	417	293	417
– Dividends from subsidiaries	16	–	–	(54,858)	(177,646)
– Decrease in provisions	27	(3,691)	(1,295)	(1,283)	(318)
– Unrealised (income) / loss on currency translation differences	11	(54)	2	(54)	2
Operating profit before working capital adjustments		**304,497**	**338,248**	**133,581**	**173,276**
(Increase)/ decrease in inventories		(32,990)	4,353	(31,112)	3,414
Decrease in receivables from contracts with customers and other receivables		41,083	98,125	45,110	140,461
Increase / (decrease) in trade and other liabilities		11,757	(90,344)	(38,789)	(79,741)
Impact of non-cash offsetting of operating receivables and liabilities from subsidiaries, net		–	–	270,009	201,571
Cash generated from operating activities		**324,347**	**350,382**	**378,799**	**438,981**
Interest paid		(9,483)	(9,066)	(11,741)	(10,781)
Interest paid on leases	15	(54)	–	–	–
Interest received		1,084	1,113	1,084	1,113
Paid corporate income tax		(461)	(39,560)	10,000	(34,918)
Net cash flows from operating activities		**315,433**	**302,869**	**378,142**	**394,395**

Statement of Financial Position (continued)

EUR'000

	Notes	Group 2019	Group 2018	Parent Company 2019	Parent Company 2018
Cash flows from investing activities					
Loans issued to subsidiaries, net	29 e	–	–	(272,401)	(323,539)
Purchase of intangible assets and PPE		(254,947)	(238,501)	(70,981)	(60,644)
Dividends received from subsidiaries	16	–	–	21,115	53,378
Proceeds from redemption of other financial investments		49	49	49	49
Net cash flows used in investing activities		**(254,898)**	**(238,452)**	**(322,218)**	**(330,756)**
Cash flows from financing activities					
Proceeds on borrowings from financial institutions	23	180,291	93,500	180,000	90,000
Repayment of borrowings	23	(112,102)	(105,931)	(109,513)	(102,522)
Received financing from European Union		579	–	250	–
Lease payments	15	(821)	–	(18)	–
Dividends paid to non–controlling interests	21 b	(2,279)	(2,116)	–	–
Dividends paid to equity holder of the Parent Company	21 b	(132,936)	(156,418)	(132,936)	(156,418)
Net cash flows used in financing activities		**(67,268)**	**(170,965)**	**(62,217)**	**(168,940)**
Net decrease in cash and cash equivalents		**(6,733)**	**(106,548)**	**(6,293)**	**(105,301)**
Cash and cash equivalents at the beginning of the year	19	129,455	236,003	127,554	232,855
Cash and cash equivalents at the end of the year	19	**122,722**	**129,455**	**121,261**	**127,554**

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7 April 2020

Latvenergo

Notes to the Financial Statements

1. Corporate information

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

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

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

- Sadales tīkls AS (since 18 September 2006) with 100% interest held;
- *Elektrum Eesti* OÜ (since 27 June 2007) and its subsidiary Elektrum Latvija SIA (since 18 September 2012) with 100% interest held;
- *Elektrum Lietuva* UAB (since 7 January 2008) with 100% interest held;
- Latvijas elektriskie tīkli AS (since 10 February 2011) with 100% interest held;
- Liepājas enerģija SIA (since 6 July 2005) with 51% interest held;
- Enerģijas publiskais tirgotājs AS (since 25 February 2014) with 100% interest held.

Latvenergo AS and its subsidiaries Sadales tīkls AS, Latvijas elektriskie tīkli AS and Enerģijas publiskais tirgotājs AS are also shareholders with 48.15% interest held in company Pirmais Slēgtais Pensiju Fonds AS that manages a defined–contribution corporate pension plan in Latvia.

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

The Management Board of Latvenergo AS since 16 November 2015 until 1 March 2018 was comprised of the following members: Āris Žīgurs (Chairman of the Board), Uldis Bariss, Māris Kuņickis, Guntars Baļčūns and Guntis Stafeckis. From 1 March 2018 Guntis Stafeckis and from 5 October 2018 Māris Kuņickis does not continue work on the Management Board. Since 25 September 2018 Kaspars Cikmačs has been acting as a member of the Management Board of Latvenergo AS and until the end of the reporting year the Management Board of Latvenergo AS was comprised of the following members: Āris Žīgurs (Chairman of the Board), Uldis Bariss, Guntars Baļčūns and Kaspars Cikmačs.

The Supervisory Board of Latvenergo AS since 16 December 2016 until 19 June 2019 was comprised of the following members: Andris Ozoliņš (Chairman of the Board), Andris Liepiņš (Deputy Chairman), Baiba Anda Rubesa, Mārtiņš Bičevskis and Martin Sedlacky. Since 19 June 2019 until 1 July 2019 the Supervisory Board of Latvenergo AS was comprised of the following members: Pāvels Rebenoks (Chairman of the Board), Renārs Degro (Deputy Chairman), Inese Kublicka, Kristaps Stepanovs and Artūrs Šnoriņš. Since 8 October 2019 until the election of new members of the Supervisory Board of Latvenergo AS in accordance with the candidate selection procedure started in August 2019, the Supervisory Board of Latvenergo AS is comprised of the following members: Edmunds Valantis (Chairman), Edijs Šaicāns (Deputy Chairman) and Irēna Bērziņa.

The Supervisory body – Audit Committee since 3 March 2017 until 19 June 2019 was comprised of the following members: Torben Pedersen (Chairman of the Committee), Svens Dinsdorfs, Andris Ozoliņš, Andris Liepiņš and Marita Salgrāve. Since 19 June 2019 until 1 July 2019 Audit Committee was comprised of the following members: Torben Pedersen, Svens Dinsdorfs, Marita Salgrāve, Renārs Degro and Kristaps Stepanovs. Since 8 October 2019 Audit Committee was comprised of the following members: Torben Pedersen, Svens Dinsdorfs, Marita Salgrāve and Irēna Bērziņa.

The Management Board of Latvenergo AS has approved the Latvenergo Group and Latvenergo AS Financial statements 2019 on 7 April 2020. 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 year 2019 include the financial information in respect of the Latvenergo Group and Latvenergo AS for the year ended 31 December 2019 and comparative information for year 2018. Where it has been necessary, comparatives for year 2018 are reclassified using the same principles applied for preparation of the Financial Statements for 2019 for discontinued operation according to IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' (Note 30), except for the adoption of IFRS 16 'Leases' (see section 'Changes in accounting policies' of Note 2 and Note 15).

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

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

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

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

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

- **IFRS 16: Leases**

From 1 January 2019 The Group and the Parent Company applies IFRS 16. In accordance with the transitional provisions of IFRS 16, the standard is applied retrospectively with evaluation of its cumulative effect as of 1 January 2019. The Group as the lessee recognised right–of–use assets and lease liabilities in amount of EUR 8,075 thousand (the Parent Company: EUR 3,870 thousand) in financial statements. The Parent Company applied simplified approach and did not restate comparative information. Right–of–use assets were measured equal to the lease liabilities at the date of initial application. At the date of initial application, no cumulative effect of initial application was recognised as an adjustment to the opening balance of retained earnings.

Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Upon adopting IFRS 16, the Group and the Parent Company used a single recognition and measurement approach for all leases, with certain exemptions and made an assessment on the identified right–of–use assets, non–cancellable lease terms (including the extension and termination options) and lease payments (including fixed and variable payments etc.). The Parent Company used practical expedient for short–term leases.

The Group's and the Parent Company's as lessor accounting is substantially unchanged and do not have significant impact on financial statements.

New standard accounting and measurement principles are disclosed in Note 15, but the initial adoption is disclosed in the section Change in accounting policy of this Annex.

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

- **Amendments to the Conceptual Framework for Financial Reporting**

Amendments are effective for the periods beginning on or after 1 January 2020, not yet adopted by the EU. The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance - in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Group and the Parent Company makes assessment on the impact of these amendments on its financial statements and disclosures, but does not consider them to have a significant impact on its financial results.

- **Amendments to IFRS 3 - Definition of a business**

Effective from 1 January 2020, not yet adopted by the EU. The amendments revise definition of a business. A business must have inputs and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present, including for early stage companies that have not generated outputs. An organised workforce should be present as a condition for classification as a business if are no outputs. The definition of the term 'outputs' is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. It is also no longer necessary to assess whether market participants are capable of replacing missing elements or integrating the acquired activities and assets. An entity can apply a 'concentration test'. The assets acquired would not represent a business if substantially all of the fair value of gross assets acquired were concentrated in a single asset (or a group of similar assets). The Group and the Parent Company makes further assessment on the impact of these amendments. The amendments may result in changes in accounting policies but will not have a material effect on the Group's and the Parent Company's financial statements.

- **Amendments to IAS 1 and IAS 8 - Definition of materiality**

Effective from 1 January 2020, not yet adopted by the EU. The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The Group and the Parent Company makes assessment on the impact of these amendments on its financial statements but does not expect them to have a material impact on the Group's and the Parent Company's financial position and estimates and judgements used in preparation of financial statements.

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.

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

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

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

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

For assets measured at fair value, gains and losses is either recorded in profit or loss or in other comprehensive income. For investments in equity instruments that are not held for trading, this depends on whether the Group and the Parent Company have made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

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

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

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

Debt instruments

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

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

Equity instruments

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

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

Financial Liabilities

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

De-recognition

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

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

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

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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 per 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 historical 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.

Changes in accounting policies

Adoption of IFRS 16 in the reporting year

From 1 January 2019 the Group and the Parent Company applied IFRS 16 for the first time. In accordance with the transitional provisions of IFRS 16, the standard is applied retrospectively with evaluation of its cumulative effect as of 1 January 2019. The Group as the lessee recognised in financial statements right–of–use assets and lease liabilities in the amount of EUR 8,075 thousand (the Parent Company: EUR 3,870 thousand), which had been previously classified as ‘operating leases’ under the principles of IAS 17.

In accordance with IFRS 16, lease liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate as of 1 January 2019 – 1.549 %.

The Group and the Parent Company applied simplified approach and did not restate comparative information. Right-of-use assets measured equal to the lease liability at the date of initial application. At the date of initial application, no cumulative effect of initial application recognised as an adjustment to the opening balance of retained earnings.

The Group and the Parent Company has concluded several agreements for lease of land and real estate, as well has concluded an agreement until 2028 on a lease of the fiber of the combined optical cable (OPGW - optical ground wire with dual function).

Accounting policy related to lease transactions disclosed in Note 15. The Group and the Parent Company did not have finance leases before adoption of the new standard as of 1 January 2019.

In applying IFRS 16 for the first time, the Group and the Parent Company has used the following permitted practical expedients:

- single discount rate to a portfolio of leases with reasonably similar characteristics;
- accounting for operating leases with a remaining lease term of less than 12 months as of 1 January 2019 as short–term leases;
- excluding initial direct costs for the measurement of the right–of–use asset at the date of initial application;
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The following individual line items were affected in the Group's and the Parent Company's Statement of Financial Position as of 1 January 2019 upon adoption of IFRS 16 (line items that were not affected by the changes have not been included, as a result, the sub–totals and totals disclosed cannot be recalculated from the numbers provided):

EUR'000

	Group			Parent Company		
	Balance as of 31/12/2018 before adjustments	Effect of IFRS 16 adoption	Adjusted balance as of 01/01/2019	Balance as of 31/12/2018 before adjustments	Effect of IFRS 16 adoption	Adjusted balance as of 01/01/2019
ASSETS						
Non–current assets						
Right–of–use assets	–	8,075	8,075	–	3,870	3,870
Total non–current assets	**3,364,534**	**8,075**	**3,372,609**	**2,661,307**	**3,870**	**2,665,177**
TOTAL ASSETS	**3,798,819**	**8,075**	**3,806,894**	**3,141,109**	**3,870**	**3,144,979**
EQUITY AND LIABILITIES						
LIABILITIES						
Non–current liabilities						
Lease liabilities	–	6,839	6,839	–	3,500	3,500
Total non–current liabilities	**1,183,439**	**6,839**	**1,190,278**	**913,221**	**3,500**	**916,721**
Current liabilities						
Lease liabilities	–	1,236	1,236	–	370	370
Total current liabilities	**295,315**	**1,236**	**296,551**	**234,065**	**370**	**234,435**
TOTAL EQUITY AND LIABILITIES	**3,798,819**	**8,075**	**3,806,894**	**3,141,109**	**3,870**	**3,144,979**

The initial application of standard has the following impact: increase of total assets impacted by the capitalisation of the right–of–use assets and increase of total liabilities induced by recognition of relevant lease liabilities.

If the lease contract includes an extension options and if management has reasonable confidence to exercise this option, The Group's and the Parent Company's has used actual historical experience to determine lease terms. Lease contracts are usually concluded for a fixed period with different maturities, as agreed with counterparties, and may include options to extend lease terms. Management applies judgement to determine the lease term evaluating facts and circumstances that may affect the lease term. Management's estimates are reviewed for any material events or significant changes in circumstances, that are under the lessee's control.

Preliminary measurement of lease liabilities by the adoption of IFRS 16:

EUR'000

	Group	Parent Company
	01/01/2019	01/01/2019
Operating lease commitments disclosed as of 31 December 2018 as per IAS17	9,531	21,738
Adjustments for lease evaluation for compliance with IFRS 16 requirements	(1,388)	(17,413)
Adjustments as a result of the assessment of the possibility of renewal and termination of contracts	986	–
Adjustments for variable lease payments	(93)	–
Excluded short–term leases	(149)	(149)
Discounted value using the incremental borrowing rate of at the date of initial application	(812)	(306)
Lease liabilities recognised as of 1 January 2019	**8,075**	**3,870**
Of which are:		
– current	6,839	3,500
– non–current	1,236	370

The adoption of IFRS 16 did not require for the Group and the Parent Company, as lessor, to make adjustments to the accounting for assets held as for lessor.

3. Financial risk management

3.1. Financial risk factors

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

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

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

EUR'000

		Group			Parent Company		
	Notes	**Financial assets at amortised cost**	**Derivatives used for hedging**	**Financial instruments at fair value through the profit or loss**	**Financial assets at amortised cost**	**Derivatives used for hedging**	**Financial instruments at fair value through the profit or loss**
Financial assets as of 31 December 2019							
Receivables from contracts with customers	18 a	111,530	–	–	82,973	–	–
Other current financial receivables	18 b	76,891	–	–	13,221	–	–
Loans to related parties	29 e	–	–	–	794,256	–	–
Other non–current financial receivables	18 b	433	–	–	421	–	–
Derivative financial instruments	24 l	–	4,684	2,033	–	4,684	2,033
Other financial investments	22	16,885	–	–	16,885	–	–
Cash and cash equivalents	19	122,422	–	–	121,261	–	–
		328,161	**4,684**	**2,033**	**1,029,017**	**4,684**	**2,033**
Financial assets as of 31 December 2018							
Receivables from contracts with customers	18 a	117,955	–	–	81,025	–	–
Other current financial receivables	18 b	84,613	–	–	14,233	–	–
Loans to related parties	29 e	–	–	–	765,815	–	–
Other non–current financial receivables	18 b	30,920	–	–	331	–	–
Derivative financial instruments	24 l	–	15,748	105	–	15,748	105
Other financial investments	22	16,935	–	–	16,935	–	–
Cash and cash equivalents	19	129,455	–	–	127,554	–	–
		379,878	**15,748**	**105**	**1,005,893**	**15,748**	**105**
Financial liabilities as of 31 December 2019							
Borrowings	23	882,671	–	–	872,899	–	–
Derivative financial instruments	24 l	–	10,204	2,220	–	10,912	2,220
Lease liabilities	15	5,565			3,502		
Trade and other financial current payables	26	91,410	–	–	68,249	–	–
		979,646	**10,912**	**2,220**	**944,650**	**10,912**	**2,220**
Financial liabilities as of 31 December 2018							
Borrowings	23	814,343	–	–	802,268	–	–
Derivative financial instruments	24 l	–	10,204	–	–	10,204	–
Trade and other financial current payables	26	103,707	–	–	78,726	–	–
		918,050	**10,204**	**–**	**880,994**	**10,204**	**–**

Latvenergo

a) Market risk

I) Foreign currencies exchange risk

As of 31 December 2019, and 31 December 2018 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 Treasury's 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 2019 and 2018 the Group and the Parent Company had no capital expenditure project which 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 2019, 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 633 thousand higher (2018: EUR 875 thousand) and the Parent Company's income from the cash reserves held at bank for the year would have been EUR 621 thousand higher (2018: EUR 860 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 at least 35% of its borrowings as fixed interest rates borrowings (taking into account the effect of interest rate swaps) with duration between 2–4 years.

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

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

To hedge cash flow interest rate risk, the Group and the Parent Company have entered into interest rate swap agreements with total notional amount of EUR 229.4 million (2018: EUR 225.1million) (Note 24 II). 45% of the total Group's and 45% the Parent Company's borrowings as of 31 December 2019 (31/12/2018: 53% and 54% respectively) had fixed interest rate (taking into account the effect of the interest rate swaps) and average fixed rate duration was 1.8 years for the Group and the Parent Company (2018: 2.1 years for the Group and the Parent Company respectively). All necessary actions will be taken during the year 2020 to ensure the average fixed interest rate period within the limits stipulated by the Group's Financial Risk Management Policy.

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 2,297 thousand lower (over the next 12 months period after 31/12/2018: EUR 1,999 thousand), the Parent Company's profit for the year would have been EUR 255 thousand lower (over the next 12 months period after 31/12/2018: EUR 1,946 thousand).

As of 31 December 2019, if short and long term euro interest rates had been 50 basis points higher with all other variables held constant fair value of interest rate swaps would have been EUR 4,634 thousand higher (31/12/2018: EUR 4,649 thousand higher), which would have been attributable to the Statement of Comprehensive Income as hedge accounting item. However, if short and long term euro interest rates had been 50 basis points lower with all other variables held constant fair value of interest rate swaps would have been EUR 4,815 thousand lower (31/12/2018: EUR 4,834 thousand lower), which would have been attributable to the Statement of Comprehensive Income as hedge accounting item.

III) Price risk

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

The most significant price risk is related to purchase of electricity and natural gas. To hedge the risk related to changes in the price of electricity and natural gas the Parent Company during 2019 and 2018 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, favourable derivative financial instruments and at fair value through profit or loss (FVPL), deposits with banks, 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 for the Parent Company, it is taken into account that Latvenergo AS has granted loans to subsidiaries in which it holds all the shares, and accordingly monitors the operations and financial situation of the subsidiaries (borrowers). Impairment loss has been deducted from gross amounts.

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

Assessment of maximum possible exposure to credit risk:

EUR'000

	Notes	Group		Parent Company	
		31/12/2019	31/12/2018	31/12/2019	31/12/2018
Receivables from contracts with customers	18 a	111,530	117,955	82,973	81,025
Other non-current financial receivables	18 b	433	30,920	421	331
Other current financial receivables	18 b	76,891	84,613	13,221	14,233
Loans to subsidiaries	29 e	–	–	794,256	765,815
Cash and cash equivalents	19	122,422	129,455	121,261	127,554
Derivative financial instruments	24	6,717	15,853	6,717	15,853
Other financial investments	22	16,885	16,935	16,885	16,935
		334,878	**395,731**	**1,035,734**	**1,021,746**

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

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

Credit risk related to cash and short–term deposits with banks is managed by balancing the placement of financial assets in order to maintain the possibility to choose the best offers and to reduce probability to incur losses. Credit risk assessment related to receivables from contracts with customers and other financial receivables described per 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	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Investment level credit rating*	117,347	126,483	116,186	124,582
No or non–investment level credit rating	5,075	2,972	5,075	2,972
	122,422	**129,455**	**121,261**	**127,554**

* Investment level credit rating assigned for the parent companies of banks.

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

EUR'000

	Group		Parent Company	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Aa2	70,621	51,376	69,468	49,556
Aa3	1,926	22,248	1,926	22,247
Baa1	40,466	48,201	40,458	48,121
Baa2	4,334	4,658	4,334	4,658
Non-investment level credit rating	5,075	2,972	5,075	2,972
	122,422	**129,455**	**121,261**	**127,554**

Set limits of credit exposure to the financial counterparties were not exceeded during the reporting period, and the Group and the Parent Company management does not expect any losses arising from a potential default of financial counterparty, financial counterparties are in Level 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 a sufficient amount of cash and cash equivalents (Note 19) and the availability of long and short-term funding through an adequate amount of committed credit facilities in order to meet existing and expected commitments and compensate for fluctuations in cash flows due to the occurrence of a variety of financial risks.

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

Liquidity analysis (contractual undiscounted gross cash flows)

EUR'000

	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 2019										
Borrowings from banks	148,892	112,531	267,429	243,819	**772,671**	144,303	110,795	264,260	243,315	**762,673**
Issued debt securities (bonds)	37,849	1,900	102,203	–	**141,952**	37,849	1,900	102,203	–	**141,952**
Derivative financial instruments	8,740	3,959	3,003	1,154	**16,856**	8,740	3,959	3,003	1,154	**16,856**
Lease liabilities *	1,261	1,062	1,670	2,399	**6,392**	428	428	1,284	1,612	**3,752**
Trade and other current financial payables (Note 26) **	91,410	–	–	–	**91,410**	68,249	–	–	–	**68,249**
	288,152	**119,452**	**374,305**	**247,372**	**1,029,281**	**259,569**	**117,082**	**370,750**	**246,081**	**993,482**
As of 31 December 2018										
Borrowings from banks	116,989	159,053	250,342	214,090	**740,474**	114,241	154,751	246,134	212,846	**727,972**
Issued debt securities (bonds)	2,880	37,769	104,228	–	**144,877**	2,880	37,769	104,228	–	**144,877**
Derivative financial instruments	6,673	3,000	4,239	1,755	**15,667**	6,673	3,000	4,239	1,755	**15,667**
Trade and other current financial payables (Note 26) **	103,707	–	–	–	**103,707**	78,726	–	–	–	**78,726**
	230,249	**199,822**	**358,809**	**215,845**	**1,004,725**	**202,520**	**195,520**	**354,601**	**214,601**	**967,242**

* The carrying amount of the lease (discounted) the Group's is EUR 5,565 thousand (the Parent Company's: EUR 3,502 thousand)

** Excluding advances received, deferred income, tax related liabilities and other non–current or current non–financial payables

3.2. Capital management

The Group's and the Parent Company's objectives when managing capital are to safeguard the Group's and 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 2019 nor 2018), 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. Also, asset revaluation directly influences the capital structure. 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	
	31/12/2019	**31/12/2018**	**31/12/2019**	**31/12/2018**
Total equity	2,265,487	2,320,065	1,949,287	1,993,823
Total assets	3,864,941	3,798,819	3,136,958	3,141,109
Capital Ratio	**59 %**	**61 %**	**62 %**	**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 estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

a) Estimates concerning property, plant and equipment

I) Useful lives of property, plant and equipment

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

II) Recoverable amount of property, plant and equipment

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

III) Revaluation

Revaluation for part of the Group's and the Parent Company's property, plant and equipment are performed by independent, external and certified valuers 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 for property, plant and equipment items for which a reconstruction is planned in the near future additional functional depreciation was assessed. Remaining useful lives of property, plant and equipment items after revaluation were estimated according to estimated total depreciation.

Income method is based on the identification and analysis of generation capacity, forecasting of electricity trade prices, analysis of historical generation and operating expenses and forecast of future costs, capital expenditure, net cash flows, as well calculation of discount and capitalisation rates, based on market data.

For detailed most recent revaluation results see Note 14 c.

b) Impairment of financial assets

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

- non-current and current loans to related parties (the Parent Company)
- 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 uses judgement in making these assumptions and selecting the inputs to the impairment calculation, 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 over a period of 3 years and the corresponding historical credit losses experienced within this period. 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 have assumed that macroeconomic factors, such as GDP or the unemployment rates in Latvia have insignificant impact on expected credit loss as macroeconomic projections foresee stable outlook of these indicators.

Counterparty model is used on individual contract basis for non-current and current loans to subsidiaries, 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 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.

Counterparty model 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.

All of the Group's and the Parent Company's other financial investments measured at amortised cost (investments in State Treasury bonds) do not have significant increase in credit risk and are considered to have low credit risk (*Moody's* credit rating – A3) and are in Level 1, the loss allowance therefore was immaterial and wasn't recognised.

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial, considering also fact that almost all of cash and cash equivalents are held in financial institutions with the credit rating grade of the institution or its parent bank at investment grade credit rating (mostly 'A level' credit rating) (Level 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;
- do not have exposure to rewards associated with mandatory procurement PSO fees.

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 2019, the Group had set up provisions for environmental protection, post–employment benefits and termination benefits totalling EUR 20.1 million (31/12/2018: EUR 21.0 million) and the Parent Company in amount of EUR 9.0 million (31/12/2019: EUR 9.0 million) (Note 27). The amount and timing of the settlement of these obligations is uncertain. A number of assumptions and estimates have been used to determine the present value of provisions, including the amount of future expenditure, inflation rates, and the timing of settlement of the expenditure. The actual expenditure may also differ from the provisions recognised as a result of possible changes in legislative norms, technology available in the future to restore environmental damages, and expenditure covered by third parties. For revaluation of provisions for post–employment obligations probabilities of retirement in different employees' aging groups as well as variable demographic factors and financial factors (including expected remuneration increase and determined changes in benefit amounts) have been estimated. The probabilities and other factors are determined on the basis of previous experience. According to defined development directions per Strategy of Latvenergo Group for the period 2017–2022, management of the Parent Company approved the Strategic Development and Efficiency Programme. Provisions for employees' termination benefits are recognised on a basis of Strategic Development and Efficiency Programme of Latvenergo Group for the period in which it is planned to implement the efficiency program (including Latvenergo AS and Sadales tīkls AS efficiency activities), by which it is intended to reduce gradually the number of employees by the year 2022. The key assumptions made to determine the amount of provisions are provided in Note 27.

e) Evaluation of effectiveness of hedging instruments

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

f) Lease term and classification

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and is within the control of the lessee.

The Group has entered into the lease agreement as a lessor with licenced transmission system operator for the lease of transmission system network infrastructure and land, buildings and facilities related to this infrastructure till the end of 2019. At the end of lease agreement, the parties may review terms of the agreement. By the end of 2019 no amendments to the lease agreement had been received and under the terms of the contract - if the parties do not agree on a new lease agreement, the existing agreement is prolonged for further 5 years subject to transmission system operator having a valid licence for electricity transmission. Based on an evaluation of the terms of the agreement, such as rights of the ownership is not transferred as determined by Energy Law of the Republic of Latvia, the lessor retains all the significant risks and rewards of ownership of these assets, the Group accounts this agreement as operating lease till the adoption of IFRS 16. In making the judgement on lease classification management assessed the criteria included in IAS 17 'Leases' / IFRS 16 'Leases' and considered the following circumstances:

- The lease does not transfer ownership of the assets at the end of the lease term,
- The lessee has no option to purchase the assets at a price sufficiently lower than the fair value,
- The Group is entitled to lease payments ensuring the rate of return on assets approved by Public Utilities Commission (PUC) and bears risks and rewards related to ownership and the changes in the fair value of the leased assets,
- The lease agreement could be prolonged up to 2025, until when transmission system operator has valid licence for electricity transmission. The lease term does not cover the major part of the economic life of leased assets,
- The lease payments are determined by methodology for transmission system services approved by PUC, considering the rate of return on assets approved by PUC and the lease payments during the predictable lease term do not amount to substantially all of the estimated fair value of the leased assets,
- The assets can only be operated by a lessee holding the licence for electricity transmission. In accordance with the effective legislation, the Group cannot obtain the licence itself. Thus, periods after 2025 need not to be taken into account when assessing the substance of the current lease agreement. Carrying amount of leased assets (property, plant and equipment) as of 31 December 2019 is disclosed in Note 30.

g) Recognition of connection service fees to transmission system (IFRS 16 / IAS 17)

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

Income from connection to transmission system and other service fees is deferred as an ongoing service is identified as part of the agreement with the lessee. Operating lease agreement term is 5 years, the period over which revenue from connection fees is recognised is longer, as it is reasonably certain that assets, whose costs are partly reimbursed by connection fees will be leased for a longer period than defined original lease term.

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

In October 2017, the Parent Company applied for a one-off compensation from the state, at the same time opting out of the receipt of 75% of the guaranteed annual payments for installed electrical capacity in combined heat and power plant CHPP–1 and CHPP–2. The one-off compensation was calculated as 75% of the discounted future guaranteed payments for installed electrical capacity. On 21 November 2017, the Cabinet of Ministers of the Republic of Latvia accepted an order on one–off compensation to Latvenergo AS on guaranteed support for the installed capacity of cogeneration power plants, therefore the Parent Company obtained a government grant in the amount of EUR 454,413 thousand.

The grant was divided into two parts and recognised in accordance with accounting policy stated in Note 28:

- an unconditional grant in amount of EUR 140,000 thousand recognised as 'Other income' in the Group's and the Parent Company's statement of profit or loss in 2017
- a conditional grant in amount of EUR 314,413 thousand recognised as deferred income in the Group's and the Parent Company's statement of financial position and to be allocated to income on a straight-line basis until fulfilling obligation till the end of the support period – 23 September 2028.

The decision on settlement of one–off compensation was made separately. Following the order No. 685 of the Cabinet of Ministers of the Republic of Latvia on 28 November 2017 a trilateral agreement was concluded between Republic of Latvia (represented by Ministry of Economics), the Parent Company and its subsidiary Enerģijas publiskais tirgotājs AS (public trader) on settlement of the one–off compensation. Accordingly, public trader recognised receivable from state for one–off compensation in the amount of EUR 454,413 thousand. This balance was recognised as government grant receivable in Group financial statements. For Enerģijas publiskais tirgotājs AS to ensure financing of compensation, the Parent Company concluded agreement on loan issue in amount equal to the grant receivable.

On 20 March 2018 decreased share capital of the Parent Company in amount of EUR 454,413 thousand (Note 20).

On 26 March 2018, in accordance with the trilateral agreement, the Parent Company settled its liability towards Ministry of Economics for the capital release by netting off the balance with the respective grant receivable from the state and netted balances with public trader on the same date.

On 26 September 2018, the Cabinet of Ministers decided to change conditions for a part of the grant in the amount of EUR 51,700 thousand stipulating it as unconditional, by reducing the remaining part of the grant proportionally to this amount until the end of the support period. As a result, of this and the previous order, EUR 23,990 thousand were recognised as 'Other income' in the Group's and Parent Company's statement of profit or loss in 2019 (2018: EUR 81,004 thousand) (Note 7). Consequently, EUR 209,419 thousand remained recognised as deferred income as of 31 December 2019 (31 December 2018: EUR 233,409 thousand) and to be allocated to income on a straight-line basis until fulfilling obligation till the end of the support period – 23 September 2028.

i) Deferred tax recognition

The untaxed profits of the subsidiaries are subject to deferred tax charge in the Consolidated Financial Statements to the extent that the Parent Company as 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 (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.

5. Operating segment information

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

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

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

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

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

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

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

The operations of the lease of transmission system assets operating segment is managed by Latvijas elektriskie tīkli AS – the owner of transmission system assets (330 kV and 110 kV transmission lines, substations and distribution points), which provides financing of investments in these assets.

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 elimina-tions	TOTAL Group	Generation and trade	Corporate functions	TOTAL segments	Adjustments and elimina-tions	TOTAL Parent Company
2019												
Revenue												
External customers	516,626	318,105	36,643	6,905	**878,279**	–	**878,279**	395,727	41,802	**437,529**	–	**437,529**
Inter–segment	1,315	1,611	3,387	45,739	**52,052**	(52,052)	**–**	767	22,520	**23,287**	(23,287)	**–**
TOTAL revenue	**517,941**	**319,716**	**40,030**	**52,644**	**930,331**	**(52,052)**	**878,279**	**396,494**	**64,322**	**460,816**	**(23,287)**	**437,529**
Results												
EBITDA	**103,347**	**125,093**	**39,798**	**12,729**	**280,967**	**–**	**280,967**	**92,550**	**20,101**	**112,651**	**–**	**112,651**
Depreciation, amortisation and impairment of intangible assets, PPE and right-of-use assets	(56,485)	(75,276)	(24,756)	(11,400)	(167,917)	–	**(167,917)**	(53,196)	(14,347)	(67,543)	–	**(67,543)**
Segment profit before tax	**46,862**	**49,817**	**15,042**	**1,329**	**113,050**	**(8,293)**	**104,757**	**39,354**	**5,754**	**45,108**	**56,119**	**101,227**
Segment assets at the end of the year	**1,346,937**	**1,681,422**	**642,151**	**87,966**	**3,758,476**	**106,465**	**3,864,941**	**1,197,434**	**168,915**	**1,366,349**	**1,770,609**	**3,136,958**
Segment liabilities at the end of the year	**275,638**	**189,399**	**179,576**	**12,018**	**656,631**	**942,824**	**1,599,455**	**273,037**	**12,936**	**285,973**	**901,698**	**1,187,671**
Capital expenditure	32,823	95,139	87,406	14,763	**230,131**	(704)	**229,427**	31,484	16,785	**48,269**	–	**48,269**
2018												
Revenue												
External customers	510,434	321,232	39,203	7,139	**878,008**	–	**878,008**	386,510	48,689	**435,199**	–	**435,199**
Inter–segment	1,390	1,730	2,991	45,451	**51,562**	(51,562)	**–**	459	22,366	**22,825**	(22,825)	**–**
TOTAL revenue	**511,824**	**322,962**	**42,194**	**52,590**	**929,570**	**(51,562)**	**878,008**	**386,969**	**71,055**	**458,024**	**(22,825)**	**435,199**
Results												
EBITDA	**146,552**	**119,791**	**41,456**	**13,783**	**321,582**	**–**	**321,582**	**134,040**	**26,887**	**160,927**	**–**	**160,927**
Depreciation, amortisation and impairment of intangible assets, PPE and right-of-use assets	(110,490)	(77,432)	(25,856)	(12,042)	(225,820)	–	**(225,820)**	(107,397)	(19,727)	(127,124)	–	**(127,124)**
Segment profit before tax	**36,062**	**42,359**	**15,600**	**1,741**	**95,762**	**(7,249)**	**88,513**	**26,643**	**7,160**	**33,803**	**178,957**	**212,760**
Segment assets at the end of the year	**1,329,274**	**1,669,710**	**579,327**	**86,350**	**3,664,661**	**134,158**	**3,798,819**	**1,212,681**	**161,577**	**1,374,258**	**1,766,851**	**3,141,109**
Segment liabilities at the end of the year	**295,168**	**192,016**	**95,123**	**6,535**	**588,842**	**889,912**	**1,478,754**	**298,328**	**7,882**	**306,210**	**841,076**	**1,147,286**
Capital expenditure	28,909	95,117	87,136	12,411	**223,573**	(2,966)	**220,607**	26,921	14,429	**41,350**	–	**41,350**

* 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 trans-mission system assets*	Corporate Functions	TOTAL segments	TOTAL Group	Generation and trade	Corporate Functions	TOTAL segments	TOTAL Parent Company
2019										
Revenue from contracts with customers recognised over time:										
Trade of energy and related supply services	440,435	3,063	–	–	**443,498**	**443,498**	332,486	–	**332,486**	**332,486**
Distribution system services	1	299,332	–	–	**299,333**	**299,333**	–	–	**–**	**–**
Heat sales	68,148	75	–	12	**68,235**	**68,235**	56,842	12	**56,854**	**56,854**
Other revenue	8,042	15,532	–	5,731	**29,305**	**29,305**	6,399	31,826	**38,225**	**38,225**
TOTAL revenue from contracts with customers	**516,626**	**318,002**	**–**	**5,743**	**840,371**	**840,371**	**395,727**	**31,838**	**427,565**	**427,565**
Other revenue:										
Lease of transmission system assets	–	–	36,116	–	**36,116**	**36,116**	–	–	**–**	**–**
Lease of other assets	–	103	–	1,162	**1,265**	**1,265**	–	9,964	**9,964**	**9,964**
Other revenue	–	–	527	–	**527**	**527**	–	–	**–**	**–**
TOTAL other revenue	**–**	**103**	**36,643**	**1,162**	**37,908**	**37,908**	**–**	**9,964**	**9,964**	**9,964**
TOTAL revenue, including	**516,626**	**318,105**	**36,643**	**6,905**	**878,279**	**878,279**	**395,727**	**41,802**	**437,529**	**437,529**
– Latvia	339,153	318,091	36,643	6,565	**700,452**	**700,452**	322,141	40,509	**362,650**	**362,650**
– Outside Latvia	177,473	14	–	340	**177,827**	**177,827**	73,586	1,293	**74,879**	**74,879**
2018										
Revenue from contracts with customers recognised over time:										
Trade of energy and related supply services	422 673	3 045	–	–	**425 718**	**425 718**	312 994	–	**312 994**	**312 994**
Distribution system services	1	303 438	–	–	**303 439**	**303 439**	–	–	**–**	**–**
Heat sales	78 489	86	–	5	**78 580**	**78 580**	66 258	5	**66 263**	**66 263**
Other revenue	9 271	14 548	–	5 681	**29 500**	**29 500**	7 258	32 697	**39 955**	**39 955**
TOTAL revenue from contracts with customers	**510 434**	**321 117**	**–**	**5 686**	**837 237**	**837 237**	**386 510**	**32 702**	**419 212**	**419 212**
Other revenue:										
Lease of transmission system assets	–	–	38 699	–	**38 699**	**38 699**	–	–	**–**	**–**
Lease of other assets	–	115	–	1 453	**1 568**	**1 568**	–	15 987	**15 987**	**15 987**
Other revenue	–	–	504	–	**504**	**504**	–	–	**–**	**–**
TOTAL other revenue	**–**	**115**	**39 203**	**1 453**	**40,771**	**40,771**	**–**	**15 987**	**15 987**	**15 987**
TOTAL revenue	**510 434**	**321 232**	**39 203**	**7 139**	**878 008**	**878 008**	**386 510**	**48 689**	**435 199**	**435 199**
– Latvia	331 617	321 232	39 203	6 790	**698 842**	**698 842**	311 921	47 395	**359 316**	**359 316**
– Outside Latvia	178 817	–	–	349	**179 166**	**179 166**	74 589	1 294	**75 883**	**75 883**

* 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, financial instruments and deferred taxes are not allocated to individual segments as the underlying instruments are managed on a group basis. Taxes and certain financial assets and liabilities, including loans and borrowings are not allocated to those segments as they are also managed on a group basis.

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

Reconciliation of profit before tax

EUR'000

	Notes	Group		Parent Company	
		2019	2018	2019	2018
EBITDA		**280,967**	**321,582**	**112,651**	**160,927**
Amortisation, depreciation and intangible assets and PPE impairment loss		(167,917)	(225,820)	(67,543)	(127,124)
Segment profit before tax		**113,050**	**95,762**	**45,108**	**33,803**
Finance income	11	1,187	1,157	12,995	11,446
Finance costs	11	(9,480)	(8,406)	(11,734)	(10,135)
Dividends received from subsidiaries	16	–	–	54,858	177,646
Profit before tax		**104,757**	**88,513**	**101,227**	**212,760**

Reconciliation of assets

EUR'000

	Notes	Group		Parent Company	
		31/12/2019	31/12/2018	31/12/2019	31/12/2018
Segment operating assets		**3,758,476**	**3,664,661**	**1,366,349**	**1,374,258**
Connection usage rights		(39,739)	(39,744)	–	–
Non–current financial investments	16	39	40	831,350	830,542
Loans to related parties	29 e	–	–	794,256	765,815
Other financial investments	22	16,885	16,935	16,885	16,935
Derivative financial instruments	24	6,717	15,853	6,717	15,853
Prepayment for income and other taxes		141	11,619	140	10,152
Cash and cash equivalents	19	122,422	129,455	121,261	127,554
TOTAL assets		**3,864,941**	**3,798,819**	**3,136,958**	**3,141,109**

Reconciliation of liabilities

EUR'000

	Notes	Group		Parent Company	
		31/12/2019	31/12/2018	31/12/2019	31/12/2018
Segment operating liabilities		**656,631**	**588,842**	**285,973**	**306,210**
Deferred income tax liabilities	12	8,327	12,297	–	–
Current corporate income tax liabilities		2	2	–	–
Borrowings	23	882,671	814,343	872,899	802,268
Derivative financial instruments	24	13,132	10,204	13,132	10,204
Provisions and other payables		38,692	53,066	15,667	28,604
TOTAL liabilities		**1,599,455**	**1,478,754**	**1,187,671**	**1,147,286**

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 2019 for the Group amounted to EUR 58,161 thousand and for the Parent Company EUR 58,161 thousand (2018: EUR 66,454 thousand and 66,454 thousand) arising from sales by the generation and trade segment.

6. Revenue

Accounting policy

Revenue from contracts with customers (IFRS 15)

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

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

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

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

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

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

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

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

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

Latvenergo

Latvenergo

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

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

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

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

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

I) Revenue recognised over time

Trade of energy and related supply services

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

Sales of distribution system services (the Group)

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

Heat sales

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

Sales of IT & telecommunication services

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

EUR'000

	IFRS or IAS applied	Group		Parent Company	
		2019	2018	2019	2018
Revenue from contracts with customers recognised over time:					
Trade of energy and related supply services	15. SFPS	443,498	425,718	332,486	312,994
Distribution system services	15. SFPS	299,333	303,439	–	–
Heat sales	15. SFPS	68,235	78,580	56,854	66,263
Other revenue	15. SFPS	29,305	29,500	38,225	39,955
TOTAL revenue from contracts with customers		**840,371**	**837,237**	**427,565**	**419,212**
Other revenue:					
Lease of other assets	16. SFPS / 17. SGS	1,265	1,568	9,964	15,987
TOTAL other revenue		**1,265**	**1,568**	**9,964**	**15,987**
TOTAL revenue		**841,636**	**838,805**	**437,529**	**435,199**

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

EUR'000

	Group		Parent Company	
	2019	2018	2019	2018
Latvia	662,544	658,071	352,686	343,329
Outside Latvia	177,827	179,166	74,879	75,883
TOTAL revenue from contracts with customers	**840,371**	**837,237**	**427,565**	**419,212**

Accounting policy

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

Mandatory procurement PSO fees

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

PSO fees are included in invoices issued by trader (Parent Company – Latvenergo AS) and by distribution system operator (Sadales tīkls AS) and are paid by customers together with unite invoice for electricity and distribution or transmission system services. System operators have the obligation to collect revenues of PSO fees from customers or traders and further to transfer these revenues to EPT. PSO fees are based on regulated tariffs that are subject to approval by the Public Utilities Commission. Due to lack of influence and control over PSO fees, the Group and the Parent Company consider themselves an agent in these transactions. Therefore, PSO fees obtained 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 obtained 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	
	2019	2018	2019	2018
Mandatory procurement PSO fees	88,082	98,459	90,605	101,852
Distribution system services	11,181	10,576	198,092	208,304
Transmission system services	1,557	1,562	1,596	1,613
TOTAL revenue recognised applying agent accounting principle	**100,820**	**110,597**	**290,293**	**311,769**

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

Accounting policy

Revenue from contracts with customers

Connection fees to distribution system (the Group)

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

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

Revenue from other sources

Lease of transmission system assets (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 (IFRS 16) (Group, discontinued operation (Note 30)). Revenue from connection fees to transmission system are received as upfront payments from lessee under lease agreement and are carried in the Statement of Financial Position as deferred income and amortised to Statement of Profit or Loss on a straight–line over basis estimated lease period (Note 4 g).

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

Until 31 December 2018, the Group applied IAS 17 'Leases' for the recognition of abovementioned revenues. Revenue recognition principles have not changed upon implementation of IFRS 16.

The Group has recognised the following deferred income from contracts with customers:

EUR'000

	Koncerns	
	31/12/2019	31/12/2018
Non–current deferred income from connection fees (Note 28 I, a)	142,453	143,494
Current deferred income from connection fees (Note 28 II, a)	13,629	12,984
Non-current other deferred income (Note 28 I, a)	877	–
Current other deferred income (Note 28 II, a)	135	287
TOTAL liabilities	**157,094**	**156,765**

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

EUR'000

	Koncerns	
	2019	2018
At the beginning of the year	**156,765**	**154,632**
Received connection fees for connection to distribution system (Note 28)	12,902	14,725
Received advance payments for contracts with customers (Note 28)	940	–
Credited to the Statement of Profit or Loss	(13,513)	(12 592)
At the end of the year	**157 094**	**156 765**

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7. Other income

EUR'000

	Group		Parent Company	
	2019	2018	2019	2018
Compensation from the state on state support for the installed capacity of CHPPs (Note 4 h)	23,990	81,004	23,990	81,004
Fines and penalties	(175)	7,357	(1,135)	5,812
Net gain on disposal of assets held for sale and property, plant and equipment	398	–	378	–
Net gain from sale of assets held for sale and PPE	(20)	1,051	–	3,763
Net gain from sale of current assets	–	12	–	2
Compensations and insurance claims	745	551	232	279
Other operating income	925	1,123	93	321
TOTAL other income	**25,863**	**91,098**	**23,558**	**91,181**

8. Raw materials and consumables used

EUR'000

	Group		Parent Company	
	2019	2018	2019	2018
Electricity				
Purchased electricity	168,699	196,660	56,701	78,747
Loss on fair value changes on electricity forwards and futures (Note 24 l)	2,326	417	2,326	417
Electricity transmission services costs (Note 29 a)	71,552	71,368	1,015	1,015
	242,577	**268,445**	**60,042**	**80,179**
Natural gas and other energy resources costs	205,905	197,485	199,027	190,139
Gains on fair value changes on natural gas forwards (Note 24 l)	(2,033)	–	(2,033)	–
Raw materials, spare parts and maintenance costs	31,211	31,218	14,033	14,274
TOTAL raw materials and consumables used	**477,660**	**497,148**	**271,069**	**284,592**

9. Personnel expenses

EUR'000

	Group		Parent Company	
	2019	2018	2019	2018
Wages and salaries	77,075	73,220	34,081	31,164
State social insurance contributions	18,370	17,613	8,152	7,448
Expenditure of employment termination	(265)	6,070	162	1,199
Pension costs – defined contribution plan	2,066	2,249	919	893
Other benefits defined in the Collective Agreement	1,108	1,191	420	426
Life insurance costs	3,161	3,180	1,326	1,289
Capitalised personnel expenses	(166)	(164)	(21)	(23)
TOTAL personnel expenses, including remuneration to the management	**101,349**	**103,359**	**45,039**	**42,396**
Including remuneration to the management:				
Wages and salaries	2,183	1,992	763	769
State social insurance contributions	513	499	183	186
Expenditure of employment termination	–	75	–	75
Pension costs – defined contribution plan	11	24	6	4
Life insurance costs	21	31	4	7
TOTAL remuneration to the management*	**2,728**	**2,621**	**956**	**1,041**

* 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. 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		Parent Company	
	2019	2018	2019	2018
Number of employees at the end of the year	3,423	3,508	1,328	1,355
Average number of employees during the year	3,476	3,617	1,342	1,387

10. Other operating expenses

EUR'000

	Group		Parent Company	
	2019	2018	2019	2018
Selling expenses and customer services	5,360	6,154	3,937	4,788
Information technology maintenance	5,336	5,115	4,963	4,771
Transportation expenses	5,592	6,411	1,833	2,164
Environment protection and work safety	7,658	7,836	6,799	8,125
Real estate maintenance and utilities expenses	5,129	5,582	5,401	6,372
Lease of real estate and fixed assets	165	1,618	450	1,149
Telecommunications services	1,964	2,047	2,150	2,275
Real estate tax	961	1,095	1,061	1,083
Public utilities regulation fee	1,860	1,906	893	932
Audit fee*	93	93	45	45
Changes in impairment losses on financial assets, net	(1,495)	(503)	(1,245)	(236)
Net losses from sale of assets held for sale and PPE	4,515	–	319	–
Other expenses	7,826	10,105	5,722	6,997
TOTAL other operating expenses	**44,964**	**47,449**	**32,328**	**38,465**

* audit fee consists from audit of the Group's entities financial statements in the amount of EUR 93 thousand; Parent Company - EUR 41 thousand (2018: EUR 93 thousand; Parent Company - EUR 41 thousand)), audit of The Group's Sustainability report and financial covenants - EUR 4 thousand (2018: EUR 4 thousand), while Latvijas elektriskie tīkli AS audit fee in the amount of EUR 7 thousand (2018: EUR 7 thousand) included per expenses of discontinued operation (Note 30). In addition to audit services, in 2019 auditors also provided other services, the costs of which are included in the position 'Other expenses'; for the Group in the amount of EUR 8 thousand, Parent Company – EUR 7 thousand.

11. Finance income and costs

EUR'000

	Group		Parent Company	
	2019	2018	2019	2018
Finance income:				
Interest income	1,088	1,113	1,086	1,113
Interest income on loans to subsidiaries	–	–	11,811	10,289
Net gain on issued debt securities (bonds)	44	44	44	44
Net gain on currency exchange rate fluctuations	55	–	54	–
TOTAL finance income	**1,187**	**1,157**	**12,995**	**11,446**
Finance costs:				
Interest expense on borrowings	6,776	6,276	9,077	8,029
Interest expense on issued debt securities (bonds)	2,880	2,880	2,880	2,880
Interest expense on assets lease	96	–	57	–
Capitalised borrowing costs	(423)	(889)	(423)	(889)
Net losses on redemption of other financial investments	49	49	49	49
Net losses on currency exchange rate fluctuations	–	2	–	2
Other finance costs	102	88	94	64
TOTAL finance costs	**9,480**	**8,406**	**11,734**	**10,135**

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. Corporate income tax is paid on distributed profits and deemed profit distributions. Consequently, current and deferred tax assets and liabilities are measured at the tax rate applicable to undistributed profits. Both distributed profits and deemed profit distributions are subject to the tax rate of 20% of their gross amount, or 20/80 of net expense. Corporate income tax on dividends is recognised in the statement of profit or loss as expense in the reporting period when respective dividends are declared, while, as regards other deemed profit distribution items, at the time when expense is incurred in the reporting year.

Lithuania

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

Estonia

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

Deferred income tax

Latvia and Estonia

Deferred tax liabilities are recognised in the consolidated financial statements on undistributed profits of the subsidiaries (in Latvia for the profits which has been generated as of 1 January 2018) and 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	
	2019	2018	2019	2018
Current income tax for the year	8,565	261	–	27
Deferred income tax changes	(620)	8,948	–	–
TOTAL income tax	**7,945**	**9,209**	**–**	**27**

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).

EUR'000

	Group					Parent Company				
	Usage rights and licences	Greenhouse gas emission allowances	Software	Assets under development	TOTAL	Usage rights and licences	Greenhouse gas emission allowances	Software	Assets under development	TOTAL
As of 31 December 2017										
Cost	225	–	49,635	96	**49,956**	6,305	–	46,969	41	**53,315**
Accumulated amortisation	–	–	(36,543)	–	**(36,543)**	–	–	(35,854)	–	**(35,854)**
Net book amount	**225**	**–**	**13,092**	**96**	**13,413**	**6,305**	**–**	**11,115**	**41**	**17,461**
2018										
Additions	–	17,789	2,641	88	**20,518**	–	17,789	2,439	124	**20,352**
Transfers	(80)	–	–	–	**(80)**	(525)	–	(26)	–	**(551)**
Disposals	–	(11,066)	–	–	**(11,066)**	–	(11,066)	–	–	**(11,066)**
Amortisation charge	–	–	(3,706)	–	**(3,706)**	–	–	(3,383)	–	**(3,383)**
Closing net book amount	**145**	**6,723**	**12,027**	**184**	**19,079**	**5,780**	**6,723**	**10,145**	**165**	**22,813**
As of 31 December 2018										
Cost	145	6,723	48,135	184	**55,187**	5,780	6,723	45,242	165	**57,910**
Accumulated amortisation	–	–	(36,108)	–	**(36,108)**	–	–	(35,097)	–	**(35,097)**
Net book amount	**145**	**6,723**	**12,027**	**184**	**19,079**	**5,780**	**6,723**	**10,145**	**165**	**22,813**
2019										
Additions	–	25,607	–	2,348	**27,955**	–	25,607	–	2,233	**27,840**
Transfers			2,384	(2,384)	**–**	1	–	2,249	(2,250)	**–**
Disposals	(13)	(21,306)	–	–	**(21,316)**	(458)	(21,306)	–	–	**(21,764))**
Amortisation charge	–	–	(3,128)	–	**(3,128)**	–	–	(2,778)	–	**(2,778)**
Closing net book amount	132	**11,024**	**11,283**	**148**	**22,587**	**5,323**	**11,024**	**9,616**	**148**	**26,111**
As of 31 December 2019										
Cost	132	11,024	50,494	148	**61,798**	5,323	11,024	47,467	148	**63,962**
Accumulated amortisation	–	–	(39,211)	–	**(39,211)**	–	–	(37,851)	–	**(37,851)**
Net book amount	**132**	**11,024**	**11,283**	**148**	**22,587**	**5,323**	**11,024**	**9,616**	**148**	**26,111**

b) Greenhouse gas emission allowances:

Accounting policy

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

	Group		Parent Company	
	2019	2018	2019	2018
	Number of allowances	Number of allowances	Number of allowances	Number of allowances
At the beginning of the year	1,805,556	1,062,060	1,661,313	841,651
Allowances allocated free of charge*	218,345	265,465	205,721	250,091
Purchased allowances	1,040,552	1,425,000	1,035,000	1,425,000
Written off verified allowances	(1,229,089)	(874,969)	(1,213,122)	(855,429)
Sold allowances	(51,000)	(72,000)	–	–
At the end of the year	**1,784,364**	**1,805,556**	**1,688,912**	**1,661,313**
including estimated allowances used during the reporting year (unverified)	(1,219,149)	(1,213,122)	(1,219,149)	(1,213,122)
Allowances available at the end of the year	**565,215**	**592,434**	**469,763**	**448,191**

* 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 2019 was nil (31/12/2018: nil). Received European Union Allowances (EUA) must be used until the end of 2020.

14. Property, plant and equipment

a) Property, plant and equipment

Accounting policy

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

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

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

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

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

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

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

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

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

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

EUR'000

	Group								Parent Company					
	Land, buildings and facilities	**Assets of Hydro Power Plant**	**Distribution system electrical lines and electrical equipment**	**Transmis-sion system electrical 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 2017														
Cost or valuation	479,605	2,014,626	2,857,242	926,403	640,568	161,992	228,748	**7,309,184**	345,246	2,014,626	615,648	135,708	138,718	**3,249,946**
Accumulated depreciation and impairment	(149,415)	(1,292,017)	(1,378,732)	(540,464)	(521,801)	(112,593)	(5,177)	**(4,000,199)**	(105,407)	(1,292,017)	(512,259)	(103,754)	(5,055)	**(2,018,492)**
Net book amount	**330,190**	**722,609**	**1,478,510**	**385,939**	**118,767**	**49,399**	**223,571**	**3,308,985**	**239,839**	**722,609**	**103,389**	**31,954**	**133,663**	**1,231,454**
Year ended 31 December 2018														
Additions	–	–	–	–	–	–	217,389	**217,389**	–	–	–	–	38,300	**38,300**
Invested in share capital (Note 20)	469	–	20	–	–	–	–	**489**	469	–	20	–	–	**489**
Transfers	8,615	90,796	89,681	33,687	1,143	14,368	(238,290)	**–**	8,075	90,796	1,133	6,570	(106,574)	**–**
Reclassified to investment property	(44)	–	–	–	–	–	–	**(44)**	(2,374)	–	–	–	–	**(2,374)**
Disposals	(931)	(36)	(4,904)	(841)	(709)	(90)	(101)	**(7,612)**	(2,158)	(36)	(1,279)	(10,442)	(95)	**(14,010)**
Impairment charge	146	–	–	–	(33,400)	–	(187)	**(33,441)**	146	–	(33,400)	–	–	**(33,254)**
Depreciation	(15,959)	(24,859)	(65,638)	(24,615)	(42,807)	(14,795)	–	**(188,673)**	(10,231)	(24,859)	(41,336)	(10,293)	–	**(86,719)**
Closing net book amount as of 31 December 2018	**322,486**	**788,510**	**1,497,669**	**394,170**	**42,994**	**48,882**	**202,382**	**3,297,093**	**233,766**	**788,510**	**28,527**	**17,789**	**65,294**	**1,133,886**
As of 31 December 2018														
Cost or valuation	485,098	2,055,572	2,889,265	933,079	637,706	147,744	207,746	**7,356,210**	349,581	2,055,572	612,253	103,877	70,349	**3,191,632**
Accumulated depreciation and impairment	(162,612)	(1,267,062)	(1,391,596)	(538,909)	(594,712)	(98,862)	(5,364)	**(4,059,117)**	(115,815)	(1,267,062)	(583,726)	(86,088)	(5,055)	**(2,057,746)**
Net book amount	**322,486**	**788,510**	**1,497,669**	**394,170**	**42,994**	**48,882**	**202,382**	**3,297,093**	**233,766**	**788,510**	**28,527**	**17,789**	**65,294**	**1,133,886**
2019														
Additions	–	–	–	–	–	–	226,986	**226,986**	–	–	–	–	45,941	**45,941**
Invested in share capital (Note 20)	87	–	–	–	5	–	–	**92**	87	–	–	–	–	**92**
Transfers	10,111	20,332	84,723	141,808	5,465	17,315	(279,754)	**–**	3,048	20,332	5,373	8,638	(37,391)	**–**
Reclassified to investment property	(135)	–	–	–	–	–	–	**(135)**	304	–	–	–	(2,243)	**(1,939)**
Reclassified to non-current assets for sale	–	–	–	–	–	(146)	–	**(146)**	–	–	–	–	–	**–**
Disposals	(441)	(1)	(5,154)	(224)	(323)	(42)	(56)	**(6,241)**	(6,057)	(1)	(307)	(154)	(457)	**(6,976)**
Reversed impairment charge	288	–	–	–	19,475	–	7	**19,770**	288	–	19,475	–	–	**19,763**
Depreciation	(15,154)	(25,864)	(65,465)	(23,439)	(40,630)	(12,747)	–	**(183,299)**	(10,118)	(25,864)	(39,067)	(6,717)	–	**(81,766)**
Assets attributable to the discontinuing operation (Note 30)	(33,538)	–	–	(512,315)	–	(202)	(55,120)	**(601,175)**	–	–	–	–	–	**–**
Closing net book amount as of 31 December 2019	**283,704**	**782,977**	**1,511,773**	**–**	**26,986**	**53,060**	**94,445**	**2,752,945**	**221,318**	**782,977**	**14,006**	**19,556**	**71,144**	**1,109,001**
As of 31 December 2019														
Cost or valuation	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	(172,553)	(1,267,432)	(1,410,073)	–	(610,883)	(103,992)	(5,357)	**(3,570,290)**	(120,443)	(1,267,432)	(598,335)	(85,779)	(5,055)	**(2,077,044)**
Net book amount	**283,704**	**782,977**	**1,511,773**	**–**	**26,986**	**53,060**	**94,445**	**2,752,945**	**221,318**	**782,977**	**14,006**	**19,556**	**71,144**	**1,109,001**

Impairment charge or reversed charge is included in the Statement of Profit or Loss under 'Depreciation, amortisation and impairment of intangible assets and property, plant and equipment'.

As of 31 December 2019, cost of fully depreciated PPE which are still in use for the Group amounted to EUR 545,956 thousand (31/12/2018: EUR 312,028 thousand) and for the Parent Company amounted to EUR 313,243 thousand (31/12/2018: EUR 241,396 thousand).

In 2019 the Group and the Parent Company have capitalised borrowing costs in the amount of EUR 423 thousand (2018: EUR 889 thousand) (see Note 11). Rate of capitalised borrowing costs was of 1.03% (2018: 0.93%).

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	
	2019	2018	2019	2018	2019	2018	2019	2018
Cost at the beginning of the year	1,638	2,297	94,626	96,174	1,604	2,244	96,230	98,418
Accumulated depreciation and impairment at the beginning of the year	(1,171)	(1,544)	(33,263)	(32,067)	(1,171)	(1,544)	(34,434)	(33,611)
Net book amount at the beginning of the year	**467**	**753**	**61,363**	**64,107**	**433**	**700**	**61,796**	**64,807**
Reclassified to investment property held for capital appreciation	135	44	–	(13)	135	44	135	31
Reclassified from property, plant and equipment to investment property	–	–	1,804	3,734	–	–	1,804	3,734
Reclassified to property, plant and equipment	–	–	–	(1,360)	–	–	–	(1,360)
Disposal	–	–	(21,412)	(1,259)	–	–	(21,412)	(1,259)
Sold	(929)	(341)	(223)	(78)	(929)	(322)	(1,152)	(400)
Impairment charge	636	17	–	–	636	17	636	17
Depreciation	(8)	(6)	(2,364)	(3,768)	(8)	(6)	(2,372)	(3,774)
Cost at the end of the year	910	1,638	64,377	94,626	876	1,604	65,253	96,230
Accumulated depreciation and impairment at the end of the year	(609)	(1,171)	(25,209)	(33,263)	(609)	(1,171)	(25,818)	(34,434)
Net book amount at the end of the year	**301**	**467**	**39,168**	**61,363**	**267**	**433**	**39,435**	**61,796**

* 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 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, 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 electrical lines and electrical equipment:
   - electricity transmission lines,
   - electrical equipment of transformer substations;

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

Increase in the carrying amount arising on revaluation is recognised to 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 electrical lines and electrical equipment	Transmission system electrical lines and electrical equipment	TOTAL revalued PPE
At revalued amounts				
As of 31 December 2019				
Revalued	2,050,409	2,921,846	1,059,864	6,032,119
Accumulated depreciation	(1,267,432)	(1,410,073)	(547,549)	(3,225,054)
Revalued net book amount	**782,977**	**1,511,773**	**512,315**	**2,807,065**
As of 31 December 2018				
Revalued	2,055,572	2,889,265	933,079	5,877,916
Accumulated depreciation	(1,267,062)	(1,391,596)	(538,909)	(3,197,567)
Revalued net book amount	**788,510**	**1,497,669**	**394,170**	**2,680,349**
At amounts stated on historical cost basis				
As of 31 December 2019				
Cost	413,734	1,377,374	586,842	2,377,950
Accumulated depreciation	(176,619)	(458,211)	(180,153)	(814,983)
Net book amount	**237,115**	**919,163**	**406,689**	**1,562,967**
As of 31 December 2018				
Cost	396,519	1,377,374	446,760	2,220,653
Accumulated depreciation	(171,043)	(458,211)	(168,374)	(797,628)
Net book amount	**225,476**	**919,163**	**278,386**	**1,423,025**

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

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

The nominal pre-tax discount rate used in valuation is 7.5%. If the pre-tax rate would be increased by 0.1% then the value of the revalued assets of hydropower plants would decrease by EUR 50,270 thousand. If the pre-tax rate would be decreased by 0.1%, the value of the revalued assets of hydropower plants would increase by EUR 53,241 thousand. If electricity price would increase by 1%, the value of assets would increase by EUR 26,840, if the prices would be by 1% less, the value of assets would decrease by EUR 26,840.

Distribution system electrical lines and electrical equipment was revalued in 2016. The revaluation was performed by an external valuer valuating the replacement or renewing costs for each item of property, plant and equipment External valuer at the moment of the revaluation of electrical lines evaluated the replacement or renewing costs by considering actual costs of construction or purchase of analogue or similar property, plant and equipment shortly before the revaluation as based on the Sadales tīkls AS accounting. At the moment of the revaluation of electrical equipment, external valuer evaluated how have changed the components of the replacement or renewal costs of the same property, plant and equipment items since the previous revaluation, adjusting the values of individual sub-categories of property, plant and equipment with changes of material costs and indexing the wage component on the basis of publicly available national statistics on wage increases over the relevant period. Estimated replacement or renewal value for each item of property, plant and equipment was reduced by its functional and physical depreciation as assessed by external valuer.

Transmission system electrical lines and electrical equipment was revalued in 2016. The revaluation was performed by an external valuer valuating the replacement or renewing costs for each item of property, plant and equipment considering actual costs of construction or purchase of analogue or similar property, plant and equipment shortly before the revaluation as based on Latvijas elektriskie tīkli AS accounting. External valuer at the moment of the revaluation evaluated how have changed the components of the replacement or renewal costs of the same property, plant and equipment items since the previous revaluation, adjusting the values of individual sub-categories of property, plant and equipment with changes of material costs and indexing the wage component on the basis of publicly available national statistics on wage increases over the relevant period. Estimated replacement or renewal value for each item of property, plant and equipment was reduced by its functional and physical depreciation as assessed by external valuer.

Management has evaluated changes in the input data used in valuation since revaluation and has estimated that their changes do not have a significant impact on the value of revalued property, plant and equipment groups.

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 to sell 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.

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, Latvenergo AS applied for a one-off compensation from the state, at the same time opting out of the receipt of 75% of the annual electrical capacity payments for cogeneration power plants CHPP–1 and CHPP–2 (Note 4 h). On 21 November 2017, the Cabinet of Ministers of the Republic of Latvia accepted an order which supports the reduction of the guaranteed support payments during the remaining support period for the installed capacity of Latvenergo CHPPs. Latvenergo AS obtained a government grant in the amount of EUR 454,413 thousand that was divided into two parts - an unconditional grant in amount of EUR 140,000 thousand was recognised in the Group's and Parent Company's statement of profit or loss in 2017, while a conditional grant in amount of EUR 314,413 thousand was recognised as deferred income in even distribution over the coming reporting periods and fulfilling obligations until the end of the support period.

On 26 September 2018, the Cabinet of Ministers decided to change conditions for a part of the grant in the amount of EUR 51,700 thousand stipulating it as unconditional, by reducing the remaining part of the grant proportionally to this amount until the end of the support period. In 2019, EUR 23,990 thousand were recognised as 'Other income' in the Group's and Parent Company's statement of profit or loss. Consequently, EUR 209,419 thousand remained recognised as deferred income as of 31 December 2019.

As of 31 December 2019, the future discounted cash flows generated by the operation of Latvenergo AS CHPPs are evaluated in the amount of EUR 6,208 thousand (see below). Consequently, the value of Latvenergo CHPPs assets is estimated as the sum of to the deferred income and the future cash flows as of 31 December 2019 – EUR 215,628 thousand.

As a result of the above transactions, reversal of an impairment in the amount of EUR 19,475 thousand was recognised for Latvenergo AS CHPPs in 2019 (2018: additional impairment EUR 33,400 thousand). The recognised reversal of an impairment is included in the Statement of Profit or Loss position 'Depreciation, amortisation and impairment of intangible assets and property, plant and equipment'.

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 2020 – 2028 and the terminal value appraisal, evaluated as a fraction of the balance sheet's assets value, is included. Revenue stream forecast mainly corresponds to the remaining intensity of electrical capacity payments and the support period till September 23, 2028, as it is set out in regulations by Cabinet of Ministers of the Republic of Latvia No. 221, dated 10 March 2009. The forecast of expenses is based on historical data, the budget approved by the management for 2020, the service maintenance agreements and assumed inflation. Nominal pre–tax discount rate used to determine value in use of cash–generating unit by discounting cash flows is 7.5% (2018: 7.5%). As a result of calculation, the future discounted cash flows generated by Latvenergo AS CHPPs are evaluated in the amount of EUR 6,208 thousand. A 1% rise in the discount rate would have an impact of EUR 1.4 million (2018: nil) on the recoverable amount of the assets. If the annual electrical capacity payments for cogeneration power plants CHPP–1 and CHPP–2 would be discontinued, then impairment of approximately EUR 80 million would be recognised. Impairment is estimated by assuming that capacity payment revenue decrease would be partly offset by a higher revenue from electricity production.

The accumulated impairment as of 31 December 2019 amounted to EUR 234,634 thousand (31/12/2018: EUR 254,109 thousand).

15. Leases

a) Right-of-use assets and lease liabilities

Accounting policy applied from 1 January 2019

From 1 January 2019, the Group and the Parent Company applies IFRS 16 'Leases'. Comparative figures have not been changed. All related information disclosed in Note 2 (see 'Changes in accounting policies').

Accounting policy

At the time of conclusion of the contract, the Group and the Parent Company assesses 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 assesses 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 has the right to obtain all economic benefits from the use of the identifiable asset over its useful life;
– the Group and the Parent Company has the right to determine the use of the identifiable asset. The Group and the Parent Company has 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 has 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 attributes 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 accounts 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 changes its estimate 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.

Accounting policy applied until 31 December 2018

The Group and the Parent Company has applied IFRS 16 retrospectively but has chosen not to restate comparative positions. As a result, comparative positions are accounted in accordance with the Group's and the Parent Company's previous accounting policy. All related information disclosed in Note 2.

Accounting policy

Operating lease

The Group and the Parent Company is the lessee

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Operating lease agreement can't be classified as finance lease as it does not provide that lessee overtakes all risks and benefits associated with the overtaking of lease object in its possession. Payments made under operating leases (net of any incentives received from the lessor) are charged to the Statement of Profit or Loss on a straight–line basis over the period of the lease.

The Group and the Parent Company is the lessor

Assets leased out under operating leases are recorded within property, plant and equipment at historic cost or revaluated amounts less depreciation and accumulated impairment loss, if any. Rental income from operating lease less any incentives given to lessee are recognised in the Statement of Profit or Loss on a straight–line basis over the period of the lease.

The Group and the Parent Company has concluded several agreements for lease of land and real estate, as well has concluded an agreement until 2028 on a lease of the fiber of the combined optical cable (OPGW - optical ground wire with dual function) (Note 2).

The Group and the Parent Company has recognised right-of-use assets for land, buildings and facilities.

Right–of–use assets

EUR'000

	Group	Parent Company
Net book amount		
As of 31 December 2018	–	–
Initial recognition value	8,075	3,870
As of 1 January, 2019	**8,075**	**3,870**
Recognised changes in lease agreements	(230)	3
Excluded right–of–use assets of discontinued operation (Note 30)	(1,099)	–
Amortisation	(1,224)	(397)
As of 31 December 2019	**5,522**	**3,476**

Lease liabilities

EUR'000

	Group	Parent Company
As of 31 December 2018	**–**	–
Initial recognition value	**8,075**	**3,870**
As of 1 January 2019	**8,075**	**3,870**
Of which are:		
Non–current	6,839	3,500
Current	1,236	370
Recognised changes in lease agreements	(222)	3
Excluded lease liabilities of discontinued operation (Note 30)	(1,107)	–
Decrease of lease liabilities	(1,277)	(428)
Recognised interest liabilities	96	57
As of 31 December 2019	**5,565**	**3,502**
Of which are		
Non–current	4,349	3,126
Current	1,216	376

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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

The following amounts are recognised in profit or loss:

EUR'000

	Group		Parent Company	
	2019 (IFRS 16)	2018 (IAS 17)	2019 (IFRS 16)	2018 (IAS 17)
Depreciation for the right-of-use assets (land buildings and facilities)	1,224	–	397	–
Interest expense on lease liabilities (included in financial costs)	96	–	57	–
Short–term lease expenses	165	–	450	–
Operating lease expense (IAS 17)	–	1,618	–	1,149
TOTAL expenses from leases	**1,485**	**1,618**	**904**	**1,149**

In the Statement of Cash Flows of the Group and the Parent Company for the year 2019, lease payments in amount of EUR 400 thousand have been made by non–cash offsetting and included in cash flows from operating activities in working capital adjustments. Other lease payments of the Group in amount of EUR 875 thousand (the Parent Company: EUR 18 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).

c) Income from leases

EUR'000

	Group		Parent Company	
	2019	2018	2019	2018
Income from leases (the Group and the Parent Company is the lessor) (Note 6)	**1,265**	**1,568**	**9,964**	**15,987**

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	
	2019	2018	2019	2018
– < 1 year	1,251	997	9,964	7,673
– 1–5 years	3,693	3,718	15,110	48,424
– > 5 years	2,002	2,691	2,002	2,793
TOTAL rental income	**6,946**	**7,406**	**27,076**	**58,890**

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	31/12/2019 Interest held, %	31/12/2019 EUR'000	31/12/2018 Interest held, %	31/12/2018 EUR'000
Investments in subsidiaries:						
Latvijas elektriskie tīkli AS	Latvia	Lease of transmission system assets	100 %	186,432	100 %	185,624
Sadales tīkls AS	Latvia	Electricity distribution	100 %	641,150	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				**831,311**		**830,542**
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	31/12/2019 Interest held, %	31/12/2019 EUR'000	31/12/2018 Interest held, %	31/12/2018 EUR'000
Other non–current financial investments (Group):						
Pirmais Slēgtais Pensiju Fonds AS	Latvia	Management of pension plans	48.15 %	36	48.15 %	37
Rīgas siltums AS	Latvia	Thermal energy generation and trade, electricity generation	0.0051 %	3	0.0051 %	3
TOTAL				**39**		**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 all risks and benefits arising from associate's activities will accrue to the employees who are members of the pension fund.

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

Movement in non–current investments:

EUR'000

	Group		Parent Company	
	2019	2018	2019	2018
At the beginning of the year	**40**	**40**	**830,542**	**817,048**
Invested in share capital	–	–	808	13,494
Discontinued operation	(1)	–	–	–
At the end of the year	**39**	**40**	**831,350**	**83,542**

In 2019, the Parent Company invested in the share capital of Latvijas elektriskie tīkli AS, by investing the Parent Company's real estate related to transmission system, its lease, supervisory and governance activities and its related liabilities (borrowings):

EUR'000

	Parent Company	Latvijas elektriskie tīkli AS
Invested assets at cost	26,846	–
Invested assets at valuated (fair) value	–	35,493
Related liabilities (borrowings)	(26,038)	(26,038)
Investment in subsidiary	**808**	**–**
Invested in share capital	**–**	**9,455**

In 2018, the Parent Company invested property, plant and equipment in the share capital of Sadales tīkls AS. In the Statement of Financial Position of the Parent Company investment is recognised at cost of disposed PPE in the amount of EUR 13,494 thousand, while share capital of Sadales tīkls AS increased by fair value of invested property, plant and equipment in the amount of EUR 19,143 thousand.

Summarised financial information for subsidiaries:

EUR'000

	Equity		Net profit for the year		Dividends from subsidiaries*		Carrying amount of interest from investment	
Subsidiaries	**31/12/2019**	**31/12/2018**	**2019**	**2018**	**2019**	**2018**	**31/12/2019**	**31/12/2018**
Latvijas elektriskie tīkli AS	233,757	232,759	9,486	13,394	17,945	50,463	186,432	185,624
Sadales tīkls AS	917,097	922,421	29,317	33,743	33,743	124,268	641,150	641,150
Enerģijas publiskais tirgotājs AS	40	40	–	–	–	–	40	40
Elektrum Eesti OÜ	960	922	288	250	250	232	35	35
Elektrum Lietuva, UAB	881	925	504	548	548	481	98	98
Liepājas enerģija SIA	17,075	17,262	4,464	5,167	2,372	2,202	3,556	3,556
	1,169,810	**1,174,329**	**44,059**	**53,102**	**54,858**	**177,646**	**831,311**	**830,503**

* in 2019 dividends from subsidiaries received in cash in the amount of EUR 21,115 thousand and with non-cash offset in the amount of EUR 33,743 thousand (2018: EUR 53,378 thousand received in cash and with non-cash offset in the amount of EUR 124,268 thousand)

Summarised financial information for non-controlling interests:

EUR'000

	Non–current assets		Current assets		Non–current liabilities		Current liabilities	
Non-controlling interest of subsidiaries	**31/12/2019**	**31/12/2018**	**31/12/2019**	**31/12/2018**	**31/12/2019**	**31/12/2018**	**31/12/2019**	**31/12/2018**
Liepājas enerģija SIA (49 %)	16,706	17,645	1,302	2,027	6,320	8,602	3,320	2,611

17. Inventories

Accounting policy

Accounting policy

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

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

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

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

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

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

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

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

EUR'000

	Group		Parent Company	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Raw materials and materials	15,114	13,257	762	873
Natural gas	80,907	49,757	80,907	49,757
Goods for sale	1,874	1,608	421	413
Other inventories	8,156	8,292	8,065	8,070
Prepayments for inventories	163	198	41	33
Allowance for raw materials and other inventories	(1,287)	(1,137)	(674)	(736)
TOTAL inventories	**104,927**	**71,975**	**89,522**	**58,410**

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	
	2019	2018	2019	2018
At the beginning of the year	**1,137**	**1,494**	**736**	**992**
Inventories written off	–	(287)	–	(260)
Charged to the Statement of Profit or Loss	150	(70)	(62)	4
At the end of the year	**1,287**	**1,137**	**674**	**736**

18. Receivables from contracts with customers and other receivables

Accounting policy

Receivables from contracts with customers and other receivables are classified in groups:

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

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

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

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

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

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

EUR'000

	Group		Parent Company	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Individually assessed receivables with lifetime ECL assessment (counterparty model)	5,105	7,051	9,068	7,915
Receivables with lifetime ECL assessment by simplified approach (portfolio model)	106,425	110,904	73,905	73,110
TOTAL receivables from contracts with customers	**111,530**	**117,955**	**82,973**	**81,025**

a) Receivables from contracts with customers, net

EUR'000

	Group		Parent Company	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Receivables from contracts with customers:				
– Electricity, natural gas trade and related services customers (portfolio model)	138,926	138,308	107,721	102,154
– Heating customers (portfolio model)	9,210	14,715	7,127	11,955
– Other receivables from contracts with customers (portfolio model)	5,019	5,675	2,571	3,331
– Other receivables from contracts with customers (counterparty model)	5,112	7,060	2,452	3,203
– Subsidiaries (counterparty model)	–	–	6,623	4,719
	158,267	**165,758**	**126,494**	**125,362**
Provisions for impaired receivables from contracts with customers:				
– Electricity, natural gas trade and related services customers (portfolio model)	(44,108)	(44,953)	(43,187)	(43,968)
– Heating customers (portfolio model)	(325)	(342)	(315)	(334)
– Other receivables from contracts with customers (portfolio model)	(2,297)	(2,499)	(12)	(28)
– Other receivables from contracts with customers (counterparty model)	(7)	(9)	(3)	(4)
– Subsidiaries (counterparty model)	–	–	(4)	(3)
	(46,737)	**(47,803)**	**(43,521)**	**(44,337)**
Receivables from contracts with customers, net:				
– Electricity, natural gas trade and related services customers (portfolio model)	94,818	93,355	64,534	58,186
– Heating customers (portfolio model)	8,885	14,373	6,812	11,621
– Other receivables from contracts with customers (portfolio model)	2,722	3,176	2,559	3,303
– Other receivables from contracts with customers (counterparty model)	5,105	7,051	2,449	3,199
– Subsidiaries (counterparty model)	–	–	6,619	4,716
	111,530	**117,955**	**82,973**	**81,025**

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

EUR'000

		Group						Parent Company					
		31/12/2019			31/12/2018			31/12/2019			31/12/2018		
Late payment delay in days by IFRS 9	**ECL rate**	**Receivables**	**Impairment loss**	**Net**	**Receivables**	**Impairment loss**	**TOTAL**	**Receivables**	**Impairment loss**	**Net**	**Receivables**	**Impairment loss**	**TOTAL**
On time	0.20 %	100,773	(221)	**100,552**	106,194	(230)	**105,964**	69,391	(154)	**69,237**	69,557	(160)	**69,397**
Less 30 days	3 %	4,139	(124)	**4,015**	2,953	(88)	**2,865**	3,193	(96)	**3,097**	1,947	(59)	**1,888**
Past due 30 - 59 days	20 %	1,194	(239)	**955**	1,334	(265)	**1,069**	1,083	(217)	**866**	1,213	(241)	**972**
Past due 60 - 89 days	50 %	470	(235)	**235**	535	(267)	**268**	432	(216)	**216**	503	(251)	**252**
Past due 90 - 179 days	60 %	785	(471)	**314**	812	(486)	**326**	562	(337)	**225**	697	(417)	**280**
Past due 180 - 359 days	75 %	1,414	(1,060)	**354**	1,638	(1,226)	**412**	1,055	(791)	**264**	1,283	(962)	**321**
Past due more than 360 days	100 %	17,971	(17,971)	**–**	17,890	(17,890)	**–**	15,405	(15,405)	**–**	15,123	(15,123)	**–**
Insolvent debtors*	100 %	26,409	(26,409)	**–**	27,342	(27,342)	**–**	26,298	(26,298)	**–**	27,117	(27,117)	**–**
TOTAL		**153,155**	**(46,730)**	**106,425**	**158,698**	**(47,794)**	**110,904**	**117,419**	**(43,514)**	**73,905**	**117,440**	**(44,330)**	**73,110**

* 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 disclosed in Note 4 b.

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

EUR'000

	Group		Parent Company	
	31/12/2019	**31/12/2018**	**31/12/2019**	**31/12/2018**
Other receivables from contracts with customers	5,112	7,060	2,452	3,203
Impairment loss on other receivables from contracts with customers	(7)	(9)	(3)	(4)
Receivables from subsidiaries (Note 29 b)	–	–	5,022	4,398
Accrued income from subsidiaries (Note 29 c)	–	–	1,601	321
Impairment loss on subsidiaries receivables (Note 29 b)	–	–	(4)	(3)
TOTAL	**5,105**	**7,051**	**9,068**	**7,915**

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 a large number of customers except major heating customer the net debt of which as of 31 December 2019 amounted to EUR 6,818 thousand (31/12/2018: EUR 11,626 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	
	2019	**2018**	**2019**	**2018**
At the beginning of the year	**47,803**	**48,862**	**44,337**	**44,868**
Effect of IFRS 9 'Financial instruments' adoption	–	122	–	115
Receivables written off during the year as uncollectible	(1,935)	(2,549)	(1,422)	(2,074)
Allowance for impaired receivables	869	1,368	606	1,428
At the end of the year	**46,737**	**47,803**	**43,521**	**44,337**

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

EUR'000

	Level of SICR	Group		Parent Company	
		31/12/2019	31/12/2018	31/12/2019	31/12/2018
Non–current financial receivables	Stage 1	–	30,617	–	–
Loss allowances for expected credit loss	Stage 1	–	(40)	–	–
TOTAL non–current financial receivables		**–**	**30,577**	**–**	**–**
Current financial receivables:					
Unsettled revenue on mandatory procurement PSO fee recognised as assets*	Stage 1	74,938	74,497	–	–
Receivables for lease	Stage 1	76	7,646	71	49
Receivables for lease from subsidiaries (Note 29 b)	Stage 1	–	–	615	1,061
Other financial receivables from subsidiaries (Note 29 b)	Stage 1	–	–	9,640	6,745
Other accrued income from subsidiaries (Note 29 c)	Stage 1	–	–	1,864	4 358
Other accrued income	Stage 1	872	872	872	883
Other current financial receivables	Stage 1	1,236	1,782	300	1,279
	Stage 3	1,877	2,364	1,234	1,651
Loss allowances for expected credit loss on subsidiaries receivables (Note 29 b)	Stage 1	–	–	(7)	(6)
Loss allowances for expected credit loss	Stage 1	(231)	(184)	(134)	(136)
	Stage 3	(1,877)	(2,364)	(1,234)	(1,651)
TOTAL current financial receivables		**76,891**	**84,613**	**13,221**	**14,233**
TOTAL other financial receivables		**76,891**	**115,190**	**13,221**	**14,233**

* 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

The Group and the Parent Company have no significant concentration of credit risk with respect to other financial receivables except the transmission system operator – Augstsprieguma tīkls AS the net debt of which to the Group as of 31 December 2019 including receivables from contracts with customer amounted to 39,870 thousand EUR (31/12/2018: 42,218 thousand EUR) (see Note 29 b) and receivable from State of guaranteed fee for the installed electrical capacity of cogeneration power plants and unsettled revenue on mandatory procurement PSO fee recognised as assets. Loss allowance for other financial receivables assessed individually and based on counterparty's model (Note 4).

c) Other non-financial receivables

EUR'000

	Group		Parent Company	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Non–current non–financial receivables	433	343	421	331
Total non–current non–financial receivables	**433**	**343**	**421**	**331**
Current non–financial receivables:				
Pre–tax and overpaid taxes	69	108	58	105
Other current receivables	125	109	49	107
Total current non–financial receivables	**194**	**217**	**107**	**212**
TOTAL non–financial receivables	**627**	**560**	**528**	**543**

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. Cash and cash equivalents also are consisting of restricted cash, if it is readily convertible to cash.

EUR'000

	Group		Parent Company	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Cash at bank	85,664	95,094	84,504	93,193
Short–term bank deposits	30,000	30,000	30,000	30,000
Restricted cash and cash equivalents*	6,758	4,361	6,757	4,361
Cash and cash equivalents	**122,422**	**129,455**	**121,261**	**127,554**
Cash attributable to discontinued operation (Note 30)	300	–	–	–
TOTAL cash and cash equivalents with discontinued operation	**122,722**	**129,455**	**121,261**	**127,554**

* Restricted cash and cash equivalents as of 31 December 2019 consist of the financial security for participating in NASDAQ OMX Commodities Exchange. Financial security is fully recoverable after termination of participation without any penalties, therefore restricted cash is considered as cash equivalent.

In existing rate environment, cash at bank balances practically don't earn any interests. Short–term deposits are placed for different periods between several days and three months depending on the immediate cash needs of the Group and the Parent Company and cash flow forecasts. During 2019 the average annual effective interest rate earned on short–term cash deposits was 0.15% (2018: 0.102%).

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

20. Share capital

As of 31 December 2019, the registered share capital of the Latvenergo AS is EUR 834,883 thousand (31/12/2018: EUR 834,791 thousand) and consists of 834,883 thousand ordinary shares (31/12/2018: 834,791 thousand) with the nominal value of EUR 1 per share (31/12/2018: EUR 1 per share). All shares have been fully paid. In June 2019, in accordance with the Directive No. 177 of the Cabinet of Ministers of the Republic of Latvia, dated 16 April 2019 – "On the Investment of the State's property units in the Share Capital of Latvenergo AS", real estate in the amount of EUR 92 thousand was invested in the share capital of Latvenergo AS (Note 14 a).

In March 2018 a decrease of share capital in the amount of EUR 454,413 thousand was registered, related to the trilateral agreement between Republic of Latvia, Latvenergo AS and Enerģijas publiskais tirgotājs AS (EPT) on mutual settlement of the receivable of the grant from the Republic of Latvia by EPT as disclosed in Note 4 h. In June 2018, in accordance with the Directive No. 765 of the Cabinet of Ministers of the Republic of Latvia, dated 19 December 2017 – "On the Investment of the State's property units in the Share Capital of Latvenergo AS", real estate in the amount of EUR 489 thousand was invested in the share capital of Latvenergo AS (Note 14 a).

21. Reserves, dividends and earnings per share

a) Reserves

EUR'000

	Notes	Group							Parent Company			
		Non–current assets revaluation reserve	**Hedge reserve**	**Post–employment benefit plan revaluation reserve**	**Other reserves**	**Reserves classified as held for distribution**	**Reserves of discontinued operation**	**TOTAL**	**Non–current assets revaluation reserve**	**Hedge reserve**	**Post–employment benefit plan revaluation reserve**	**TOTAL**
As of 31 December 2017		**1,130,398**	**(3,987)**	**(793)**	**110**	**1,125,728**	**–**	**1,125,728**	**795,893**	**(3,987)**	**(225)**	**791,681**
Disposal of non–current assets revaluation reserve	14 a	(10,229)	–	–	–	(10,229)	–	**(10,229)**	(6,549)	–	–	**(6,549)**
Gains / (losses) on re–measurement of defined post–employment benefit plan	27 a	–	–	436	–	436	–	**436**	–	–	(108)	**(108)**
Gains from fair value changes of derivative financial instruments	24	–	9,531	–	–	9,531	–	**9,531**	–	9,531	–	**9,531**
As of 31 December 2018		**1,120,169**	**5,544**	**(357)**	**110**	**1,125,466**	**–**	**1,125,466**	**789,344**	**5,544**	**(333)**	**794,555**
Non–current assets revaluation reserve related to discontinued operation	30	(29,171)	–	–	–	(29,171)	29,171	**–**	–	–	–	**–**
Post–employment benefit plan revaluation reserve related to discontinued operation	30	–	–	(18)	–	(18)	18	**–**	–	–	–	**–**
Disposal of non–current assets revaluation reserve	30	(7,226)	–	–	–	(7,226)	(255)	**(7,481)**	(3,474)	–	–	**(3,474)**
(Losses) / gains on re–measurement of defined post–employment benefit plan	27 a, 30	–	–	(2,045)	–	(2,045)	2	**(2,043)**	–	–	(1,148)	**(1,148)**
Losses from fair value changes of derivative financial instruments	24	–	(11,771)	–	–	(11,771)	–	**(11,771)**	–	(11,771)	–	**(11,771)**
As of 31 December 2019		**1,083,772**	**(6,227)**	**(2,420)**	**110**	**1,075,235**	**28,936**	**1,104,171**	**785,870**	**(6,227)**	**(1,481)**	**778,162**

Non–current assets revaluation reserve, 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.

The dividends declared to equity holders of the Parent Company for 2018 were EUR 132,936 thousand or EUR 0.15923 per share (2017: EUR 156,418 thousand or EUR 0.17183 per share).

According to the state regulations, the expected amount of dividends to be paid by Latvenergo AS for the use of state capital in 2020 (for the reporting year 2019) amounted to EUR 127,1 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.

EUR'000

	Group		Parent Company	
	2019	**2018**	**2019**	**2018**
Profit attributable to the equity holder of the Parent Company (in thousand EUR)	92,660	73,423	101,227	212,733
Weighted average number of shares (thousand)	834,845	910,323	834,845	910,323
Basic earnings per share (in euros)	0.111	0.081	0.121	0.234
Diluted earnings per share (in euros)	0.111	0.081	0.121	0.234

22. Other financial investments

Carrying (amortised cost) amount of other financial investments:

EUR'000

	Group		Parent Company	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Financial investments in Latvian State Treasury bonds: – non–current	16,885	16,935	16,885	16,935
TOTAL other financial investments	**16,885**	**16,935**	**16,885**	**16,935**

As of 31 December 2019 the entire Group's and the Parent Company's other financial investments were Latvian State Treasury bonds with 5–year and 10–year maturity, which were purchased with the purpose to invest liquidity reserve in the low risk financial instruments with higher yield. In 2019 in connection with the amortisation of other financial investments net losses in the amount of EUR 49 thousand (2018: EUR 49 thousand) (Note 11) are recognised from changes in the value of the purchased bonds. All financial investments are denominated in euros. The maximum exposure to credit risk at the reporting date is the carrying amount of other financial investments.

In 2019 the fair value of other financial investments is higher than the carrying amount by EUR 2,031 thousand (2018: EUR 3,132 thousand). Other financial investments in Latvian State Treasury bonds are listed. The fair value of other financial investments is calculated by discounting their future cash flows and using as discount factor the market quoted yield to maturity rates of the respective bonds as of the end of the reporting period (Level 2).

23. Borrowings

EUR'000

	Group		Parent Company	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Non-current borrowings from financial institutions	601,826	564,711	596,560	555,251
Issued debt securities (bonds)	100,303	135,317	100,303	135,317
TOTAL non-current borrowings	**702,129**	**700,028**	**696,863**	**690,568**
Current portion of non-current borrowings from financial institutions	142,885	112,102	138,691	109,512
Issued debt securities (bonds)	34,969	–	34,969	–
Current borrowings	291	–	–	–
Accrued interest on non-current borrowings	713	529	692	504
Accrued coupon interest on issued debt securities (bonds)	1,684	1,684	1,684	1,684
TOTAL current borrowings	**180,542**	**114,315**	**176,036**	**111,700**
TOTAL borrowings	**882,671**	**814,343**	**872,899**	**802,268**

Movement in borrowings:

EUR'000

	Group		Parent Company	
	2019	2018	2019	2018
At the beginning of the year	**814,343**	**826,757**	**802,268**	**814,772**
Borrowings received	180,291	93,500	180,000	90,000
Borrowing repaid	(112,102)	(105,931)	(109,513)	(102,522)
Change in accrued interest on borrowings	183	61	188	62
Changes in outstanding value of issued debt securities (bonds)	(44)	(44)	(44)	(44)
At the end of the year	**882,671**	**814,343**	**872,899**	**802,268**

Borrowings by categories of lenders:

EUR'000

	Group		Parent Company	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Foreign investment banks	351,458	374,864	351,458	374,864
Commercial banks	394,257	302,478	384,485	290,403
Issued debt securities (bonds)	136,956	137,001	136,956	137,001
TOTAL borrowings	**882,671**	**814,343**	**872,899**	**802,268**

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

EUR'000

	Group		Parent Company	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Fixed rate non–current and current borrowings:				
– < 1 year (current portion of non–current borrowings)	86,700	19,910	86,700	19,910
– 1–5 years	100,303	185,317	100,303	185,317
TOTAL fixed rate borrowings	**187,003**	**205,227**	**187,003**	**205,227**
Floating rate non–current and current borrowings:				
– < 1 year (current borrowings)	292	–	1	–
– < 1 year (current portion of non–current borrowings)	93,675	94,405	89,459	91,790
– 1–5 years	363,360	313,404	358,595	305,158
– > 5 years	238,341	201,307	237,841	200,093
TOTAL floating rate borrowings	**695,668**	**609,116**	**685,896**	**597,041**
TOTAL borrowings	**882,671**	**814,343**	**872,899**	**802,268**

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

EUR'000

	Group		Parent Company	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
– < 1 year	522,950	385,765	513,178	373,690
– 1–5 years	259,721	353,578	259,721	353,578
– > 5 years	100,000	75,000	100,000	75,000
TOTAL borrowings	**882,671**	**814,343**	**872,899**	**802,268**

As of 31 December 2019 and as of 31 December 2018 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 and twelve–month–fixed 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 disclosed in Note 15.

I) Pledges

As of 31 December 2019 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 25 million (31/12/2018: EUR 28 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 23 million and the claims on the receivables accounts in the amount of EUR 2 million (31/12/2018: EUR 25 million and EUR 3 million, respectively).

II) Un–drawn borrowing facilities

As of 31 December 2019, the un–drawn committed non–current credit facilities amount to EUR 85 million (31/12/2018: EUR 130 million). After the end of the reporting period, in January 2020, another contract with a maturity of up to two years was signed for EUR 60 million.

As of 31 December 2019, the Group had entered into two overdraft agreements with total notional amount of EUR 19 million (31/12/2018: four overdraft agreements of EUR 38.2 million) of which one overdraft agreements were entered by the Parent Company with total notional amount of EUR 15 million (31/12/2018: three overdraft agreements of EUR 34 million). In respect of all the overdraft agreements all conditions precedent have been met. At the end of the reporting year, EUR 291 thousand of credit lines were used.

III) Weighted average effective interest rate

During the reporting year the weighted average effective interest rate (including interest rate swaps) on non–current borrowings was 1.48% (2018: 1.37%), weighted average effective interest rate for current borrowings was 0.87% (2018: 0.87%). At 31 December 2019 interest rates for non–current borrowings in euros were 6 and 12 month EURIBOR+ 0.99% (31/12/2018: +0.99%) for the Group and 6 and 12 month EURIBOR+ 0.98% (31/12/2018: +0.98%) for Latvenergo AS. As of 31 December 2019, the total notional amount of interest rate swap agreements concluded by the Group amounts to EUR 229.4 million (31/12/2018: EUR 225.1 million) and the interest rate was fixed for the initial periods from 7 to 10 years.

IV) Issued and outstanding debt securities (bonds)

In 2013 the Parent Company (Latvenergo AS) issued bonds in the amount of EUR 35 million with maturity date – 22 May 2020 (ISIN code – LV0000801165) with the annual coupon rate of 2.8%. In 2015 and in 2016, Latvenergo AS issued green bonds in the total amount of EUR 100 million with the maturity date 10 June 2022 (ISIN code – LV0000801777) with the annual coupon rate of 1.9%. The total nominal amount of outstanding bonds as of 31 December 2019 and 31 December 2018 were EUR 135 million. All issued bonds are quoted in NASDAQ Baltic Stock Exchange. The issued debt securities (bonds) are measured at amortised cost at the end of reporting year.

As of 31 December 2019, the fair value of issued debt securities (bonds) exceeds their carrying amount by EUR 3,515 thousand (31/12/2018: EUR 4,532 thousand). 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 forward and future contracts and natural gas swap contracts to hedge risks associated with the interest rate and purchase price fluctuations, respectively. The Group and the Parent Company have decided to continue to apply hedge accounting requirements of IAS 39 for derivatives.

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

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

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

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

Cash flow hedge

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

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

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

I) Outstanding fair values of derivatives and their classification

In the table below outstanding fair values of derivatives are disclosed as follows:

EUR'000

		Group				Parent Company			
		31/12/2019		31/12/2018		31/12/2019		31/12/2018	
	Notes	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Interest rate swaps	24 II	–	(9,216)	–	(7,375)	–	(9,216)	–	(7,375)
Electricity forwards and futures	24 III	–	(3,916)	15,853	–	–	(3,916)	15,853	–
Natural gas forwards	24 IV	6,717	–	–	(2,829)	6,717	–	–	(2,829)
TOTAL outstanding fair values of derivatives		**6,717**	**(13,132)**	**15,853**	**(10,204)**	**6,717**	**(13,132)**	**15,853**	**(10,204)**

EUR'000

	Group				Parent Company			
	31/12/2019		31/12/2018		31/12/2019		31/12/2018	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Non–current	–	(6,149)	–	(3,923)	–	(6,149)	–	(3,923)
Current	6,717	(6,983)	15,853	(6,281)	6,717	(6,983)	15,853	(6,281)
TOTAL fair values of derivative financial instruments	**6,717**	**(13,132)**	**15,853**	**(10,204)**	**6,717**	**(13,132)**	**15,853**	**(10,204)**

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

EUR'000

		Group		Parent Company	
	Notes	2019	2018	2019	2018
Included in the Statement of Profit or Loss					
Electricity forwards and futures	8	(2,326)	(417)	(2,326)	(417)
Natural gas forwards		2,033	–	2,033	–
		(293)	**(417)**	**(293)**	**(417)**
Included in the Statement of Comprehensive Income (Note 21 a)					
Interest rate swaps	24 II	(1,841)	655	(1,841)	655
Electricity forwards and futures	24 III	(17,443)	11,705	(17,443)	11,705
Natural gas forwards	24 IV	7,513	(2,829)	7,513	(2,829)
TOTAL (loss) / gains on fair value changes		**(11,771)**	**9,531**	**(11,771)**	**9,531**

II) Interest rate swaps

As of 31 December 2019, the Group and the Parent Company had interest rate swap agreements with total notional amount of EUR 229.4 million (31/12/2018: EUR 225.1 million). Interest rate swaps are concluded with 7 to 10 year initial maturities and hedged floating rates are 6 month EURIBOR. As of 31 December 2019, fixed interest rates vary from 0.087% to 2.5775% (31/12/2018: from 0.315% to 2.5775%).

As at the end of the year all the outstanding interest rate swap agreements with total notional amount of EUR 229.4 million were eligible for hedge accounting and were assessed prospectively and retrospectively to test whether they are effective within the hedging period (31/12/2018: 100% with notional amount of EUR 225.1 million). All contracts are designed as cash flow hedges. It was established that they are fully effective and therefore there is no ineffective portion to be recognised within profit or loss in the Statement of Profit or Loss.

Fair value changes of interest rate swaps:

EUR'000

	Group				Parent Company			
	2019		2018		2019		2018	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Outstanding fair value at the beginning of the year	**–**	**(7,375)**	**31**	**(8,061)**	**–**	**(7,375)**	**31**	**(8,061)**
Included in Statement of Comprehensive Income (Note 21 a)	–	(1,841)	(31)	686	–	(1,841)	(31)	686
Outstanding fair value at the end of the year	**–**	**(9,216)**	**–**	**(7,375)**	**–**	**(9,216)**	**–**	**(7,375)**

The main interest rate hedging criteria stated in the Financial Risk Management policy is to ensure average fixed rate duration from 2 to 4 years and fixed rate portion at more than 35% of borrowings. As of 31 December 2019 45% (31/12/2018: 53%) of the Group's and 45% (2018: 54%) of the Parent Company's borrowings had fixed interest rates (taking into account the effect from the interest rate swaps), and average remaining time to interest re–pricing was 1.8 years (2018: 2.1 years) for the Group and 1.8 years (2018: 2.1 years) for the Parent Company. All necessary actions will be taken during the year 2020 to ensure the average fixed interest rate period within the limits stipulated by the Group's Financial Risk Management Policy.

III) Electricity forwards and futures

As of 31 December 2019, the Group and the Parent Company have entered into electricity forward and future contracts with total outstanding electricity purchase volume of 1,676,105 MWh (31/12/2018: 1,689,784 MWh) and notional value of EUR 41 million (31/12/2018: EUR 40 million). Electricity forward and future contracts are concluded for the maturities from one quarter to one year during the period from 1 January 2020 to 31 December 2022.

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

Electricity forward and future contracts with total outstanding volume of 1,247,040 MWh as of 31 December 2019 are designated to comply with hedge accounting treatment (31/12/2018: 1,689,784) 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 (Note 21 a).

Fair value changes of electricity forward and future contracts

EUR'000

	Group				Parent Company			
	2019		2018		2019		2018	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Outstanding fair value at the beginning of the year	**15,853**	**–**	**4,588**	**(23)**	**15,853**	**–**	**4,588**	**(23)**
Included in the Statement of Profit or Loss (Note 8)	(105)	(2,221)	(440)	23	(105)	(2,221)	(440)	23
Included in Statement of Comprehensive Income (Note 21 a)	(15,748)	(1,695)	11,705	–	(15,748)	(1,695)	11,705	–
Outstanding fair value at the end of the year	**–**	**(3,916)**	**15,853**	**–**	**–**	**(3,916)**	**15,853**	**–**

IV) Natural gas forwards

The Group and the Parent Company have entered into natural gas price swap contracts with total outstanding natural gas purchase volume of 3,690,000 MWh (31/12/2018: 990,000 MWh) and notional value of EUR 71 million (31/12/2018: EUR 23 million). Natural gas swap contracts are concluded for the maturities from one month to one quarter during the period of July 1, 2020 to March 31, 2021. 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. Natural gas swap contracts with total outstanding volume of 1,650,000 MWh as of 31 December 2019 are designated to comply with hedge accounting treatment (31/12/2018: of 990,000 MWh) and were reassessed prospectively and retrospectively to test whether they are effective within the hedging period.

Fair value changes of natural gas forward contracts:

EUR'000

	Group				Parent Company			
	2019		2018		2019		2018	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Outstanding fair value at the beginning of the year	**–**	**(2,829)**	**–**	**–**	**–**	**(2,829)**	**–**	**–**
Included in the Statement of Profit or Loss (Note 8)	2,033	–	–	–	2,033	–	–	–
Included in Statement of Comprehensive Income (Note 21 a)	4,684	2,829	–	(2,829)	4,684	2,829	–	(2,829)
Outstanding fair value at the end of the year	**6,717**	**–**	**–**	**(2,829)**	**6,717**	**–**	**–**	**(2,829)**

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 each end of reporting period. Estimated discounted cash flows are used to determine fair value for the remaining financial instruments.

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

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

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

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

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

e) The fair value of investment properties is determined using the income method, by discounting expected future cash flows. In 2019, the nominal pre–tax discount rate used to determine the fair value of investments is 4.61% (2018: 4.2%) as included in the electricity distribution and transmission system service tariff calculation methodology.

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

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

EUR'000

	Group				Parent Company			
	Fair value measurement using				Fair value measurement using			
Type of assets	**Quoted prices in active markets (Level 1)**	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**TOTAL**	**Quoted prices in active markets (Level 1)**	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**TOTAL**
As of 31 December 2019								
Assets measured at fair value								
Revalued property, plant and equipment (Note 14 c)	–	–	2,807,065	**2,807,065**	–	–	782,977	**782,977**
Non-current financial investments (Note 16)	–	–	39	**39**	–	–	39	**39**
Derivative financial instruments, including:								
– Natural gas forwards and futures (Note 24)	–	6,717	–	**6,717**	–	6,717	–	**6,717**
Assets for which fair values are disclosed								
Investment properties (Note 14 b)	–	–	301	**301**	–	–	39,435	**39,435**
Other financial investments (Note 22)	–	16,885	–	**16,885**	–	16,885	–	**16,885**
Floating rate loans to subsidiaries (Note 29 e)	–	–	–	**–**	–	151,289	–	**151,289**
Fixed rate loans to subsidiaries (Note 29 e)	–	–	–	**–**	–	642,967	–	**642,967**
Non-current financial receivables (Note 18 b)	–	–	433	**433**	–	–	421	**421**
Current financial receivables (Note 18 a, b)	–	–	188,421	**188,421**	–	–	96,194	**96,194**
Cash and cash equivalents (Note 19)	–	122,422	–	**122,422**	–	121,261	–	**121,261**
As of 31 December 2018								
Assets measured at fair value								
Revalued property, plant and equipment (Note 14 c)	–	–	2,680,349	**2,680,349**	–		788,510	**788,510**
Non-current financial investments (Note 16)	–	–	40	**40**	–	–	39	**39**
Derivative financial instruments, including:								
– Electricity forwards and futures (Note 24)	–	15,853	–	**15,853**	–	15,853	–	**15,853**
Assets for which fair values are disclosed								
Investment properties (Note 14 b)	–	–	467	**467**	–	–	61,796	**61,796**
Other financial investments (Note 22)	–	16,935	–	**16,935**	–	16,935	–	**16,935**
Floating rate loans to subsidiaries (Note 29 e)	–	–	–	**–**	–	171,858	–	**171,858**
Fixed rate loans to subsidiaries (Note 29 e)	–	–	–	**–**	–	592,647	–	**592,647**
Non-current financial receivables (Note 18 b)	–	–	30,920	**30,920**	–	–	331	**331**
Current financial receivables (Note 18 a, b)	–	–	202,568	**202,568**	–	–	95,258	**95,258**
Cash and cash equivalents (Note 19)	–	129,455	–	**129,455**	–	127,554	–	**127,554**

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	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 2019								
Liabilities measured at fair value								
Derivative financial instruments, including:								
– Interest rate swaps (Note 24)	–	9,216	–	**9,216**	–	9,216	–	**9,216**
– Electricity and natural gas forwards and futures (Note 24)	–	3,916	–	**3,916**	–	3,916	–	**3,916**
Liabilities for which fair values are disclosed								
Issued debt securities (bonds) (Note 23)	–	136,956	–	**136,956**	–	136,956	–	**136,956**
Borrowings (Note 23)	–	745,668	–	**745,668**	–	745,668	–	**745,668**
Trade and other financial current payables (Note 26)	–	–	91,410	**91,410**	–	–	68,249	**68,249**
As of 31 December 2018								
Liabilities measured at fair value								
Derivative financial instruments, including:								
– Interest rate swaps (Note 24)	–	7,375	–	**7,375**	–	7,375	–	**7,375**
– Natural gas forwards and futures (Note 24)	–	2,829	–	**2,829**	–	2,829	–	**2,829**
Liabilities for which fair values are disclosed								
Issued debt securities (bonds) (Note 23)	–	137,000	–	**137,000**	–	137,000	–	**137,000**
Borrowings (Note 23)	–	677,342	–	**677,342**	–	665,267	–	**665,267**
Trade and other financial current payables (Note 26)	–	–	103,707	**103,707**	–	–	78,726	**78,726**

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.

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

EUR'000

	Group				Parent Company			
	Carrying amount		Fair value		Carrying amount		Fair value	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Financial assets								
Fixed rate loans to subsidiaries	–	–	–	–	642,967	592,647	673,987	616,332
Other financial investments	16,885	16,935	19,016	20,067	16,885	16,935	18,916	20,067
Financial liabilities								
Interest–bearing liabilities, including:								
– issued debt securities (bonds)	136,956	137,000	140,471	141,532	136,956	137,000	140,471	141,532

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

26. Trade and other payables

EUR'000

	Group		Parent Company	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Financial liabilities:				
Payables for materials and services	55,900	63,198	55,971	63,009
Payables for electricity and natural gas	24,803	30,627	6,193	9,954
Accrued expenses	9,106	7,817	4,702	4,142
Other financial current payables	1,601	2,065	1,383	1,621
TOTAL financial liabilities	**91,410**	**103,707**	**68,249**	**78,726**
Non–financial liabilities:				
State social security contributions and other taxes	12,031	15,624	4,776	7,353
Advances received	8,403	12,024	3,641	4,399
Other current payables	3,864	3,655	1,715	1,584
TOTAL non–financial liabilities	**24,298**	**31,303**	**10,132**	**13,336**
TOTAL trade and other current payables	**115,708**	**135,010**	**78,381**	**92,062**

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 has 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.

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EUR'000

	Group		Parent Company	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Non-current:				
– post–employment benefits (recognised in profit or loss)	12,666	12,411	5,608	5,536
– post–employment benefits (recognised in equity)	2,420	356	1,480	332
– termination benefits	2,744	6,191	740	1,537
– environmental provisions	661	1,220	661	1,220
	18,491	**20,178**	**8,489**	**8,625**
Current:				
– termination benefits	1,631	779	517	342

a) Provisions for post–employment benefits

Accounting policy

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

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

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

EUR'000

	Group		Parent Company	
	2019	2018	2019	2018
At the beginning of the year	**12,767**	**13,721**	**5,868**	**5,911**
Current service cost	1,170	1,238	522	523
Interest cost	134	261	62	112
Post–employment benefits paid	(989)	(2,017)	(512)	(786)
Losses / (gains) as a result of changes in actuarial assumptions (Note 21 a)	2,043	(436)	1,148	108
Discontinued operation (Note 30)	(39)	–	–	–
At the end of the year	**15,086**	**12,767**	**7,088**	**5,868**

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

	Group		Parent Company	
	2019	2018	2019	2018
At the beginning of the year	**12,767**	**13,721**	**5,868**	**5,911**
Credited/ (charged) to the Statement of Comprehensive Income (Note 21 a)	2,043	(436)	1,148	108
Credited/ (charged) to the Statement of Profit or Loss	315	(518)	72	(151)
Discontinued operation (Note 30)	(39)	–	–	–
At the end of the year	**15,086**	**12,767**	**7,088**	**5,868**

Weighted average discount rate used for discounting benefit obligations was 1.05% (2018: 1.90%), 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% (2018: 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		Group						Parent Company					
		Discount rate		Future salary changes		Retirement probability changes		Discount rate		Future salary changes		Retirement probability changes	
	Date of valuation	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	31/12/2019	1,948	(1,596)	1,880	(1,577)	2,084	(1,722)	827	(675)	798	(667)	885	(728)
	31/12/2018	1,519	(1,252)	1,479	(1,247)	1,646	(1,366)	610	(501)	593	(499)	661	(547)

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

Contributions are monitored on an annual basis and the current agreed contribution rate is 5%. The next valuation is due to be completed as at 31 December 2020.
Expected contributions to post-employment benefit plan for the year ending 31 December 2020 are EUR 1,942 thousand.
The weighted average duration of the defined benefit obligation is 19.51 years (2018 – 20.47 years).

EUR'000

	Date of valuation	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	31/12/2019	2,397	2,143	10,546	**15,086**	1,734	1,082	4,272	**7,088**
	31/12/2018	2,481	1,745	8,541	**12,767**	1,676	955	3,237	**5,868**

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 years 2019 to 2022 is 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	
	2019	2018	2019	2018
At the beginning of the year	**6,970**	**9,315**	**1,878**	**2,607**
Termination benefits paid	(939)	(8,136)	(158)	(1,478)
Changes in provisions	(1,656)	5,795	(463)	749
At the end of the year	**4,375**	**6,974**	**1,257**	**1,878**

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

Assumptions used in calculation of termination benefits are as follows – average employee earnings at the time of termination - average earnings per year, with projected increase (salary indexation) in the in the year 2020 by 3.5% (2018: 9.6%) and in the following years by 3.0% for Latvenergo AS and in the year 2020 by 2.3% (2019: 2.6%) and in the following years by 2.5% for Sadales tīkls AS, average employee length of service at the time of termination, the State Social Insurance Contributions rate is 24.09% in 2020 and in subsequent years.

The amount of provisions at the end of reporting year is estimated in accordance with the estimated future liability value as of 31 December 2019, using the fixed discount rate of 0.651% as adopted by the Latvenergo Group (31/12/2018: 0.855%). The discount rate is comprised of a 3–year EUROSWAP rate of -0.243% and a corporate risk premium of 0.894% (determined on the basis of interest rate on Latvenergo AS issued bonds yield spreads above the market rate) (31/12/2018: 4–year EUROSWAP rate – 0.040%, corporate risk premium – 0.815%).

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A quantitative sensitivity analysis for significant assumptions used for calculation of termination benefits as of the end of the year is as shown below:

EUR'000

Assumptions	Date of valuation	Group: Discount rate 1% increase	Group: Discount rate 1% decrease	Group: Future salary changes 1% increase	Group: Future salary changes 1% decrease	Group: Average employee length of service 1% increase	Group: Average employee length of service 1% decrease	Parent Company: Discount rate 1% increase	Parent Company: Discount rate 1% decrease	Parent Company: Future salary changes 1% increase	Parent Company: Future salary changes 1% decrease	Parent Company: Average employee length of service 1% increase	Parent Company: Average employee length of service 1% decrease
Impact on provisions for termination benefits	31/12/2019	(89)	92	68	(67)	7	(102)	(24)	25	37	(36)	7	(7)
	31/12/2018	(192)	201	147	(145)	39	39	(47)	49	47	(46)	11	(11)

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 has 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 2019	Group 2018	Parent Company 2019	Parent Company 2018
At the beginning of the year	**1,220**	**2,264**	**1,220**	**1,220**
Charged to the Statement of Profit or Loss	(559)	(1,044)	(559)	–
At the end of the year	**661**	**1,220**	**661**	**1,220**

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

28. Deferred income

Accounting policy

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

Grants related to expense items

When a grant relates to an expense item, and it has a number of conditions attached, it is initially recognised at fair value as deferred income. Grants are credited to income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. Management judgements related to the measurement of government grants is disclosed in Note 4.
A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to a company with no future related costs are recognised in profit or loss of the period in which it becomes receivable. Related income is recognised in the Statement of Profit or Loss as 'Other income' (Note 7).

Grants related to assets

Property, plant and equipment received at nil consideration are accounted for as grants. Those grants are recognised at fair value as deferred income and are credited to the Statement of Profit or Loss on a straight–line basis over the expected lives of the related assets.
Accounting policy on recognition of deferred income from connection fees to distribution and transmission system disclosed per Note 6.

EUR'000

	Group 31/12/2019	Group 31/12/2018	Parent Company 31/12/2019	Parent Company 31/12/2018
I) Non–current deferred income				
a) contracts with customers				
From connection fees	142,453	143,494	–	–
Other deferred income	877		877	
	143,330	**143,494**	**877**	**–**
b) operating lease				
From connection fees	–	3,852	–	–
On transmission system assets reconstruction	–	984	–	–
Other deferred income	383	403	383	403
	383	**5,239**	**383**	**403**
c) other				
On grant for the installed electrical capacity of CHPPs	185,429	209,419	185,429	209,419
On financing from European Union funds	7,889	57,851	256	18
On financing receivable from European Union funds	–	30,617	–	–
Other deferred income	332	393	229	265
	193,650	**298,280**	**185,914**	**209,702**
TOTAL non–current deferred income	**337,363**	**447,013**	**187,174**	**210,105**

	Group		Parent Company	
EUR'000	31/12/2019	31/12/2018	31/12/2019	31/12/2018
II) Current deferred income				
a) contracts with customers				
From connection fees	13,629	12,984	–	–
Other deferred income	135	287	63	–
	13,764	**13,271**	**63**	**–**
b) operating lease				
From connection fees	–	449	–	–
Other deferred income	20	20	20	20
	20	**469**	**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	787	1,941	12	12
Other deferred income	60	38	9	–
	24,837	**25,969**	**24,011**	**24,002**
TOTAL current deferred income	**38,621**	**39,709**	**24,094**	**24,022**
TOTAL deferred income	**375,984**	**486,722**	**211,268**	**234,127**

* see Note 4 h

The Group and the Parent Company ensures 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):

	Group		Parent Company	
EUR'000	2019	2018	2019	2018
At the beginning of the year	**486,722**	**537,286**	**234,127**	**315,443**
Received deferred non–current income (financing)	46,337	31,537	259	–
Received advance payments for contracts with customers (Note 6)	940	–	940	–
Received connection fees for connection to distribution system (Note 6)	12,902	14,725	–	–
Received connection fees for connection to transmission system	1,795	–	–	–
Compensation for the installed electrical capacity of CHPPs credited to the Statement of Profit or Loss	(23,990)	(81,004)	(23,990)	(81,004)
Transferred to deferred income of discontinued operation (Note 30)	(132,507)	–	–	–
Credited to the Statement of Profit or Loss	(16,215)	(15,822)	(68)	(312)
At the end of the year	**375,984**	**486,722**	**211,268**	**234,127**

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 enters 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.

a) Income and expenses from transactions with related parties:

EUR'000

	Group		Parent Company			
	2019	2018	2019		2018	
	Government related entities*		Subsidi-aries	Government related entities*	Subsidi-aries	Government related entities*
Income:						
– Trade of energy and related services	7,540	10,724	24,754	7,483	25,370	10,656
– Lease of transmission system assets	36,116	38,699	–	–	–	–
– Other revenue from corporate services	–	–	27,475	–	28,505	–
– Other revenue	3,197	3,175	–	3,077	–	3,024
– Lease of assets	223	372	8,802	223	14,534	372
– Interest income	–	–	11,810	–	10,289	–
– Other income	735	1,036	7	–	–	196
TOTAL income from transactions with related parties	**47,811**	**54,006**	**72,848**	**10,783**	**78,698**	**14,248**
Expenses:						
– Distributions system services	–	–	195,652	–	207,096	–
– Public service obligation fees	–	–	87,379	–	98,623	–
– Purchased electricity and heat	5,175	4,131	19,856	4,959	37,461	4,131
– Electricity transmission services costs (Note 8)	71,552	71,368	–	1,015	–	1,015
– Construction services for leased assets	–	–	2,272	–	1,867	–
– Other expenses	739	864	1,494	267	1,594	276
TOTAL expenses from transactions with related parties	**77,466**	**76,363**	**306,653**	**6,241**	**346,641**	**5,422**
including gross expenses from transactions with subsidiaries recognised in net amount through profit or loss:						
– Sadales tīkls AS	–	–	283,032	–	305,719	–
– Enerģijas publiskais tirgotājs AS	–	–	–	–	–	–
	–	**–**	**283,032**	**–**	**305,719**	**–**

* Transmission system operator – Augstsprieguma tīkls AS

b) Balances at the end of the year arising from sales / purchases of goods and services:

EUR'000

	Group		Parent Company	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Receivables from related parties:				
– subsidiaries (Note 18 a, b)	–	–	15,277	12,204
– government related and other related parties*	39,924	42,273	1,213	3,365
– loss allowances for expected credit loss from receivables of subsidiaries (Note 18 a, b)	–	–	(11)	(9)
– loss allowances for expected credit loss from receivables of government related and other related parties*	(54)	(55)	(2)	(4)
	39,870	**42,218**	**16,477**	**15,556**
Payables to related parties:				
– subsidiaries	–	–	26,182	30,865
– government related and other related parties*	10,753	12,262	722	1,044
	10,753	**12,262**	**26,904**	**31,909**

c) Accrued income raised from transactions with related parties:

EUR'000

	Group		Parent Company	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
– for goods sold/services provided for subsidiaries (Note 18 a, b)	–	–	1,842	2,859
– for interest received from subsidiaries (Note 18 a, b)	–	–	1,622	1,820
– for goods sold/services provided for government related entities*	–	474	–	–
	–	**474**	**3,464**	**4,679**

d) Accrued expenses raised from transactions with related parties:

EUR'000

	Group		Parent Company	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
– for purchased goods/received services from subsidiaries	–	–	1,335	5,657
– or purchased goods/received services from government related entities*	1,460	–	–	–
	1,460	**–**	**1,335**	**5,657**

*Related parties included transmission system operator – Augstsprieguma tīkls AS and Pirmais Slēgtais Pensiju Fonds AS

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

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

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

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

Dividends received from subsidiaries are disclosed in Note 16.

e) Loans to related parties (Parent Company)

Non–current and current loans to related parties:

EUR'000

	Parent Company	
	31/12/2019	31/12/2018
Non–current loans to subsidiaries		
Sadales tīkls AS	427,351	442,728
Latvijas elektriskie tīkli AS	161,460	152,681
Impairment for expected credit loss	(377)	(405)
TOTAL non–current loans	**588,434**	**595,004**
Current portion of non–current loans		
Sadales tīkls AS	75,377	49,854
Latvijas elektriskie tīkli AS	27,259	8,175
Impairment for expected credit loss	(66)	(39)
Current loans to subsidiaries		
Latvijas elektriskie tīkli AS	7,228	18,541
Sadales tīkls AS	15,182	6,502
Elektrum Eesti OÜ	7,052	7,882
Elektrum Lietuva, UAB	3,967	11,740
Enerģijas publiskais tirgotājs AS	69,889	68,233
Impairment for expected credit loss	(66)	(77)
TOTAL current loans	**205,822**	**170,811**
TOTAL loans to subsidiaries	**794,256**	**765,815**

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' creditrating. 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 2019 will be settled in 2020.

Movement in loans

EUR'000

	Parent Company	
	2019	2018
At the beginning of the year	**765,815**	**1,098,781**
Change in current loans in cash (net)	272,103	323,539
Change in current loans by non–cash offsetting of operating receivables and payables (net)	(219,388)	(720,848)
Issued non–current loans by non–cash offset for dividends	33,743	124,268
Reduction of non–current loans by non–cash offsetting of operating receivables and payables	(58,029)	(59,404)
Effect of IFRS 9 'Financial instruments' adoption	–	(515)
Impairment for expected credit loss	12	(6)
At the end of the year	**794,256**	**765,815**

Interest received from related parties:

EUR'000

	Parent Company	
	2019	2018
Interest received	948	2,103
	948	**2,103**

l) Non–current loans, including current portion

Concluded non–current loan agreements with Latvijas elektriskie tīkli AS:

EUR'000

Agreement conclusion date	Principal amount of the loan	Outstanding loan amount		Interest rate	Maturity date
		31/12/2019	31/12/2018		
1 April 2011	97,467	97,467	12,826	6 months EURIBOR + fixed rate	1 April 2025
3 September 2013	44,109	44,109	27,568	fixed rate	10 September 2023
10 June 2016	156,500	156,500	120,462	fixed rate	10 June 2028
TOTAL	**298,076**	**298,076**	**160,856**		

As of 31 December 2019, total outstanding amount of non–current loans to Latvijas elektriskie tīkli AS amounted to EUR 188,718 thousand (31/12/2018: EUR 160,856 thousand), including current portion of the loan repayable in 2019 – EUR 27,259 thousand (31/12/2018: EUR 8,176 thousand). As of 31 December 2019, for 5% (31/12/201: 8%) of the loans issued to Latvijas elektriskie tīkli AS was set floating interest rate, which was influenced by 6 months EURIBOR interbank rate fluctuations. During 2019 the effective average interest rate of non–current loans was 1.72% (2018: 1.81%). As of 31 December 2019, is recognised impairment for expected credit loss of non–current loans to Latvijas elektriskie tīkli AS in the amount of 121 thousand EUR (31/12/2018: EUR 109 thousand). Non–current loans are not secured with a pledge or otherwise.

Non–current loans to Latvijas elektriskie tīkli AS by maturity:

EUR'000

	Parent Company	
	31/12/2019	31/12/2018
Non–current loan:		
– < 1 year (current portion)	27,259	8,176
– 1 – 5 years	101,039	109,724
– > 5 years	60,420	42,957
	188,718	**160,856**

Concluded non–current loan agreements with Sadales tīkls AS:

EUR'000

Agreement conclusion date	Principal amount of the loan	Outstanding loan amount 31/12/2019	Outstanding loan amount 31/12/2018	Interest rate	Maturity date
29 September 2011	316,271	38,316	47,966	6 months EURIBOR + fixed rate	1 September 2025
6 February 2013	42,686	10,672	14,940	fixed rate	10 September 2022
18 September 2013	42,686	17,074	21,343	fixed rate	10 August 2023
29 October 2014	90,000	50,000	60,000	fixed rate	10 September 2024
20 October 2015	90,000	60,000	70,000	fixed rate	21 October 2025
22 August 2016	60,000	46,667	53,333	fixed rate	22 August 2026
22 August 2016	50,000	40,000	45,000	fixed rate	14 June 2027
14 December 2018	260,000	240,000	180,000	fixed rate	14 December 2028
TOTAL	**951,643**	**502,729**	**492,582**		

As of 31 December 2019, total outstanding amount of non–current loans with Sadales tīkls AS amounted to EUR 502,729 thousand (31/12/2018: EUR 492,582 thousand), including current portion of the loan repayable in 2019 – EUR 75,377 thousand (31/12/2018: EUR 49,853 thousand). As of 31 December 2019, for 8% of the loans issued to Sadales tīkls AS (31/12/2018: 10%) was set floating interest rate, which was influenced by 6 months EURIBOR interbank rate fluctuations. During 2019 the effective average interest rate of non–current loans was 1.65% (2018: 1.65%). As of 31 December 2019, is recognised impairment for expected credit loss of non–current loans to Sadales tīkls AS in the amount of EUR 322 thousand EUR (31/12/2018: EUR 335 thousand). Non–current loans are not secured with a pledge or otherwise.

Non–current loans to Sadales tīkls AS by maturity:

EUR'000

	Parent Company 31/12/2019	Parent Company 31/12/2018
Non–current loan:		
– < 1 year (current portion)	75,377	49,853
– 1 – 5 years	278,198	322,786
– > 5 years	149,154	119,943
	502,729	**492,582**

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 accordingly to daily operating needs and including non-cash offsetting of operating receivables and payables. In 2019 the effective average interest rate was 0.48% (2018: 0.51%).

On 31 March 2019 an agreement was concluded between Latvenergo AS and Enerģijas publiskais tirgotājs AS for issue of the current loan in amount of EUR 110,000 thousand to ensure Enerģijas publiskais tirgotājs AS financial resources for the fulfilment of public supplier duties and mandatory procurement process administration. Maturity date of the loan is 31 March 2020 or 31 March 2020 upon a condition neither of parties propose a termination of the agreement one month before the expiry of the agreement. An agreement concluded on 29 March 2018 with amount of EUR 150,000 thousand and maturity date - 31 March 2019 is repaid. Loan annual interest rate is fixed at 1.115% (2018: 0.730%). As of 31 December 2019, net outstanding amount of current loan is EUR 67,971 thousand (31/12/2018: EUR 68,233 thousand).

As of 31 December 2019 impairment for expected credit loss of current loans to related parties is recognised in the amount of 66 thousand EUR (31/12/2018: 77 thousand EUR).

f) Interest paid to related parties (Parent Company)

Financial transactions between related parties have been carried out by using current loans with a target to effectively and centrally manage Latvenergo Group companies' financial resources, using Group accounts. In the reporting period Latvenergo AS has received borrowings from subsidiaries in accordance with mutually concluded agreement 'On provision of mutual financial resources'. In 2019 the effective average interest rate was 0.48% (2018: 0.51%). At the end of the reporting year Latvenergo AS has no borrowings from related parties (31/12/2018: nil).

EUR'000

	Parent Company 2019	Parent Company 2018
Interest paid	38	37
	38	**37**

30. Discontinued operations

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 classify 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. 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. It is expected that the ownership of Latvijas elektriskie tīkli AS by Latvenergo AS to be terminated and the ownership of Latvijas elektriskie tīkli AS by Augstsprieguma tīkls AS to be commenced by 1 July 2020. Since Latvenergo AS and Augstsprieguma tīkls AS are both state–owned companies, the change of ownership of assets will occur through the reduction of the share capital of Latvenergo AS by withdrawing the capital shares of Latvijas elektriskie tīkli AS from the base of assets of Latvenergo AS. After the capital shares of Latvijas elektriskie tīkli AS become property of the state, they will be invested in the share capital of Augstsprieguma tīkls AS.

In Latvenergo Group's financial statements as of 31 December 2019 subsidiary Latvijas elektriskie tīkli AS was classified as a discontinued operation in accordance with IFRS 5, "Non–current Assets Held for Sale and Discontinued Operations". In the Statement of Financial Position are disclosed assets, reserves and liabilities held for distribution and in the Statement of Profit or Loss – profit for the year 2019 and comparatives for discontinued operations. In the Group's operating segments results financial results of Latvijas elektriskie tīkli AS are disclosed in transmission system assets lease segment because the Management Board of the Parent Company will continue review financial results of this operating segment until the termination of its ownership.

Financial information of discontinued operation disclosed in tables below includes financial results of transmission system assets lease business, amounts of net assets, reserves in equity, liabilities and cash flows results.

Statement of Profit or Loss

EUR'000

	Group	
	2019	**2018**
Revenue	36,643	39,203
Other income	1,664	2,162
Raw materials and consumables used	(21)	(144)
Personnel expenses	(450)	(403)
Other operating expenses	(395)	(1,184)
EBITDA	**37,441**	**39,634**
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	(24,756)	(25,856)
Operating profit	**12,685**	**13,778**
Finance costs	(17)	–
Profit before tax	**12,668**	**13,778**
Income tax	(2,436)	(3,348)
Profit for the year from discontinued operation	**10,232**	**10,430**

The major classes of assets, reserves and liabilities classified as held for distribution:

EUR'000

	Group	
	31/12/2019	**31/12/2018**
Assets		
Property, plant and equipment (Note 14 a)	601,175	–
Right–of–use assets (Note 15)	1,099	–
Inventories	184	–
Receivables	37,635	–
Cash and cash equivalents (Note 19)	300	–
Assets held for distribution	**640,393**	–
Liabilities		
Provisions (Note 27)	(39)	–
Lease liabilities (Note 15)	(1,107)	–
Deferred tax liability	(2,435)	–
Deferred income (Note 28)	(132,507)	–
Trade and other payables	(43,488)	–
Liabilities directly associated with assets held for distribution	**(179,576)**	**–**
Net assets directly associated with disposal group	**460,817**	**–**
Amounts included in accumulated other comprehensive income:		
Non–current assets revaluation reserve (Note 21)	28,916	–
Post–employment benefit plan revaluation reserve (Note 21)	20	–
Reserves of disposal group classified as held for distribution	**28,936**	**–**

Net cash flows from discontinued operations

EUR'000

	Group	
	2019	**2018**
Net cash flows from operating activities	85,853	85,583
Net cash flows used in investing activities	(85,825)	(86,783)
Net cash flows used in financing activities	(28)	–
Net changes in cash and cash equivalents	**–**	**(1,200)**

31. Commitments and contingent liabilities

As of 31 December 2019, the Group had commitments amounting to EUR 156.3 million (31/12/2018: EUR 189.8 million) and the Parent Company had commitments amounting to EUR 52.3 million (31/12/2018: EUR 58.5 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 19 February 2020 to Latvijas elektriskie tīkli AS, on 20 February 2020 to Enerģijas publiskais tirgotājs AS and on 3 March 2020 to Sadales tīkls AS, acknowledging that its position as the shareholder is to ensure that subsidiaries are managed so that they have sufficient financial resources and are able to carry their operations and settle their obligations.

32. Events after the reporting year

Accounting policy

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

On 14 January 2020, Latvenergo AS signed a loan agreement with SEB banka AS for EUR 60 million and with a repayment term up to 2 years.

On 27 February 2020, the Saeima included in the agenda the draft law "On Amendments to the Electricity Market Law", but on 5 March 2020 it was submitted for review to Economic, Agricultural, Environmental and Regional Policy Committee. The draft law provides for the deletion of some rules of the Electricity Market Law, which defines payments of guaranteed fee for electrical capacity installed at cogeneration power plants. Also, it provides for terminating the order that states that the electricity costs incurred by the public trader in carrying out the statutory functions are borne by the final consumers. The draft law may cause impacts on the Latvenergo Group's profits and asset value.

At the beginning of 2020, the existence of the new coronavirus (Covid-19) was approved and it has currently spread all over the world, also in Latvia, disturbing business and affecting economic development. Latvenergo Group is constantly evaluating the impact of spreading of Covid-19 and implements measures for safety of customers and employees, as well ensures appropriate working regime in strategically important facilities – Daugava hydropower plants, combined heat and power plants in Riga and facilities of Sadales tīkls AS. Latvenergo Group continues to provide all services to its customers and any customer service issues are resolved using remote means of communication.

Spreading of the virus does not have a significant effect on the provision of services by Latvenergo Group. The Group continues to ensure continuity and availability to all customers of electricity generation, electricity and natural gas trading and distribution services. Management of Latvenergo Group considers that the spread of the virus is a non-adjusting event after the reporting period. Since the situation is unclear and is developing rapidly, it is currently not possible to provide a statistical estimate of the potential effect of spreading of the virus on Latvenergo Group, however Covid-19 influence could lead to economic downturn, with the most significant impact on electricity consumption and receivables.

There have been no other significant events subsequent to the end of the reporting year that might have a material effect on the Latvenergo Consolidated and Latvenergo AS Financial Statements for the year ending 31 December 2019.

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

Āris Žīgurs
Chairman of the Management Board

Guntars Baļčūns
Member of the Management Board

Uldis Bariss
Member of the Management Board

Kaspars Cikmačs
Member of the Management Board

Liāna Ķeldere
Accounting director of Latvenergo AS

7 April 2020

Independent Auditor's Report

To the shareholder of Latvenergo AS

Report on the audit of the separate and consolidated financial statements

Our opinion

In our opinion, the separate and consolidated financial statements give a true and fair view of the separate and consolidated financial position of Latvenergo AS (the Company) and its subsidiaries (together the Group) as at 31 December 2019, and of their separate and consolidated financial performance and their separate and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Our opinion is consistent with our additional report to the Audit Committee dated 27 March 2020.

What we have audited

The financial statements presented on pages 11 to 62 which consist of the separate financial statements of the Company and the consolidated financial statements of the Group (together "the financial statements") comprise:

- the separate and consolidated statement of profit or loss for the year ended 31 December 2019;
- the separate and consolidated statement of comprehensive income for the year ended 31 December 2019;
- the separate and consolidated statement of financial position as at 31 December 2019;
- the separate and consolidated statement of changes in equity for the year then ended;
- the separate and consolidated statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

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Independence

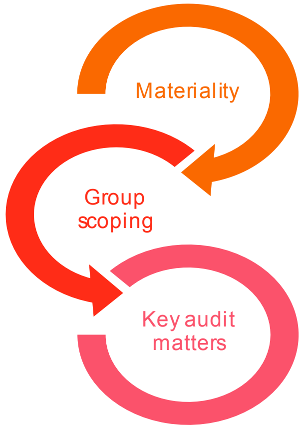
We are independent of the Company and the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements of the Law on Audit Services that are relevant to our audit of the financial statements in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

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

The non-audit services that we have provided to the Company and the Group, in the period from 1 January 2019 to 31 December 2019, are disclosed in Note 10 to the financial statements.

Our audit approach

Overview



Materiality

- Overall Company and Group materiality: EUR 6,800 thousand.

Audit scope

- Full scope audit was conducted for all seven Group entities, five of them are in Latvia (including the Company), one in Estonia and one in Lithuania.
- The Group audit team performed the work on all five Latvian entities.
- Estonian and Lithuanian subsidiaries were audited by component audit teams located in the respective countries.

Key audit matters

- Discontinued operations

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Company and Group materiality separately for the separate and consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall Company and Group materiality	Overall materiality applied to the Company and the Group was EUR 6,800 thousand.
How we determined it	5% of average profit before tax from continuing and discontinued operations for the recent three years.
Rationale for the materiality benchmark applied	We chose profit before tax as the base benchmark because, in our view, it is the benchmark against which the performance of the Company and the Group is most commonly measured by users of the financial statements, and it is a generally accepted benchmark. We decided to use average profit for the recent three years (2017-2019) due to significant volatility in profit before tax during these years due to fluctuations in the market price of electricity, arising mainly from unstable weather conditions in Latvia and Nordic countries. We chose 5%, which is within the range of acceptable quantitative materiality thresholds.

We agreed with the Audit Committee that we would report to them the misstatements identified during our audit above EUR 680 thousand, both with respect to the Company and the Group, as well as the misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters are addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters	How our audit addressed the key audit matter
Discontinued operations *Refer to Note 30 to the financial statements on pages from 60 to 61.*	
In 2019 the Cabinet of Ministers of the Republic of Latvia decided to support the scenario presented by the Ministry of Economics and the Ministry of Finance on the implementation of electricity transmission system operator ownership model "Complete separation of ownership", which foresees transfer of "Latvijas elektriskie tīkli" (LET) shares from Latvenergo group to "Augstsprieguma tīkli" (AST) by 1 July 2020. Management had to apply judgement in evaluating if the planned transfer of LET shares meets the criteria of a disposal group under IFRS 5 "Non-current assets held for distribution and discontinued operations" as at 31 December 2019. According to IFRS 5 classification of a disposal group as assets held for distribution is only achieved if the asset is available for immediate distribution in its present condition and the distribution is highly probable (including management's commitment to the plan, unlikely significant changes to the plan, the probability of shareholder's approval). Management also had to make judgement on classification of transactions between continuing and discontinued operations. We focused on this area because classification, measurement and presentation of discontinued operations and assets held for distribution and the related liabilities have material impact on the Group's financial statements as at 31 December 2019 and for the year then ended.	We examined the Cabinet of Ministers decision on "Complete separation of ownership" in relation to electricity transmission system operator ownership model and evaluated the Group's management assessment of the probability of the transaction, the Group's management commitment to the plan to distribute the assets, actions taken to initiate the distribution, timing of the planned distribution, likelihood of the significant changes to the plan and the probability of the shareholder's approval. We evaluated the Group's management judgement on classification of transactions between continuing and discontinued operations. We performed detailed audit procedures on the classification of the discontinued operations revenue and expenses and the assets held for distribution and the related liabilities in the Group's financial statements as at 31 December 2019 and for the year then ended and in the comparative statement of profit or loss for the year ended 31 December 2018. We assessed whether the information disclosed in the financial statements in relation to discontinued operations meets the requirements of IFRS 5.

How we tailored our Group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Full scope statutory audit was performed for the Company and all its subsidiaries by us or by other PwC network firms. Where work was performed by component auditors, we determined the level of involvement we needed to have to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the consolidated financial statements as a whole. We also audited the consolidation process.

Reporting on other information including the Management Report

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

- Latvenergo Group Key Figures, Latvenergo AS Key Figures and Management Report as set out on pages 3 to 10 of the accompanying Annual Report,
- Non-financial Report included in the Management Report as set out on page 8 of the accompanying Annual Report, and
- the Corporate Governance Report, set out in separate statement prepared by the Company's management and available on the Company's website http://www.latvenergo.lv section Investors as at the date of this audit report,

but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information identified above.

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

With respect to the Management Report, we also performed the procedures required by Law on Audit Services. Those procedures include considering whether the Management Report is prepared in accordance with the requirements of the applicable legislation.

In accordance with the Law on Audit Services of the Republic of Latvia with respect to the Corporate Governance Report, our responsibility is to consider whether the Corporate Governance Report includes the information required by section (3) of Article $56.^2$ of the Financial Instruments Market Law.

Based on the work undertaken in the course of our audit, in our opinion, in all material respects:

- the information given in the other information identified above for the financial year for which the financial statements are prepared is consistent with the financial statements;
- the Management Report has been prepared in accordance with the requirements of the Law on Annual Reports and Consolidated Annual Reports; and
- the Statement of Corporate Governance, available on the Company's website http://www.latvenergo.lv as at the date of this audit report, includes the information required by section (3) of Article 56.2 of the Financial Instruments Market Law.

In addition, in light of the knowledge and understanding of the Company and the Group and their environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the Management Report and the other information listed above that we obtained prior to the date of this auditor's report. We have nothing to report in this respect.

Furthermore, in accordance with the Law on Audit Services with respect to the Non-financial Report, our responsibility is to report whether the Group has prepared Non-financial Report and whether the Non-financial Report is included in the Management Report or prepared as a separate element of the Annual Report.

We hereby report that the Group has prepared a Non-financial Report, and it is included in the Management Report.

Responsibilities of management and those charged with governance for the financial statements

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

Report on other legal and regulatory requirements

Appointment

We were appointed as auditors of the Company and the Group for the year ended 31 December 2019 by resolution of general meeting of shareholders dated 8 May 2019. This is our second year of the appointment.

PricewaterhouseCoopers SIA
Certified audit company
License No. 5

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

Riga, Latvia
7 April 2020

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