Sustainability and Annual Report 2019

Latvenergo 80
for future energy

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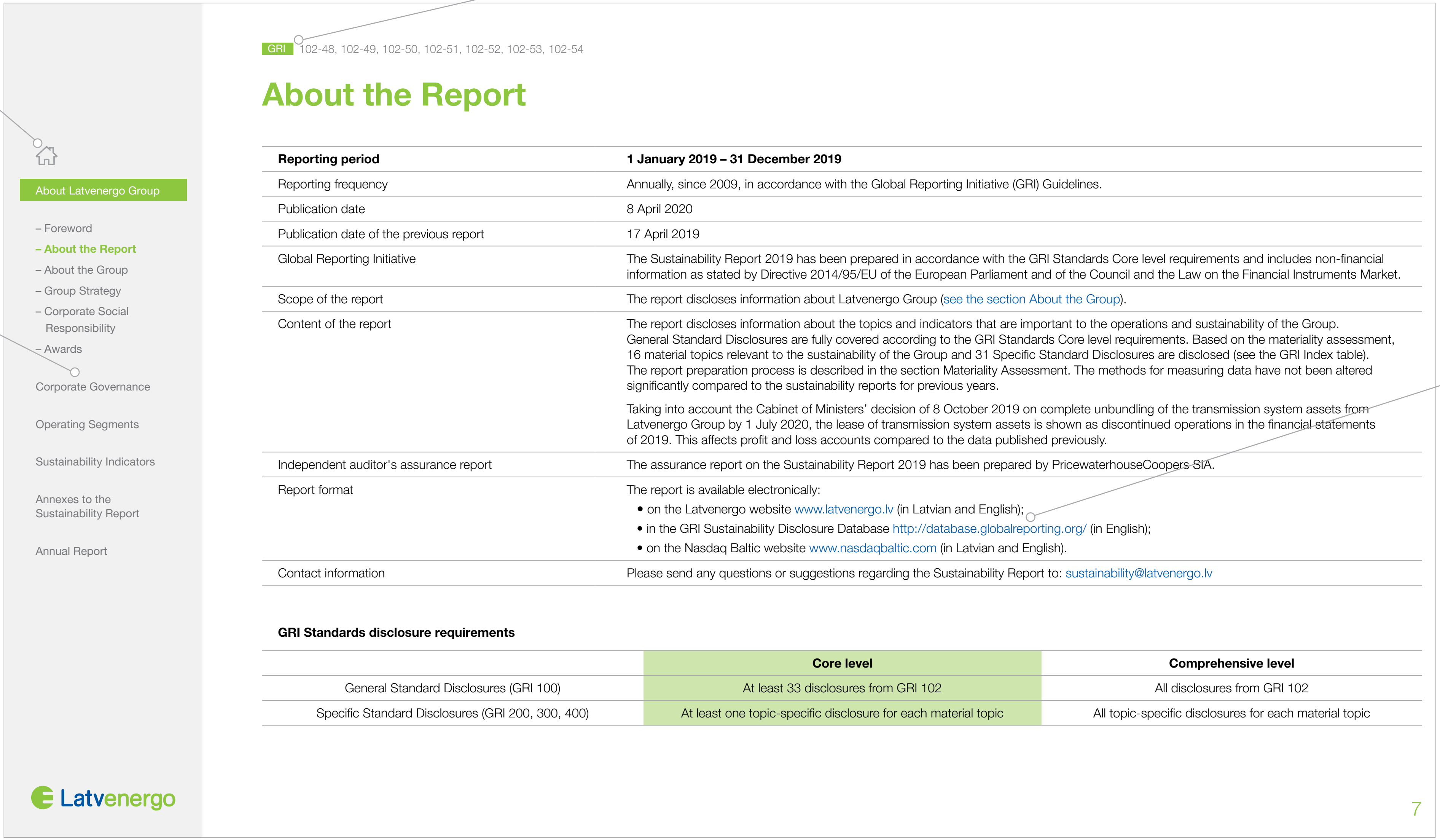

Latvenergo

GRI 102-48, 102-49, 102-50, 102-51, 102-52, 102-53, 102-54

About the Report

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Content of the report	The report discloses information about the topics and indicators that are important to the operations and sustainability of the Group. General Standard Disclosures are fully covered according to the GRI Standards Core level requirements. Based on the materiality assessment, 16 material topics relevant to the sustainability of the Group and 31 Specific Standard Disclosures are disclosed (see the GRI Index table). The report preparation process is described in the section Materiality Assessment. The methods for measuring data have not been altered significantly compared to the sustainability reports for previous years. Taking into account the Cabinet of Ministers' decision of 8 October 2019 on complete unbundling of the transmission system assets from Latvenergo Group by 1 July 2020, the lease of transmission system assets is shown as discontinued operations in the financial statements of 2019. This affects profit and loss accounts compared to the data published previously.
Independent auditor's assurance report	The assurance report on the Sustainability Report 2019 has been prepared by PricewaterhouseCoopers SIA.
Report format	The report is available electronically: • on the Latvenergo website www.latvenergo.lv (in Latvian and English); • in the GRI Sustainability Disclosure Database http://database.globalreporting.org/ (in English); • on the Nasdaq Baltic website www.nasdaqbaltic.com (in Latvian and English).
Contact information	Please send any questions or suggestions regarding the Sustainability Report to: sustainability@latvenergo.lv

GRI Standards disclosure requirements

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

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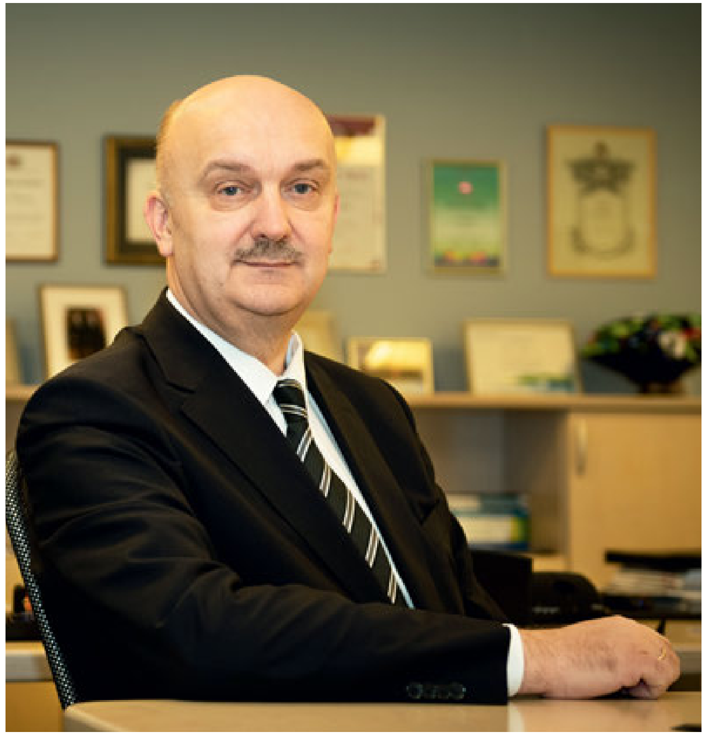
About Latvenergo Group

Foreword



Last year, 2019, was a big year in the operations of Latvenergo Group: we celebrated the 80th anniversary of the company with excellent results in energy generation and new and creative initiatives in the organisation of our work. The Latvenergo CHPPs set a new electricity generation record for the second year in a row, thus remaining the cornerstone of the Latvian energy supply system and a provider of base load capacities in the Baltic region. This achievement is even more important because our modernised cogeneration power plants operate with minimum emissions, and this is one of the most important energy efficiency indicators for the modern energy industry.

In 2019, climate change challenges were a frequent topic for Latvenergo Group and the energy sector across Europe. At the end of the year, the European Commission proposed an ambitious set of European Green Deal measures, which aim to make Europe the first climate-neutral part of the world by 2050. This plan provides for a substantial decline in GHG emissions as well as investment in research and innovative technology to preserve the natural environment as much as possible. Latvia supports the criteria of the Green Deal in its National Energy and Climate Plan, which sets the basic principles, goals and action lines of the national energy and climate policy for the next ten years.

At the time of preparation of the Latvenergo Group Sustainability Report for 2019, global news agencies were chronicling the accelerating spread of COVID-19, a new viral infection previously unknown to humanity. As of this report's publication, a state of emergency has been declared in many parts of the world, including in the Baltic States, and it is certain that the world has been hit by a new and different kind of economic crisis, which has paralysed numerous business fields due to the threat of the virus. In 2020, the economy and the energy sector will face serious challenges.

In a state of emergency, Latvenergo Group ensures appropriate operating modes in strategically important energy generation facilities: the Daugava hydropower plants and combined heat and power plants of Latvenergo AS as well as Sadales tīkls AS. The Group will continue to responsibly provide the entire economy with such important services in this challenging time.

The future vision of Latvenergo is related to the development of the Baltic region and technologies. In times of change in the energy sector, and in the year of its 80th anniversary, the Group was successfully operating in new business directions: electric mobility as well as trade of natural gas, solar panels and other electricity-related products. Presently, Latvenergo operates in all energy trade segments in Latvia, Lithuania and Estonia and remains one of the largest providers of energy supply services in the Baltics.

Latvenergo Group has a balanced and environmentally friendly energy generation portfolio, consisting of the Daugava HPPs and highly efficient CHPPs. Year on year generation results have been determined mainly by two important factors: the weather and energy demand in the market.

Last year, electricity prices in the region were lower than a year earlier. This is because the hydrological situation in the Nordic countries improved in the second half of the year, warmer weather led to a reduction in thermal energy demand, and lower natural gas and coal prices were observed. It should be noted that in 2019, generation of electricity in the Baltics was 21% lower than in 2018. The biggest decrease in electricity generation occurred in Estonia, where operations of oil shale power plants were limited due to high prices of emission allowances.

In 2019, 4.9 TWh of electricity and 1.8 TWh of thermal energy was generated by Latvenergo Group's power plants. Water inflow in the Daugava was lower than the annual average inflow, which negatively affected the electricity output by the Daugava HPPs. In 2019, the Daugava HPPs generated 2 TWh, which was 14% less than in 2018. Due to the significant decrease in electricity generation in Estonia, the role of the CHPPs of Latvenergo AS and the amount of electricity they generated increased considerably. It should be noted that in 2018, the CHPPs of Latvenergo AS produced historically the largest amount of electricity, but the record was broken again in 2019, when the CHPPs produced 2.8 TWh of energy or 5% more than a year earlier. Thus, in 2019, Latvenergo Group successfully took advantage of its diversified electricity generation capabilities, and the CHPPs fulfilled the function of the provider of base capacities not only in Latvia, but also across the Baltics, while the modernised CHPPs provided an opportunity to generate electricity with as little GHG emissions as possible compared to other fossil fuel power plants in the region.

In 2019, Latvenergo Group supplied 6.5 TWh of electricity in retail, more than a third of which was supplied outside Latvia. The total portfolio of electricity customers of the Group comprises about 757 thousand customers, including more than 35 thousand customers outside Latvia.

In 2019, Latvenergo Group successfully continued operations in new markets and actively offered new services under the *Elektrum* brand in compliance with its chosen operational strategy. Energy consumers are becoming more actively involved in the market, and the number of prosumers is growing in our company as well.

Trends across the globe and in Latvia show that as the number of electric cars and the number of charging points grow at the same time, the development of electric mobility in Latvia will happen faster than expected. The first *Elektrum* rapid charging stations started operating in August 2019. By the end of the reporting year, about

1500 charging processes were performed. More than 200 users took the opportunity to charge their electric cars at these locations, using the *Elektrum* app created specifically for the local market.

The solar panel market experienced rapid growth in 2019, and the number of *Elektrum Solar* contracts grew substantially. Within two years, we, as newcomers, have become one of the most prominent players in the Baltics; the increase in the number of customers in Lithuania is particularly noteworthy. One third of households in Latvia which have installed solar panels purchased them from *Elektrum.* The Group's share in the Baltic market of solar panels is about 8%. *Elektrum* customers become producers of green energy when they use this service.

The *Elektrum* online shop was opened in May 2019 and achieved a considerable number of visitors in its first year. The offering for customers consists of products for efficient and convenient use of electricity: LED bulbs, electric scooters, and *Smart House* products. These are not merely new offers for customers – each of them fosters a greener and cleaner future.

An important event in 2019 was Latvenergo Group's entry into the market of natural gas for households, becoming one of the first competing traders. Twice more agreements than planned were concluded in 2019. Overall, the volume sold doubled and reached 3 TWh compared to natural gas trading in 2018. At the end of the year, the portfolio of *Elektrum* natural gas customers comprised over five thousand households. Crucial reasons why customers choose *Elektrum* include the single invoice for natural gas and electricity, friendly and responsive customer service, and more convenient service generally. The Group also continued to increase its number of natural gas customers in the segment of business customers, where the number approached 800. Thus, *Elektrum* has positioned itself as the leading new natural gas trader in Latvia.

In 2019, Latvenergo Group's profits increased by 24% compared to the previous year and reached EUR 94.4 million. Investments reached EUR 229.4 million. The Daugava HPPs reconstruction programme continued with EUR 16.6 million invested. The programme has been scheduled until 2023, and its total costs will exceed EUR 200 million.

The installation of the heat storage system is a considerable innovation at the Baltic level and is implemented at the CHPP-2 generating facility. This will be a new approach to the improvement of energy efficiency of the thermal energy and electricity generation process. When built, this unit will be one of the largest and most modern solutions, and Latvenergo AS will thus ensure more efficient use of heating fuel in the country and reduce consumption of energy sources, making generation at the CHPPs even more efficient and greener.

In October 2019, the Cabinet of Ministers of the Republic of Latvia decided to support full ownership unbundling of the electricity transmission system operator, which means that by 1 July 2020 transmission assets will be taken over from Latvenergo AS by another company belonging to the state – the Latvian transmission system operator Augstsprieguma tīkls AS. The change of ownership of assets is planned through the reduction of the share capital of Latvenergo AS by withdrawing from the base of assets of Latvenergo AS the capital shares of Latvijas elektriskie tīkli AS. It is important to note that in October 2019, taking into account the changes planned in the structure of Latvenergo Group, the international credit rating agency Moody's reaffirmed the credit rating of Latvenergo AS at investment grade Baa2 with a stable outlook.

In November 2019, the Public Utilities Commission approved draft tariffs of Sadales tīkls AS system services for the next five years, and this provides for an average reduction in distribution service tariffs of 5.5%. The lowering of distribution tariffs is possible due to the ambitious operational efficiency programme of Sadales tīkls AS, which includes process improvement and digitalisation as well as reduction of personnel and the number of vehicles and real estate bases. The changes in tariffs took effect on 1 January 2020.

Last year, for the seventh year in a row Latvenergo AS was awarded the Platinum (highest) category from the Sustainability Index and at the same time the highest assessment in the history of the Sustainability Index – 97.3%. In this way, we have established ourselves as a convincing leader in the Sustainability Index. Sustainable capital investments, responsibility towards customers, the environment and employees, and governance in line with international practices contribute to the high assessment of the Group in all aspects of corporate social responsibility. Similarly, in 2019, for the twelfth time, Latvenergo AS received the award for the most valuable company in the TOP 101 Most Valuable Companies of Latvia. The results of the survey *Top Employer 2019,* organised by the online recruitment company CV-Online Latvia, show that Latvenergo AS has been the best employer in the production sector for the seventh year.

Latvenergo Group extensively implements social responsibility activities in science and education to promote young people's interest in exact science-related subjects and engineering professions. In cooperation with the Latvian Academy of Sciences, for more than 20 years young and experienced scientists have been awarded an Annual Prize for excellent and important contributions to the energy industry, and significant support has been provided to higher education institutions and the Engineering High School of Riga Technical University. Last year, for the second time the Group organised the only Physics Festival in the Baltic States with the participation of over four thousand visitors.

The Group has established inspiring joint activities with scientists of leading higher education institutions. The involvement of the academic community is diverse: students are educated at such a level that their graduation papers not only receive prizes in competitions but are also used in the Group's operations, and specific research papers are prepared on topics relevant to the daily work of the Group.

The support of Latvenergo Group to nationwide cultural events promotes the development of Latvia's cultural traditions and the strengthening of national identity. In cooperation with *Ziedot.lv,* Latvenergo Group supported social projects as a result of a projects tender in 2019, providing support to several thousand people throughout Latvia.

One of the basic principles of the environmental policy of the Group is preservation of biological diversity and reduction of the impact of the Group's activity on the environment. Protection of birds and replenishment of fish stock are important areas of action in this regard. Latvenergo Group has had many years of successful cooperation with the Latvian Ornithological Society and with the *Mēs zivīm* society to promote the replenishment of fish stocks characteristic of the Daugava River basin.

Latvenergo Group is already one of the greenest electricity producers in Europe, with CO_2 emission intensity considerably lower than the industry average in the European Union. This is ensured by the considerable share of renewable energy sources in the consumption of primary energy sources and efficient CHPP generation modes. The Group continues to improve its operations to continue progress towards even cleaner energy and more modern products and services.

At the same time, it is clear that the current unfolding of events due to the global COVID-19 pandemic will lead to adjustments in the development of any company; however, we are convinced that we will overcome the new obstacles. We are ready to adapt to changes rapidly, and this is based on timely and meticulously built information technology systems, openness to the new, and the ability to adapt to the speed of change.

Circulation of information and communication allow us to be sure that we are physically and emotionally ready to adapt to new requirements in the organisation of our work and to meet any wishes of our customers.

Our work is for the energy of the future. Thank you for your cooperation!

Āris Žīgurs, Chairman of the Management Board
and Chief Executive Officer of Latvenergo AS

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About the Group

Latvenergo Group is one of the largest power suppliers in the Baltics. It operates in electricity and thermal energy generation and trade, natural gas trade, electricity distribution services and the lease of transmission system assets.

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

The Group divides its operations into three operating segments: generation and trade, distribution, and lease of transmission system assets. More information is disclosed in the section Operating Segments.

Mission

To ensure high-quality, safe and environmentally friendly energy generation and supply to customers sustainably, thus promoting an increase in the long-term value of the Group

Vision

To be one of the leading and primary customer-chosen providers of sustainable and high-quality power supply services in the Baltic markets

Values

RESPONSIBILITY	EFFICIENCY	OPENNESS
We are reliable	We strive for excellence	We are transparent and open to new ideas

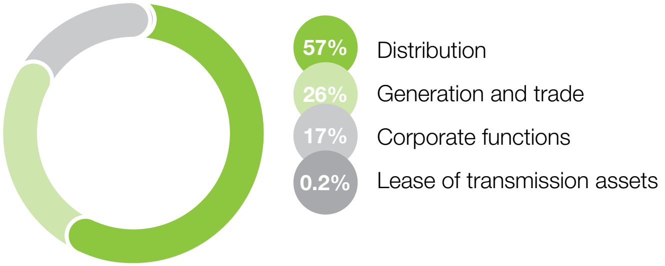
Latvenergo

Facts 2019

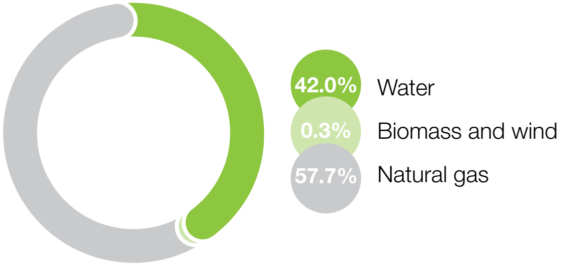
		2019	2018
Financial figures*			
Revenue	MEUR	841.6	838.8
Profit	MEUR	94.4	76.0
Assets	MEUR	3,864.9	3,798.8
Investments	MEUR	229.4	220.6
Moody's credit rating		Baa2	Baa2
Generation and trade			
Installed electrical capacity	MW	2,591	2,591
Installed thermal capacity	MW	1,838	1,838
Electricity output	GWh	4,880	5,076
Thermal energy output	GWh	1,842	2,274
CO_2 emission intensity	t/MWh	0.18	0.16
Market share in the Baltics	%	23	25
Retail electricity supply	GWh	6,505	6,954
Retail natural gas supply	GWh	303	147
Retail customers	thsd.	757	789
Distribution			
SAIDI	min	246	228
SAIFI	number	2,7	2,5
Length of distribution lines	km	92,958	93,175
Transformer capacity	MVA	5,922	5,930
Lease of transmission assets			
Length of transmission lines	km	5,424	5,243
Transformer capacity	MVA	9,339	9,165

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

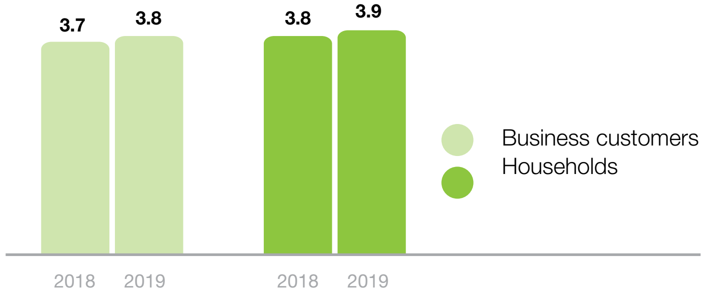
Employees 3,423



Share of renewable resources in the electricity output 42%



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



Latvenergo Group is 80!

1939 The beginning of the unified state power supply system and Latvenergo Group: Kegums HPP starts operating with a capacity of 17.5 MW, and on 22 December the State Electricity Company Ķegums is established. The construction of Kegums HPP lasts from 1936 to 1940. After the Second World War, the reconstructed power plant reaches its design capacity of 70 MW in 1953.

1955 CHPP-1 starts operating with an electrical capacity of 50 MW. In 1958, the power plant starts generating thermal energy. In 1960, CHPP-1 reaches its design electrical capacity of 129.5 MW and thermal capacity of 384 MW. The construction of CHPP-1 lasts from 1952 to 1960.

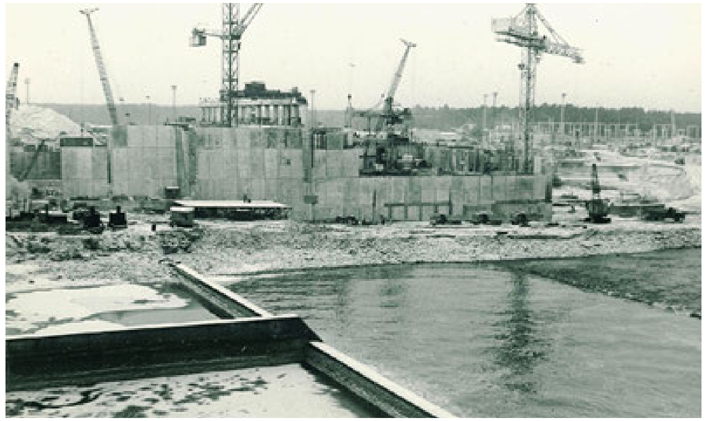
1965 Plavinas HPP is launched. In 1966, the power plant reaches its design capacity of 825 MW. The construction of Plavinas HPP lasts from 1961 to 1968.

1973 CHPP-2 starts operating with a thermal capacity of 232 MW, and in 1975 it operates with an electrical capacity of 63 MW. In 1979, CHPP-2 reaches its design electrical capacity of 390 MW and thermal capacity of 1,130 MW. The construction of CHPP-2 lasts from 1972 to 1979.

1974 Riga HPP is launched. In 1975, the power plant reaches its design capacity of 384 MW. The construction of Riga HPP lasts from 1966 to 1975. In 1979, the capacity of Riga HPP reaches 402 MW.

1979 Kegums HPP is extended by launching Kegums HPP-2 with a capacity of 192 MW. The construction lasts from 1976 to 1979.

1991 Gradual modernisation of the Daugava HPPs is started with reconstruction of Plavinas HPP hydropower units.



Latvenergo

2005 The reconstruction of CHPP-1, which started in 2003, is completed with a new, environmentally friendly combined cycle power-generating unit with 144 MW installed electrical capacity and 145 MW thermal capacity.

Latvenergo AS participates in the creation of the first Baltic-Scandinavian interconnection EstLink.

2007 Gradual opening of the Baltic electricity market is started.

2009 The reconstructed first power-generating unit of CHPP-2 is launched with an electrical capacity of 413 MW in cogeneration mode and a thermal capacity of 274 MW.

2010 The group starts supply of electricity in Lithuania and Estonia.

2011 Latvenergo AS becomes the first company in Latvia to start using electric cars in daily work.

2012 The Group introduces the trading brand *Elektrum*.

2013 The second power-generating unit of CHPP-2 is launched. CHPP-2 becomes the most state-of-the-art and the most efficient combined heat and power plant in the Baltics. The electrical capacity of the plant is 832 MW in cogeneration mode and 881 MW in condensation mode, while the thermal capacity is 1,124 MW.

2014 Latvenergo AS starts trading electricity at the Nord Pool exchange.

2015 Latvenergo AS becomes the first state-owned company in Eastern Europe to issue green bonds in the capital market.

2017 The Group starts supplying natural gas to customers in Latvia and Estonia.

2019 The supply of natural gas to Latvian households is started under the *Elektrum* trading brand. The first *Elektrum* high-speed electric vehicle charging stations are launched. The CHPPs of Latvenergo AS generate historically the highest amount of electricity – 2,780 GWh.

Highlights 2019

Latvenergo Group is 80!

In 1939, an important step was made in the electrification of Latvia – the first turbine of Kegums HPP was put in operation. Since then, Latvenergo has extended its generation capacity and its field of operations considerably and has become one of the greenest electricity generators in Europe.

For the eleventh year in a row, Latvenergo received an award as the most valuable company in TOP 101 Most Valuable Companies of Latvia and was recognised as the most valuable energy company in the Baltics.

Continuing to improve distribution service quality and competitiveness

An extensive and successfully implemented performance efficiency enhancement programme allows for reducing the fee for the electricity distribution system service by 5.5% on average from 1 January 2020, thus strengthening the competitiveness of Latvian companies.

Augstsprieguma tīkls AS will manage transmission system assets

In October, the Cabinet of Ministers decided to completely unbundle ownership of the electricity transmission system operator by 1 July 2020. This means that 330 kV and 110 kV transmission lines, substations and distribution points will be transferred to the transmission system operator Augstsprieguma tīkls AS.

Constantly expanding the range of products and services

Since February 2019, *Elektrum* has been offering natural gas to Latvian households, while in May, Latvenergo became the first energy company in the Baltic States to start online sales of products and services. At elektrumveikals.lv it is possible to purchase LED bulbs, security detectors, electric scooters, electric charging systems, smart house devices, solar panels and collectors.

Platinum rating in the Latvian Sustainability Index

In June, Latvenergo AS received the highest category, Platinum, in the Sustainability Index and an overall score of 97.3%. Sadales tīkls AS was also awarded the Platinum category for the first time.

Historically highest amount of electricity generated by CHPPs

In 2019, the ability of the Latvenergo AS CHPPs to quickly adapt and effectively respond to changes in electricity market demand was particularly important. The CHPPs generated a total of 2,780 GWh of electricity, which is 5% more than in the previous year.

New direction – electric mobility

The first three *Elektrum* high-speed charging stations for electric cars were launched and the *Elektrum* e-store started trading electric scooters.

Group Strategy

Future climate change challenges were a frequent topic for the energy sector in 2019. Important documents regulating energy and climate were drafted both in Latvia and Europe. Latvia drafted the National Energy and Climate Plan, which sets the basic principles, goals and action lines of the national energy and climate policy for the next ten years. Furthermore, at the end of the year, the European Commission proposed an extensive set of European Green Deal measures, which aim to make Europe the first climate-neutral part of the world by 2050.

Latvenergo is already one of the greenest electricity producers in Europe. The Group is generating a significant proportion of electricity at hydropower plants supplemented by modernised combined heat and power plants, which generate electricity from natural gas – a more environmentally friendly fossil energy source. Without resting on its achievements, Latvenergo Group, like any company in the energy industry, will have to adapt to the industry's development course in the coming decades.

The Latvenergo Group Strategy 2017-2022 defines the strategic operational and financial objectives and main development tasks of the Group. At the end of 2019, the midpoint of the strategy's implementation was reached, allowing for a review of progress made towards the goals set for this stage.

Sustainability in the Latvenergo Group

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

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

The Group's strategic objectives

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

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

Latvenergo Group remains one of the largest providers of energy supply services and the most valuable energy company in the Baltics. The Group currently operates in all energy trade segments in Latvia, Lithuania and Estonia.

In 2019, 6.5 TWh of electricity were supplied to retail customers. 2.3 TWh were supplied outside Latvia, which accounts for 1/3 of the total retail electricity supply.

Latvenergo Group has long been one of the largest consumers of natural gas in the Baltics, and this experience has made it possible to create well-considered natural gas supply offers. Retail supply of natural gas to business customers of all three Baltic States and, in 2019, to Latvian households started during the strategy period. In the reporting year, the amount of natural gas supplied to customers increased more than two times and reached 303 GWh.

During the strategy period, Latvenergo Group started to offer a number of new products and services to its customers in the Baltics, for example, smart house technologies, electric scooters and other electrical devices in the *Elektrum* e-store. *Elektrum Solar* has become the most popular new service among customers, placing Latvenergo among leaders of the Baltic region in retail supply of solar panels. The Group also sees the potential for development in the field of electric mobility, and an important step in this direction was made in the reporting year – the Group's first publicly available high-speed charging stations were launched in Riga and Jurmala.

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

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

In the first half of the strategy period, the renewal of the Daugava HPPs' hydropower units continued successfully, ensuring their operation for the next 40 years. Through the implementation of this project, the installed capacity, efficiency rate and electricity output of the hydropower units is increasing. The use of water, a renewable energy source, in a more efficient way reduces the impact of the Group on climate change. Overall, five hydropower units are being modernised over a three-year period, and the reconstruction is scheduled for completion in 2023.

Furthermore, both CHPPs played a very important role in providing generation capacities at a time when the water inflow in the Daugava River was low. In order to increase generation efficiency in cogeneration mode, the construction of the largest heat storage tank in the Baltics at CHPP-2 is scheduled for completion in 2020. The increase in flexibility and efficiency of performance of CHPP-2 will allow the power plant to better adapt operation to variable market conditions, at the same time reducing GHG emissions even more.

During this strategy period, the Group also started activities to diversify its generation portfolio, focusing on the possibilities of using wind energy.

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

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

A significant improvement in power supply continuity indicators has been achieved in the strategy period so far. The distribution network was reconstructed and upgraded, which has made it possible to reduce the System Average Interruption Duration Index (SAIDI) by 14% and the System Average Interruption Frequency Index (SAIFI) by 15% since 2016. Digitisation of the distribution network continued successfully – at the end of the reporting year, smart meters already accounted for 63% of the total meter fleet and were metering 86% of the total amount of electricity distributed.

In 2017, the Group initiated a strategic development and efficiency implementation programme – the most extensive optimisation plan of the Group in the past decade, the implementation of which will allow the Group to retain and increase its value and competitiveness in the open market and in the changing energy sector in the long term. Reorganisation of the structure of Sadales tīkls AS, centralisation of processes and significant reduction of the number of vehicles, maintenance depots and employees were carried out as planned within the programme. The reduction in costs has provided an opportunity to reduce the total payment for electricity distribution by 5.5% on average from 1 January 2020.

In 2019, in line with the plan, the Group continued to invest in transmission asset development. The *Kurzeme Ring* project was completed in 2019. Investments in the third Latvia–Estonia transmission network interconnection continued.

In 2019, the Cabinet of Ministers of the Republic of Latvia decided to complete the ownership unbundling of the electricity transmission system operator by 1 July 2020 and transfer all assets of the electricity transmission system to the transmission system operator Augstsprieguma tīkls AS. More information is available in the section Lease of Transmission Assets.

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The Group's financial objectives

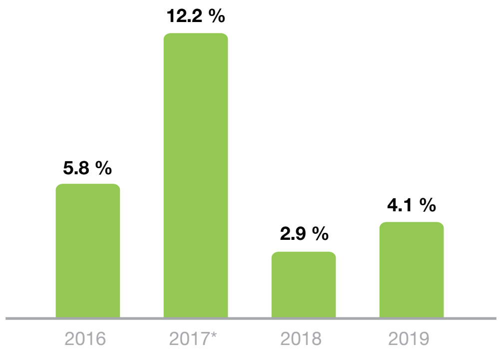
Profitability

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

Return on equity (ROE)

> 6 %

Industry average: 5–8%



Latvenergo Group's profit for 2019 amounted to EUR 94.4 million, which is a 24% increase from the year before. The return on equity (ROE) increased by 1.2 percentage points. Both indicators were negatively affected by lower electricity generation at the Daugava HPPs, which was 14% lower than in 2018 and 52% lower than in 2017 due to dry weather. The increase in profitability was fostered mainly by the higher sales price of electricity.

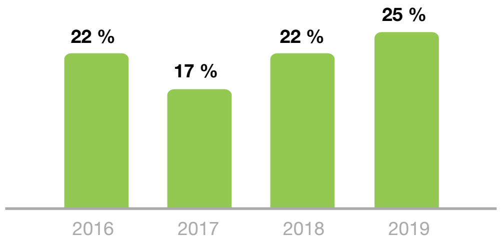
Capital structure

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

Net debt to equity

< 50 %

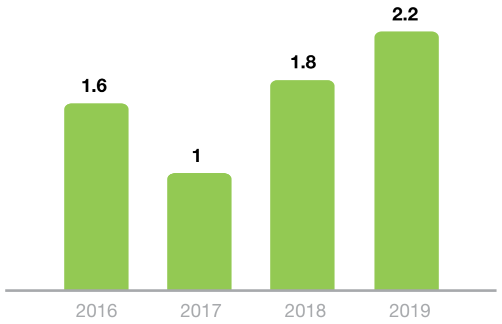
Industry average: 30–50%



Net debt to EBITDA

< 3

Industry average: 2.5–3



The 2019 financial indicators of the capital structure met the set objectives and exceeded average industry indicators as well.

Taking into account the Cabinet of Ministers' decision on complete unbundling of ownership of the transmission system operator by 1 July 2020, discontinued operations (transmission system assets) are excluded from the capital structure indicators.

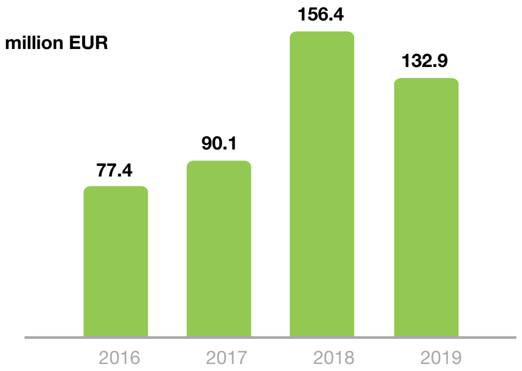
Dividend policy

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

Dividend payout ratio

> 80 %

Industry average: 60–70%



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

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

Latvenergo

Corporate Social Responsibility

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Latvenergo Group follows responsible business principles and implements statutory and voluntary activities aimed at improving the public welfare and the environment. In its daily operations, the Group implements the principles of social responsibility in compliance with ISO 26000.

Corporate social responsibility (CSR) principles and activities are set in the CSR policy of the Group. The CSR activities of the Group promote the involvement of large groups of society and ensure a considerable long-term impact and public benefit.

The Group implements CSR activities in the following directions:

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

The corporate reputation study conducted in 2019 shows that the majority of the Group's stakeholders believe that the companies of Latvenergo Group conduct business responsibly. An increasing number of Latvian residents highly approves of the Group's CSR activities in all areas, and the industry experts praise activities aimed at raising public awareness of electrical safety which are carried out by Sadales tīkls AS. 68% of the residents and 76% of the industry experts believe that the Group should continue to implement science and education-related CSR activities.

A survey of Latvian residents about Latvenergo AS donation activities showed that the awareness of Latvenergo as a donor has grown since 2018 and the population evaluates donation activities positively. The evaluation of social support activities improved over the year, while the evaluation of scientific, educational and cultural activities remained high.

Recognizing its own role and contribution to sustainable development, the Group is committed to processes, products and services that contribute to the achievement of the United Nations' sustainable development goals (SDGs). Three SDGs have been set as priorities and are relevant for the principal activities of the Group. When implementing CSR activities, the Group also makes a contribution to the achievement of other SDGs.

SDG	The Group's contribution to the achievement of the SDG	Section
7 AFFORDABLE AND CLEAN ENERGY Ensure access to affordable, sustainable and modern energy for all	high share of renewable energy in the generation portfolio and CO_2 emission intensity two times lower than the European average	Generation Environmental Topics
	modern electricity products in line with the specifics of consumption of customers, including *Elektrum Solar, Elektrum Green, Elektrum Smart House,* trade of products promoting energy efficiency, electric vehicle charging stations in Riga and Jurmala	Trade
	various measures for promotion of energy efficiency of customers, for example, seminars, individual consultations at the Energy Efficiency Centre	Trade
	shortening of the time necessary for the implementation of new electricity connections	Distribution Social Topics
	automation and digitalisation of customer service processes	Social Topics
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE Build resilient and sustainable infrastructure, promote inclusive and sustainable industrialization, and foster innovation	the Daugava HPPs hydropower unit reconstruction programme to ensure generation of sustainable energy and efficient use of resources	Generation
	renewal of the distribution network and creation of a more efficient network structure	Distribution
	construction of the Baltics' largest heat storage tank at CHPP-2, ensuring more effective use of energy sources	Generation Environmental Topics
	digitalisation of the distribution network, which promotes energy efficiency and reduction of costs	Distribution
	involvement in the Innovation Forum for Excellent Latvian Enterprises	Social Topics
13 CLIMATE ACTION Take action to combat climate change and its impacts	CO_2 emission intensity two times lower than the European average secured by the considerable share of renewable energy sources in the consumption of primary energy sources and efficient CHPP generation modes	Generation Environmental Topics
	modernisation of the electricity distribution network, which has allowed the Group to reduce distribution losses by 60 GWh or 18% in the last five years	Distribution
	an energy management system corresponding to the international standard ISO 50001	Environmental Topics

Science and education

Latvenergo Group implements science and education-related CSR activities in order to:

- promote young people's interest in exact science-related subjects and engineering professions;
- support young people's excellence in the exact sciences;
- supplement teaching materials for schoolteachers;
- support researchers' and teachers' scientific work in the field of energy, which promotes the education of youth;
- raise public awareness of energy efficiency.

To provide incentives for research, in cooperation with the Latvian Academy of Sciences, for 20 years Latvenergo Group has been presenting its Annual Award for outstanding and significant contributions to the energy industry. Each year, the Group runs competitions for students of higher educational institutions, presenting an award for the best graduation papers on topical issues in the energy sector, and organises a scholarship competition for students. In 2019, the Group continued to support the RTU Engineering High School and improvement of the student laboratory of the Faculty of Power and Electrical Engineering of RTU.

In 2019, for the second time, the Group organised the only Physics Festival in the Baltic States, with approximately 4,000 visitors participating in physics workshops and interactive games, watching experiments, listening to lectures and competing in contests.

Latvenergo Group is implementing a number of measures to educate the public about safe and efficient daily use of electricity and to promote the interest of young people in exact sciences. In the reporting year, one fourth of Latvian schools participated in the *FIZMIX Eksperiments* knowledge contest for 8th and 9th graders. On the FIZMIX portal developed by the Group, young people can learn physics in an interesting and comprehensive way, while teachers can share creative teaching methods. The FIZMIX team also organises offsite workshops at schools in Latvia and participates in other public events and in Latvian Television's youth knowledge game show *Smart, Even Smarter.* The Group has supported the participation of Latvian representatives in the International Physics Olympiad and the organisation of the 3rd European Physics Olympiad in Riga.

The Energy Efficiency Centre in Jurmala provides everyone with the opportunity to take part in tours and workshops free of charge and to receive individual consultations on improving energy use habits. The website of the Energy Efficiency Centre provides tips on how to better care for nature and economise. The website also offers an interactive e-learning course for training employees on energy efficiency.

Raising public awareness of electrical safety

Raising public awareness of electrical safety is one of the CSR priorities of Sadales tīkls AS. To reduce the number of electrical injuries due to insufficient knowledge, a number of projects aimed at electrical safety among children and young people are implemented in cooperation with educational institutions and experts. Particular attention is paid to ensuring that the information complies with the content and type of activities appropriate for each age group. Since 2013, classes on electrical safety have been held at more than 800 educational institutions and summer camps all over Latvia, educating more than 130 thousand children and young people. The main activities in 2019:

- a memorandum was signed with the foundation *Iespējamā misija* to integrate electrical safety classes into the curriculum of the natural science study subjects of 6th graders;
- the education project *One Day for Safety* was organised in Tukums Municipality in the film park *Cinevilla* with the participation of over 500 pupils;
- taking part in the education and safety projects ZZ Championship, *Be Safe, not Overconfident, Come and Participate* and various events dedicated to safety.

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

Culture and energy heritage

The support of Latvenergo Group to nationwide cultural events promotes the development of Latvia's cultural traditions and the strengthening of national identity. Several events were supported in 2019 in cooperation with the State Cultural Capital Fund:

- the festival *Rīgas ritmi 2019;*
- Riga International Film Festival RIGA IFF;
- the music and art festival *Laba daba;*
- Liepaja International Star Festival;
- International Baltic Ballet Festival and *Kremerata Baltica* festival *Dzintaru mūzika.*

The Energy Museum of Latvenergo Group promotes public awareness of the Latvian energy sector's history as well as the history of the Group and ensures preservation and promotion of energy heritage and its availability.

A collection of glass plate negatives by famous Latvian cinematographer and photographer Eduards Kraucs which depicts the construction of Kegums Hydropower Plant and is included in the UNESCO *Memory of the World* programme can be viewed in the museum's repository in Riga, in the world digital library and on the website of cultural values of European countries. In 2019, a portable multimedia showcase of the collection was also developed. The travelling exhibition *The Ķegums Hydropower Plant: The Pride of the Latvian Energy Industry* was exhibited at 84 educational and cultural institutions from 2012–2019.

An updated exposition of the history of Plavinas HPP was launched during Museum Night which allows visitors to see Plavinas HPP from the beginning of its construction in 1961 to its becoming the largest electricity generation facility in Latvia.

In the anniversary year, multimedia solutions were developed at the largest energy generating facilities, enabling review of the history, performance indicators and technological processes of generating facilities. On the Latvenergo website you can apply for a visit to the Energy Museum and generation plants, make a virtual tour of the museum and visit the digital exhibition.

Social support and responsibility towards employees

In cooperation with *Ziedot.lv,* Latvenergo Group supported 13 social projects following a project tender in 2019, thus providing support to several thousand people throughout Latvia. Employees of the Group also participate in charity activities every year, donating a variety of useful everyday items to those in need.

On its own initiative, the Group provides additional social protection to its employees which is not stipulated by legislation. More information is available in the section Employees and the Work Environment.

Environmental protection

Preserving biodiversity and minimising the environmental impact of the Group's operations are among the core principles of the Group's Environmental Policy. Protection of birds and replenishment of fish stock are important areas of action in this regard. The Group cooperates with the Latvian Ornithological Society (LOS) in matters related to the protection and study of birds and with *Mēs zivīm,* a fish conservation society, to promote the replenishment of stock of fish breeds characteristic of the Daugava River basin. Since 2017, the Group has been removing fallen trees and beaver dams from rivers of the Daugava Basin. The aim of the initiative is to help the streams regenerate naturally and to assess the impact of cleaning on biodiversity.

Taking care to reduce environmental pollution, in 2019 Latvenergo Group joined the initiative *With All Due Respect to Old Phones!* Within its framework, employees could recycle their old mobile phones, the value of which was donated for the treatment and improvement of the quality of life of young patients of the Latvian Children's Hearing Centre.

CSR activities of Latvenergo Group

Science and education

- **24 years** Erudition contest *FIZMIX Eksperiments*
- **22 years** Energy Efficiency Centre
- **21 years** Annual Award in science
- **12 years** Graduation paper competition
- **12 years** Scholarship competition
- **6 years** Donation of used computer equipment to education institutions
- **7 years** FIZMIX
- **5 years** Supporting improvement of the student lab at the RTU Faculty of Power and Electrical Engineering
- **5 years** Supporting creation of the RTU Engineering High School
- **4 years** TV erudition game *Smart, Even Smarter*
- **3 years** Supporting participation of the Latvian team in the International Physics Olympics
- **2 year** Physics festival

Culture and energy heritage

- **25 years** Energy Museum
- **13 years** Participation in the Museum Night
- **8 years** Participation in the Researchers' Night
- **5 years** *To the Energy Museum in Kegums and EEC in Jurmala by train*
- **2 year** Project tender *Support for the national cultural events*

Environmental protection

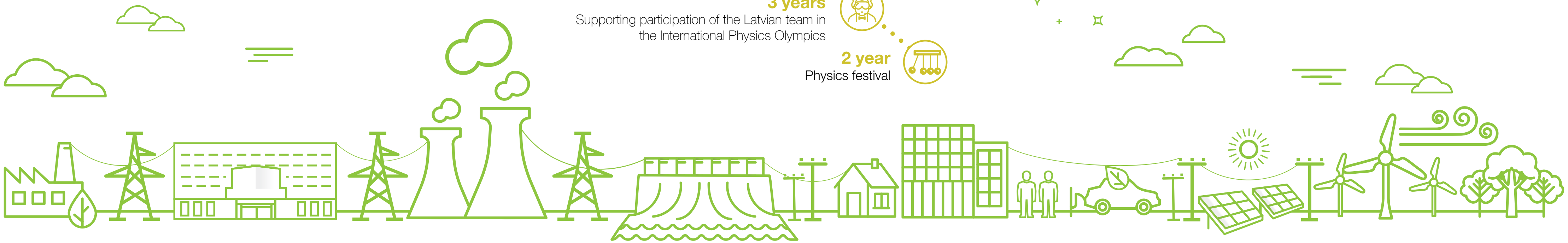
- **10 years** Fish protection projects
- **9 years** Monitoring of white storks
- **3 years** Cleaning of rivers

Social support and responsibility towards employees

- **9 years** Christmas charity campaign by employees.
- **2 year** Project tender *Support for facilitating social help*
- **2 year** Excellence Programme

Raising public awareness of electrical safety

- **14 years** Educating children and young people on electrical safety
- **6 years** Educating people engaged in business operations, logging and agricultural work on electrical safety



Awards

External parties appreciated the sustainability and social responsibility of the Group

- For the seventh year in a row, Latvenergo AS received the Platinum category from the Latvian Sustainability Index along with the highest assessment so far – 97.3%. Sadales tīkls AS, a subsidiary of the Group, was awarded the Platinum category for the first time. Both companies also obtained the status of a family-friendly company.
- In a study by Fontes, Latvenergo AS was recognised as one of the fairest remuneration payers. For the seventh time, Latvenergo AS was ranked as the top employer in the production sector and as the fourth most popular employer in Latvia in a survey by CV-Online Latvia. Sadales tīkls AS came in 15th place in this ranking. *SmartEnerGo,* the Group's employee involvement programme, was awarded third place in the competition *Mi:t&links: Baltic Communication Awards 2020,* in the internal communication category.
- In the contest *The Safest Company Car Fleet,* the Golden Award went to the car fleet of Latvenergo Group and the special vehicle fleet of Sadales tīkls AS.
- The modernised Plavinas HPP history exposition opened in the year of the 80th anniversary of Latvenergo Group and received an award in the category *Tourism* at Aizkraukle Municipality's *Annual Event 2019.*

The digital transformation of Sadales tīkls AS was appreciated

- The project *Leave paper for other needs! Let's meet in the e-environment – sadalestikls.lv!* received the highest award in the category *Digital Transformation of an Enterprise* at the Latvian Annual Technology Awards *Platinum Mouse 2019.*
- Sadales tīkls AS also received an award from the Building Information System as the most active user of the closed portal of issuers of technical rules.

Latvenergo Group – the most valuable company in Latvia

- For the twelfth time, Latvenergo AS received the award for the most valuable company in the TOP 101 Most Valuable Companies of Latvia. It was also declared the most valuable power utility in the Baltics.
- In the Latvian Business Annual Report 2019, Latvenergo AS retained its leading position in the electricity and gas sector, while Sadales tīkls AS was in second place by turnover.
- In the TOP 500 of Latvian Companies, Latvenergo AS was recognised as the largest EBITDA maker, the largest state-owned company and the largest company in the energy sector.

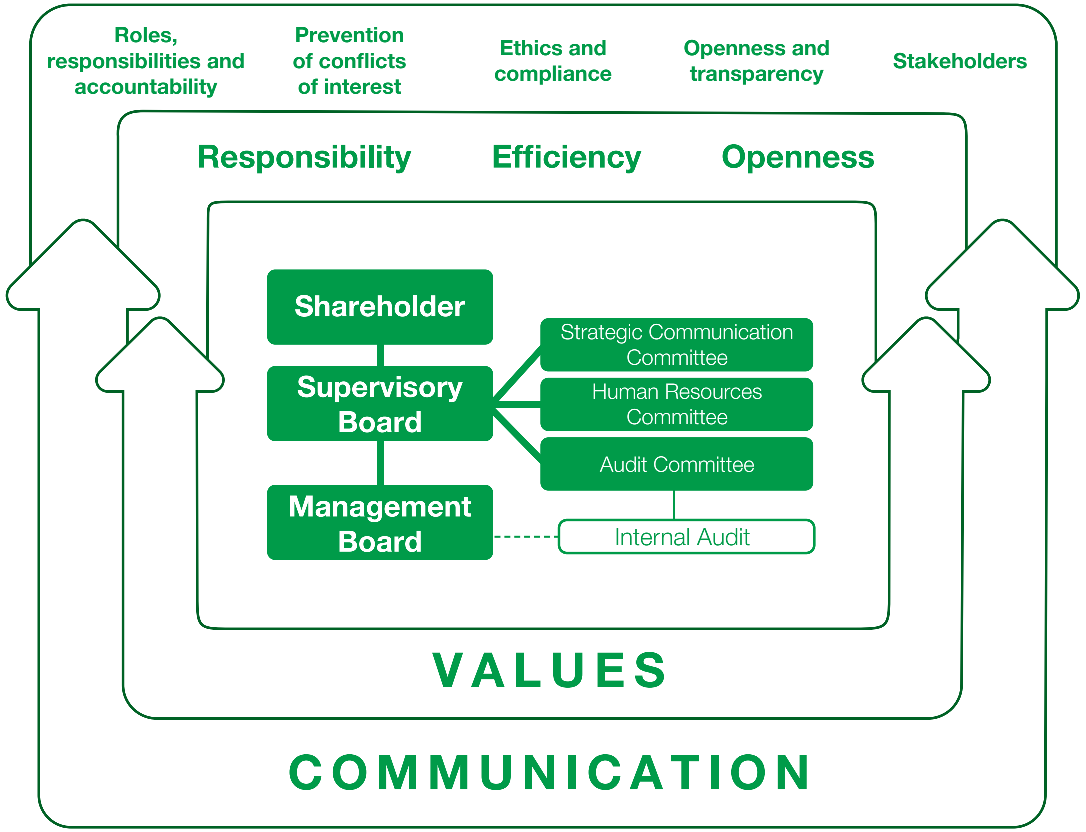
Corporate Governance

GRI 102-16, 102-18

Corporate Governance Model

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

Every year since 2012, Latvenergo AS has prepared a corporate governance report according to the requirements of the Financial Instrument Market Law and the Principles of Corporate Governance and Recommendations on Their Implementation issued by Nasdaq Riga AS. In 2019, the company complied fully with 73 out of these 83 principles. The Principles 7.5.–7.8. for independence of supervisory board members were partially complied with, and the other six are not applicable to the company's operations. The report is available on the Latvenergo website and on the Nasdaq Baltic website.



Ethics and compliance

Latvenergo Group follows high standards of professional ethics and ensures the compliance of its operation with legislative requirements, thus creating an ethical business environment. In order to prevent corrupt or fraudulent activities, employees are regularly informed about ethics and compliance standards and the internal regulations of the Group are continuously improved. The Group also urges its partners to comply with the same ethical principles and, when entering into contracts, it asks for confirmation that cooperation will be based on the principles of fair business cooperation.

The Code of Ethics was updated in 2019 and the revised document was approved by the Supervisory Board. The Code of Ethics and fundamental ethical principles are published on the Group's website.

Roles, responsibilities and accountability

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

Openness and transparency

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

Prevention of conflicts of interest

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

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

Stakeholders

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

Governance Bodies

Shareholder

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

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

Six Shareholder Meetings took place in 2019. The most important decisions passed were the approval of the Annual Report 2018, distribution of dividends in the amount of EUR 132.9 million, election of a new Supervisory Board, approval of an auditor and issuing of new bonds of up to EUR 200 million in 2020–2021.

The principal duties

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

Supervisory Board

The Articles of Association of Latvenergo AS provide that the Supervisory Board shall consist of five members, its term of office is five years and all members of the Supervisory Board are independent specialists who are not engaged in the operational activities of the Group. At the end of the reporting year, the Supervisory Board was composed of three members who were elected by the Shareholder Meeting until the new members of the Supervisory Board are selected in a competition.

Twelve meetings of the Supervisory Board took place in 2019. In addition to their main duties, they also approved the revised versions of the Group's Corporate Governance Policy, the Internal Audit Policy and the Risk Management Policy.

In compliance with the Regulations, the Supervisory Board of Latvenergo AS may form committees consisting of members of the Supervisory Board for reviewing particular matters. Currently, there is a Human Resources Committee and a Strategic Communication Committee.

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

The principal duties

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

Management Board

The Regulations of the Management Board of Latvenergo AS provide that the Management Board consists of five members elected by the Supervisory Board for a term of office of fi ve years after evaluating their suitability with regard to necessary competences, experience and anticipated responsibilities. The Management Board operates in compliance with the Articles of Association and the Regulations of the Management Board and reports to the Supervisory Board. All members of the Management Board are independent in their operations and hold no interest in the capital of cooperation partners or related companies. In 2019, the Management Board was composed of four members.

The Management Board members are jointly liable for compliance with all binding laws and regulations, execution of the decisions of the Shareholder Meeting and the Supervisory Board, and the financial performance of the Group.

In 2019, 68 Management Board meetings were convened. Number of meetings attended: Ā. Žīgurs (Chairman of the Management Board) – 68; U. Bariss – 66; K. Cikmačs – 64; G. Baļčūns – 63. The overall attendance rate was 96%.

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

The principal duties

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

Audit Committee

An independent Audit Committee operates at Latvenergo AS which reports on its operations and performance to the Supervisory Board. The Articles of Association of Latvenergo AS provide that the Audit Committee shall consist of five m embers and a t least one of them shall also be a member of the Supervisory Board. At the end of the reporting year, the Audit Committee consisted of four members, one of whom was a representative of the Supervisory Board.

Five meetings of the Audit Committee were held in 2019. The Regulations of the Audit Committee are available on the Latvenergo website.

The principal duties

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

Audit Committee Report

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

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

In 2019, in addition to recurring tasks, the Audit Committee:

- assessed and expressed its opinion on the amendments to the Group's policies on internal audit and risk management, and approved the amendments to the Regulations and staff positions of the Internal Audit Department of Latvenergo AS;
- endorsed the scope of work for the external assessment of the Internal Audit Department of Latvenergo AS, oversaw its execution and considered its results;
- took part in the assessment of the Group's risk management's maturity and considered its results;
- based on the initiative of the Supervisory Board, expanded and detailed the Committee's task to supervise the functioning of the internal control, risk management and compliance systems.

Having assessed the information received from the Internal Audit Director, Compliance Control Manager, Risk Manager, external auditor and other assurance providers, nothing has come to our attention that would lead us to believe that the internal controls of Latvenergo AS are not operating adequately for the purpose of the preparation of the Annual Report 2019.

We submit our activity report and assessments to the Supervisory Board of Latvenergo AS in April 2020.

Torben Pedersen, *Chairman of the Audit Committee*

Marita Salgrāve, *Member of the Audit Committee*

Svens Dinsdorfs, *Member of the Audit Committee*

Irēna Bērziņa, *Member of the Audit Committee (from 9 October 2019)*

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

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

The monthly salary of the Chairman of the Supervisory Board and the Chairman of the Management Board is linked to the average monthly salary of employees in Latvia during the preceding year, as published by the Central Statistical Bureau, multiplied by a ratio specified according to the capital company's reference criteria (turnover, assets and number of employees). The maximum ratio applicable to the monthly salary of the chairman of a supervisory board is 3, and in 2019 this was applied to the monthly salary of the Chairman of the Supervisory Board of Latvenergo AS. The ratio applied to the monthly salary of the Chairman of the Management Board in 2019 was 10, based on the capital company's reference criteria.

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

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

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

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

In 2019, remuneration was paid to the Supervisory Board of Latvenergo AS in accordance with the period in which they worked. The remuneration paid to members of the Supervisory Board who were in their position until 19.06.2019 amounted to EUR 15,790.74 for the Chairman of the Supervisory Board A. Ozoliņš and EUR 14,211.66 for each of the other members (A. Liepiņš, B. A. Rubesa, M. Bičevskis, M. Sedlacky). The remuneration paid to members of the Supervisory Board who were in their position from 19.06.2019 to 30.06.2019 amounted to EUR 1,023.47 for the Chairman of the Supervisory Board P. Rebenoks and EUR 921.13 for each of the other members (R. Degro, I. Kublicka, K. Stepanova, A. Šnoriņš). The remuneration paid to members of the Supervisory Board who were in their position from 09.10.2019 amounted to EUR 7,609.30 for the Chairman of the Supervisory Board E. Valantis and EUR 6,848.37 for each of the other members (I. Bērziņa and E. Šaicāns).

In 2019, the remuneration of the Chairman of the Management Board and Chief Executive Officer of Latvenergo AS Ā. Žīgurs was EUR 179,161.87; Member of the Management Board and Chief Financial Officer G. Baļčūns received EUR 161,125.19; Member of the Management Board and Chief Commercial Officer U. Bariss received EUR 161,011.85; Member of the Management Board and Chief Technology and Support Officer K. Cikmačs received EUR 142,539.56.

In 2019, the remuneration of the Chairman of the Audit Committee of Latvenergo AS T. Pedersen was EUR 13,378.27; Members of the Committee M. Salgrāve and S. Dinsdorfs received EUR 11,231.42.

Internal Audit

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

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

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

Dividend Policy

The distribution of Latvenergo AS dividends is regulated by the Republic of Latvia laws on the state budget. In accordance with the regulations, the anticipated amount payable by Latvenergo AS in dividends in 2020 (for the reporting year 2019) is EUR 127.1 million (incl. corporate income tax). The actual amount payable by Latvenergo AS in dividends is determined by the Shareholder Meeting after the approval of the Annual Report, upon evaluation of the results for the previous year.

Governance of Subsidiaries

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

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

Latvenergo AS Supervisory Board*

		
Edmunds Valantis Chairman of the Supervisory Board	**Edijs Šaicāns** Deputy Chairman of the Supervisory Board	**Irēna Bērziņa** Member of the Supervisory Board
Appointed*		
09.10.2019	09.10.2019	09.10.2019
Committee membership		
		Audit Committee
Experience		
2016–present: Ministry of Economics, Deputy State Secretary on Construction and Housing Policy Issues 2016–present: Member of the Baldone County Council, Finance Committee 2016: State Real Estate SJSC, EU Structural Funds Project Manager 2007–2016: Ministry of Economics, Director of the EU Funds Implementation Department 2008: Latvijas garantiju aģentūra SIA, Member of the Board 2004–2007: Jelgava Municipality Agency *Pilsētsaimniecība*, Deputy Director on Project Issues 2003–2007: Mērsrags Port Authority, Project Coordinator 1999–2002: Ministry of Economics, Department of State Investment and Finance Management, Desk Officer	2018–present: Ministry of Economics, Director of the Energy Market and Infrastructure Department 2013–2018: Ministry of Economics, Head of the Conformity Assessment Unit 2012–2013: Regional Municipal Police, Head of Ķekava County Administration 2007–2012: Consumer Rights Protection Centre, Chief Expert	1997–present: Ministry of Economics, as of 2015, Director, Department of Strategic and Finance Management 1996–1997: Latvian Philharmonic, Deputy Chief Accountant-Economist 1982–1996: Main Editorial Office for Encyclopedias, Head of Economic Planning 1974–1982: Publishing House *Zvaigzne,* Senior Economist, Financial Planning
Education		
Institute of Transport and Maritime Management Antwerp, Master of Transport Management (2002) Rotterdam International Maritime Transport Academy, postgraduate education in port management (2000) Latvian Maritime Academy, Bachelor's Degree, Economist in Port Management (2000)	RTU, Master's Degree in Heat Power and Thermal Engineering (2012) RTU, Bachelor's Degree in Heat Power and Thermal Engineering (2009)	University of Latvia, Master of Social Sciences in Economics (2004) University of Latvia, qualification of an economist (1980)

*current members of the Supervisory Board are appointed by the Shareholder until the competition-based election of the new members of the Supervisory Board

Latvenergo AS Management Board

			
Āris Žīgurs Chairman of the Management Board and Chief Executive Officer	**Guntars Baļčūns** Member of the Management Board and Chief Financial Officer	**Uldis Bariss** Member of the Management Board and Chief Commercial Officer	**Kaspars Cikmačs** Member of the Management Board and Chief Technology and Support Officer
Term of office			
16.11.2015–15.11.2020	16.11.2015–15.11.2020	16.11.2015–15.11.2020	25.09.2018–24.09.2023
Experience			
2016–present: Member of the Council of Higher Education 2015–present: Employers' Confederation of Latvia, Member of the Board 2013–present: Latvenergo AS, Chief Executive Officer 2011–present: RTU, Chairman of the Counsellor Convent 2011–present: LUA, Member of the Counsellor Convent 2011–present: Latvian National Committee of the World Energy Council, Vice President 2010–present: Latvenergo AS, Chairman of the Management Board 2010–present: Eurelectric, Member of the Board of Directors 1996–2010: Rīgas Siltums AS, President and Chairman of the Management Board	2016–present: Elektrum Eesti OÜ, Member of the Supervisory Board 2016–present: Elektrum Lietuva UAB, Member of the Supervisory Board 2016–present: Baltic Institute of Corporate Governance, Member of the Supervisory Board 2015–present: Latvenergo AS, Chief Financial Officer 2015–present: Latvenergo AS, Member of the Management Board 2014–2015: Enerģijas publiskais tirgotājs AS, Member of the Management Board 2005–2015: Latvenergo AS, Business Planning and Control Director, Corporate Strategy Project Manager	2013–present: Latvenergo AS, Chief Commercial Officer 2010–present: Elektrum Lietuva UAB, Chairman of the Supervisory Board 2010–present: Elektrum Eesti OÜ, Chairman of the Supervisory Board 2005–present: Latvenergo AS, Member of the Management Board 2005: Latvenergo AS, Project Director of Distribution Network Restructuring 2002–2004: Latvenergo AS, Economics Department Director 1996–2002: Lattelekom SIA, Head of the Financial Planning and Control Division, Head of the Management Accounting Sector	2018–present: Latvenergo AS, Chief Technology and Support Officer 2018– present: Latvenergo AS, Member of the Management Board 2010–2018: Citadeles banka AS, Member of the Management Board, Chief Operating Officer 2009–2010: Parex Banka AS, Head of Information Technologies 2005–2009: Swedbank Baltic Banking, Head of IT Operations in the Baltics 1996–2005: Hansabanka, Head of IT Monitoring in the Baltics, Head of Service Support and Monitoring, IT System Administrator
Education			
RTU, Doctor of Sciences in Engineering, energy sector (2009) RTU Riga Business School, Master of Business Administration (2004) LUA, Faculty of Engineering, engineer-mechanic (1988)	RTU Riga Business School, Master of Business Administration (2016) University of Latvia, Master of Economics (2005) SSE Riga, Bachelor of Economics and Business Administration (2003)	RTU, Doctor of Science in Engineering, Environmental Science (2017) SSE Riga, Executive Master of Business Administration (2008) University of Latvia, Master of Economics (2004)	SSE Riga, Master of Business Administration (2012) INSEAD (France) Business Management (2006) University of Latvia, Bachelor of Computer Sciences (1999)

Latvenergo

Latvenergo AS Audit Committee



Torben Pedersen Chairman of the Audit Committe	**Marita Salgrāve** Member of the Audit Committee	**Svens Dinsdorfs** Member of the Audit Committee	**Irēna Bērziņa** Member of the Audit Committee
Term of office			
09.10.2019–08.10.2022	09.10.2019–08.10.2022	09.10.2019–08.10.2022	09.10.2019–08.10.2022
Experience			
2018–present: AS BDO Latvia, Member of the Council 2013–present: Vilnius International School, Shareholder Representative 2012–present: Latvenergo AS, Chairman of the Audit Committee 2013–2014: Rus-Agro Team AS, Member of the Management Board 2012–present: Baltic Engineers UAB, Chairman of the Management Board 2011–2016: Danish Chamber of Commerce in Lithuania, Member of the Supervisory Board 2001–2010: Deloitte, Partner 1994–2001: Arthur Andersen, Partner	2017–present: International Organization of Supreme Audit Institutions, FIPP member 2015–present: Latvenergo AS, Member of the Audit Committee 2015–present: State Audit Office of the Republic of Latvia, Advisor to the Auditor General in strategic matters 2007–2015: State Audit Office of the Republic of Latvia, Member of the Council, Director of the Fourth Audit Department 1998–2007: Central Finance and Contracting Agency, Deputy Director, Director of the Programme Management Department, Senior Procurement Specialist 1993–1998: Ramboll AS, Project Manager	2017–present: INDEXO IPAS, Member of the Supervisory Board 2015–present: Elko Grupa AS, Director, Member of the Management Board 2012–present: Latvenergo AS, Member of the Audit Committee 2006–2014: Elko Grupa AS, Finance Director, Member of the Management Board 2004–2006: Sirowa Riga AS, Finance Director 1998–2004: Air Baltic Corporation AS, Vice President of Strategic Development, Business Control Director	Information about experience and education is available in the subsection Latvenergo AS Supervisory Board.
Education			
Aarhus School of Business, Master of Economics and Auditing (1974) Chartered Accountant qualification (Denmark)	*Sint-Aloysius* School of Economics (EHSAL) (Belgium), Master of Business Administration (1998) University of Latvia, Faculty of Economics and Management, postgraduate qualification of an economist (accountant) (1997) Oxford College of Petroleum and Energy Studies, postgraduate qualification in energy and the environment (1995) University of Latvia, Faculty of Chemistry, Master of Analytical Chemistry (1988)	SSE Riga, Master of Finance and Economics (2003) SSE Riga, Bachelor of Economics and Business Administration (1998)	

Latvenergo

GRI 102-18

Group Management

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

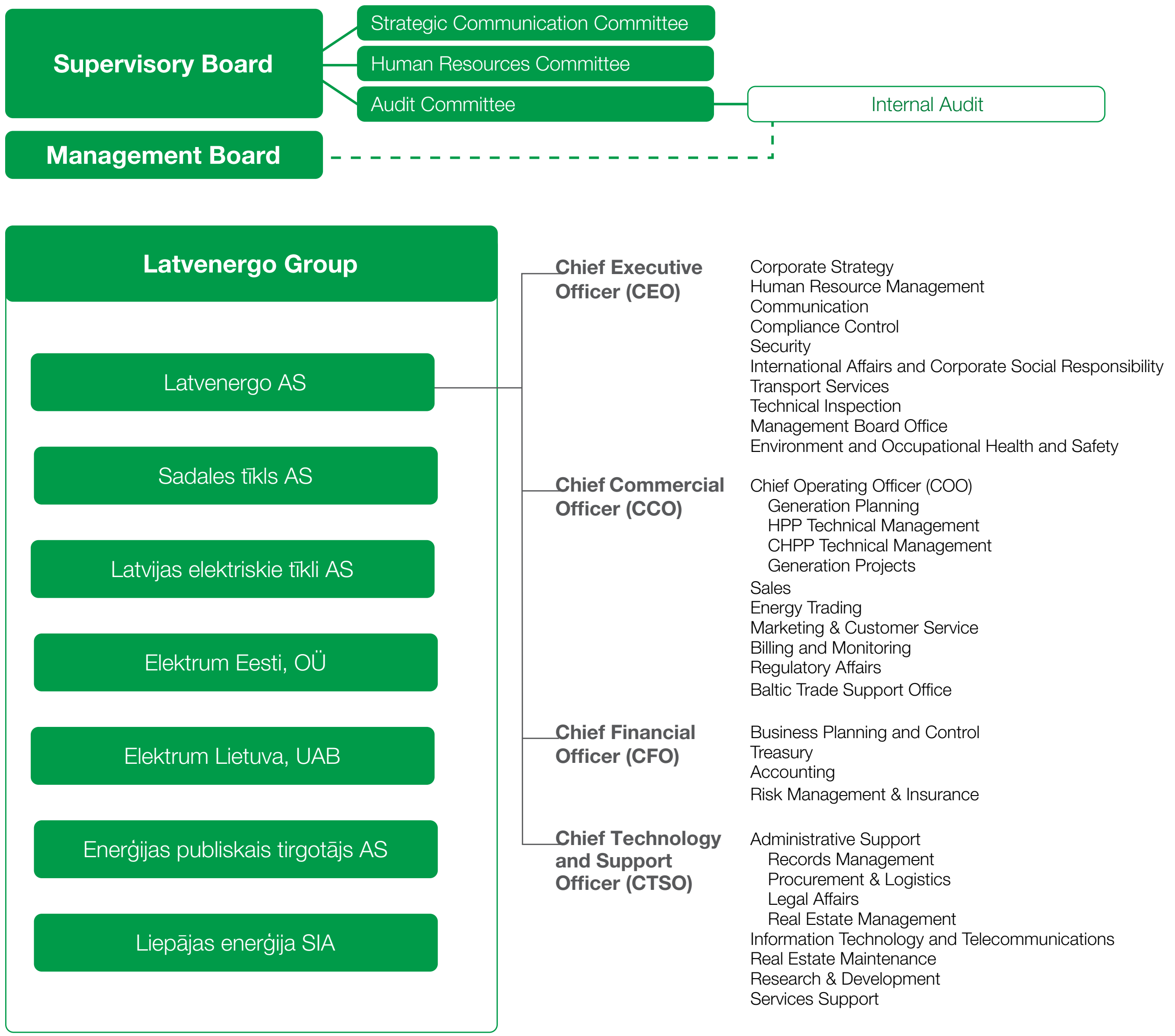
The Group's strategic management is implemented by the Management Board, whose accountability is joint according to the Commercial Law, and operational management is ensured by Chief Officers, whose accountability is individual. The main duty of the Management Board is to lead the Group in order to reach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

Considering their previous experience and knowledge of the Group's operations, the duties of Chief Officers are performed by the Members of the Management Board of Latvenergo AS. The division of duties at the end of the reporting year 2019 was as follows:

- Āris Žīgurs – Chief Executive Officer;
- Guntars Baļčūns – Chief Financial Officer;
- Uldis Bariss – Chief Commercial Officer;
- Kaspars Cikmačs – Chief Technology and Support Officer.

Until the new member of the Management Board and Chief Operating Officer takes office, the duties have been temporarily reorganized and Aivars Kvesko is acting as Chief Operating Officer.

Latvenergo Group Organisational Structure



GRI 102-11, 102-16, 102-56

Internal Control System and Risk Management

Internal Control System

To ensure the achievement of Latvenergo Group's strategic goals, successful supervision and operational efficiency, an internal control system has been introduced and is continuously improved. It has been developed based on the COSO (Committee of Sponsoring Organizations of the Treadway Commission) model which is internationally widely used approach for defining internal control principles.

Key objectives of the internal control system

Efficiency of the Group's operations

To continue improving the competitiveness of the Group and to strengthen its position in the dynamically changing regional market, during the strategy period until 2022 an extensive efficiency programme is being implemented, which includes revision, centralisation and digitalisation of the Group's processes. The number of employees, technical bases and vehicles has been reduced significantly within the scope of the programme.

Credibility of the disclosed information

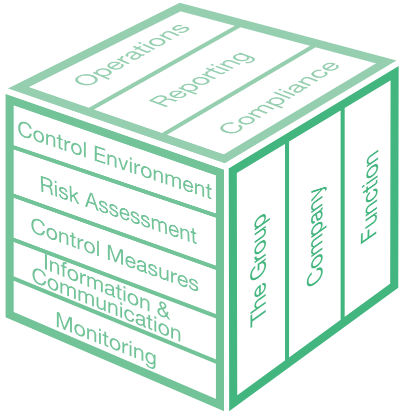
The Group's reporting includes both internal and external reports on financial and non-financial operations. Internal reports provide accurate and complete information to the Group's management for decision-making and supervision of company operations. External reports ensure that investors and other stakeholders are kept informed of the financial position of the Group and its performance.

Compliance

The Group operates in compliance with laws and regulations. To ensure this compliance, internal regulatory documents and their compliance with external regulations are reviewed on a regular basis, potential risks are identified and evaluated, and additional controls are developed.

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

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



Control environment

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

Risk assessment

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

Control measures

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

Information and communication

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

Monitoring

The Group's management is responsible for regular assessment and improvement of controls. The management's performance is monitored by the Supervisory Board and the Audit Committee and reviewed by the Internal Audit. The external auditor issues an opinion on fairness and compliance of the financial reports. All of these institutions are independent in their operations.

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

Risk Management

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

Significant risks identified by the Group are analysed in internal working groups and in the Risk Management Committee, which is a specially established institution on the level of the Management Board of Latvenergo AS. Within the analysis, the probability and impact of a risk is evaluated, critical controls are identified, risk mitigation measures are developed, and the implementation of critical controls and risk mitigation measures is supervised. Any risks identified are conveyed to the internal audit system, thus allowing the risk assessment to be used for planning the activities of the Internal Audit.

In 2019, the Management Board of Latvenergo AS defined the risk appetite for each risk group – the amount and types of risk the Group is willing to accept to achieve its strategic objectives. The Supervisory Board of Latvenergo AS has approved a revised version of the Risk Management Policy, which was supplemented with the basic risk management principles corresponding to ISO 31000 standard and is published on the website of the Group.

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

GRI 102-9, 102-10

Group Procurement

To ensure its operations, Latvenergo Group procures electricity, energy resources as well as various types of construction work, goods and services. Most of the Group's procurement comes from suppliers and service providers in the Baltics and the Nordic countries. The total number of suppliers exceeds 3.5 thousand.

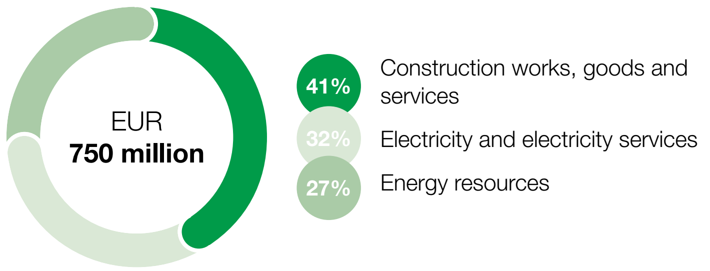
The Group's procurement process complies with the legislation of the EU and the Republic of Latvia and the regulations of those countries in whose territory the Group carries out its commercial activity. The key principles of the Group's procurement are based on the requirements of Directives 2014/24/EU and 2014/25/EU of the European Parliament and the Council and those of the Law on Procurement of Public Service Providers of the Republic of Latvia. The Group is committed to the most efficient use of funds and, in selecting suppliers, ensures competition and fair and equal treatment and follows the principle of transparency of procurement. For more efficient procurement, the Group has established a qualification system for suppliers of construction work and services, aimed at selecting and maintaining a register of qualified suppliers. The introduction of digital technologies also contributes to the openness and efficiency of the Group's procurement.

Latvenergo Group encourages its contractual partners to comply with comparable principles of ethics and, upon signing agreements, asks its partners to provide declarations of adherence to good faith principles of cooperation. The ethical principles for cooperation with contractual partners are published on the Group's website.

The Group regularly informs its business partners about planned investment projects and surveys its current and potential business partners to identify the areas of cooperation where improvement is required.

In procurement procedures, the Group follows the principles of green procurement where possible and economically feasible.

Types of procurement in 2019



Procurement of construction work, goods and services

In 2019, Latvenergo Group's costs of construction work, goods and services amounted to approximately EUR 300 million. The largest share of these costs were investments in reconstruction of the existing assets and construction of new ones, where EUR 229.4 million were invested in the reporting year. To ensure high-quality power network service, technical indices and security of operations, a considerable amount of investment was made in network modernisation, accounting for 80% of the total investment. The Group is also continuing reconstruction of the hydropower units of the Daugava HPPs, where EUR 16.6 million was invested in the reporting year.

The other costs related to the procurement of construction work, goods and services consist of procuring materials, repair work and various services.

Procurement of electricity

The total costs of electricity procurement amounted to approximately EUR 240 million, also comprising the costs of ancillary electricity services and electricity future transactions performed to reduce price risks. The Group sells all the electricity it generates and at the same time procures electricity for its customers on the Nord Pool power exchange, thus ensuring full transparency of procurement.

The electricity procurement process is targeted at cost optimisation and provides economic benefits to both Latvenergo Group and its customers. Generation volumes of Latvenergo AS CHPPs and Daugava HPPs are linked to economically equivalent volumes of customer portfolios, thus achieving cost-effectiveness while excluding internal price risks between sale and purchase transactions. The Group's customer portfolio can be made larger than its generation volumes by including additional electricity financial instruments in the price risk management and making use of the flexibility of the Group's generation assets, switching strategically between electricity supply sources: the power exchange and the Group's own power plants. This way, Latvenergo Group can fulfil the profit potential of sales of the electricity generated, utilise possibilities to reduce the cost of procuring electricity necessary for customers and reduce its exposure to market price fluctuation risks.

Purchased electricity

	Units	2015	2016	2017	2018	2019
Purchased electricity	GWh	4,701	4,081	3,544	4,020	3,569

Procurement of energy resources

The energy resource procurement of the Group comprises natural gas, woodchips and diesel fuel. In 2019, its costs amounted to approximately EUR 200 million. The Latvenergo AS CHPPs accounted for more than 95% of fuel costs. Natural gas makes up the largest share of these expenses. It is used as the primary fuel by the CHPPs and as one of the fuel sources by the Liepāja plants. The Group organises natural gas supplies to the CHPPs independently through wholesale purchases of natural gas. Liepājas enerģija SIA buys natural gas from Latvijas Gāze AS.

In 2019, Latvenergo Group consumed approximately as much natural gas as in the previous year. Consumption of natural gas depends on the electricity market conditions and the demand for thermal energy. In 2019, the CHPPs played an important role in meeting the demand for electricity in the Baltics since the output at the Estonian oil shale plants was decreased due to the high level of harmful emissions and high cost of emission quotas.

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

The Liepaja plants mainly use a renewable energy source, woodchips, which accounted for approximately 1% of the total energy resource costs in 2019.

Like all other goods and services, woodchips and diesel fuel are procured under the conditions of free competition.

Fuel consumption

	Units	2015	2016	2017	2018	2019
Natural gas*	thsd. nm^3	569,004	598,425	465,947	667,256	674,889
Wood chips	loose m^3	216,645	232,792	255,352	252,534	225,166
Diesel fuel	m^3	120	18	12	10	11

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

About Latvenergo Group
Corporate Governance
– Corporate Governance Model
– Governance Bodies
– Group Management
– Internal Control System and Risk Management
– Group Procurement
– **Stakeholder Engagement**
Operating Segments
Sustainability Indicators
Annexes to the Sustainability Report
Annual Report

Stakeholder Engagement

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

Latvenergo Group regularly receives recommendations for improvement of operations from its stakeholders. Several of them were implemented in 2019:

- The Sadales tīkls AS digital map of disconnections was supplemented with information on reconstructions and cleaning of protection zones of power lines.
- The future of the energy industry was discussed with stakeholders at the energy and economic expert conference organised by the Group. The EU climate policy, the development of accumulation technologies, the change in energy use habits and the impact of these factors on the long-term development of the Group were discussed there. The strategy and challenges for Sadales tīkls AS and the development of the industry were discussed at the seminar *savienoJUMS.*
- The Group has reported on its achievements in developing and implementing innovation by organising and participating in the Innovation Forum for Excellent Latvian Enterprises, which was held at CHPP-2 in 2019. The purpose of the initiative was to promote practical and commercially sustainable innovations.

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

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

● Economic Topics ● Social Topics ● Environmental Topics ● material impac ● less material impact

Latvenergo

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

Stakeholder	Customers	Media, non-governmental organisations (NGOs)	Professional associations and sector specialists	Public institutions	Local community
Level of engagement	Involvement	Consultation, Involvement	Consultation, Involvement	Consultation, Involvement	Consultation, Involvement, Negotiation
Engagement description	See the section Trade and Product Responsibility.	Cooperation with national and regional media includes press releases, media events and press conferences. The main topics are the Group's financial and operating results, new products and services, current developments in the electricity and natural gas market and cooperation with responsible authorities during the spring floods. The Group regularly provides information on its activities and answers questions from journalists on its website and social media. The Group also provides NGOs with information related to its core operations.	See the section Representation at Associations, Organisations and Unions.	In compliance with the procedure provided for by laws and regulations, the Group cooperates with the Competition Council and provides regular information on its operations, financial results and calculation of the MP components and distribution tariffs to the PUC. Information on the Group's involvement in shaping energy sector policy is available in the section Society.	The Group cooperates with local governments on environmental impact assessment of the modernisation projects of the Group's facilities, while Sadales tīkls AS regularly informs local governments about improvements in electricity supply and planned electricity network renovation projects. Every spring, regular interinstitutional meetings are held to secure the preparedness of responsible services, institutions and local governments and their action during the spring flood period in the Daugava River basin. The Group engages the local community in discussing the modernisation projects of the Group's facilities, regularly surveys the opinion of Latvian residents through various opinion polls and implements various CSR activities. These are described in the section Corporate Social Responsibility.

consultation – identification of current issues

negotiation – participatory discussions

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

collaboration – joint decision-making and cooperation

GRI 102-13

Representation at Associations, Organisations and Unions

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

The most significant events in which the Group's representatives participated in 2019 include:

- the forum *Future of the Energy Industry – Challenges and Opportunities;*
- the forum *Challenges and Achievements as the Driver of Development of the Heat Supply Industry;*
- the conferences *Energy Efficiency for a Sustainable Future* and *Business Forecasts 2020;*
- the 6th World Energy Council Baltic Sea Region Round Table meeting;
- an expert conference on energy development scenarios organised by Latvenergo Group;
- Innovation Forum.

National associations and professional organisations

Latvian Association of Power Engineers and Energy Constructors

Latvijas Darba devēju konfederācija

Employers' Confederation of Latvia

Latvian Association of Large Dams

Latvijas Tirdzniecības un rūpniecības kamera

Latvian Chamber of Commerce and Industry

Institute for Corporate Sustainability and Responsibility

Latvian Association of Heat Supply Companies

World Energy Council

Pasaules Enerģijas padomes Latvijas Nacionālā komiteja

World Energy Council, Latvian National Committee

International organisations and unions

Baltic Institute of Corporate Governance

European Network for Cyber Security

Member of VGB www.vgb.org

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

European Distribution System Operators' Association for Smart Grids

Union of the Electricity Industry – Eurelectric

Business and Industry Advisory Committee of the Organization for Economic Cooperation and Development

Operating Segments

About Latvenergo Group
Corporate Governance
Operating Segments
– Generation and Trade
– Distribution
– Lease of Transmission System Assets
Sustainability Indicators
Annexes to the Sustainability Report
Annual Report

GRI GRI 102-2, 102-10

Operating segments of Latvenergo Group

Latvenergo elektrum Enerģijas publiskais tirgotājs LIEPĀJAS ENERĢIJA

Generation and Trade

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

ST

Distribution

The distribution service ensures the flow of electricity from the transmission network to consumers. Sadales tīkls AS is the country's largest distribution system operator and covers approximately 99% of the territory of Latvia.

Distribution system service tariffs are approved by the Public Utilities Commission (PUC).

LET

Transmission

Leasing transmission system assets (330 kV and 110 kV electricity transmission lines, substations and distribution points) to the transmission system operator.

The lease payment for the transmission assets is calculated in compliance with the methodology approved by the PUC.

Latvenergo

Generation and Trade

Generation and trade is the largest operating segment of Latvenergo Group in terms of revenue and the second largest in terms of EBITDA value. In 2019, the majority or 87% of the segment's revenue was comprised of electricity and natural gas trade revenue, while thermal energy revenue accounted for 13%. The majority of generation and trade segment revenue is unregulated, while tariff-regulated operational revenue comprises revenue from:

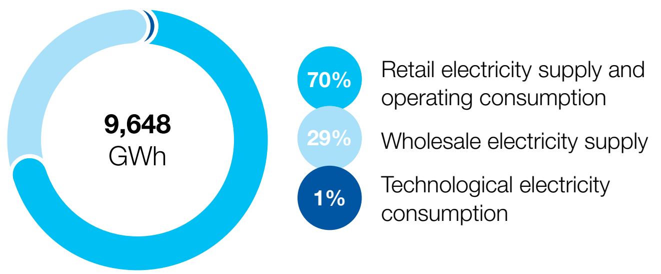
- generation of thermal energy and payment for the installed electrical capacity at the Latvenergo AS CHPPs;
- generation of electricity and thermal energy at the Liepaja generation facilities and Aiviekste HPP.

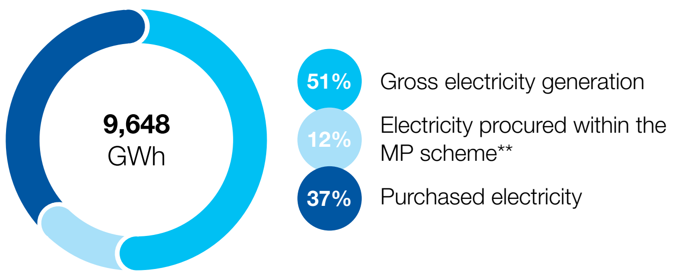
In 2019, the Group generated 4.9 TWh or 53% of the total amount of electricity sold. 42% of the amount generated comes from renewable energy sources. The Latvenergo AS CHPPs have been particularly important in securing the demand for electricity for the second year in a row, having generated the largest amount of electricity historically – 2.8 TWh or 5% more than in 2018. Due to lower water inflow, the amount of electricity generated by the Daugava HPPs decreased by 14%. For more information, see the section Generation.

With a 23% market share, Latvenergo Group is one of the largest electricity traders in the Baltics. In the reporting year, the total amount of electricity sold, including auxiliary consumption, was 9.6 TWh. 50% of the electricity sold in the retail trade was generated from renewable energy sources. For more information, see the section Trade.

In the reporting year, the amount of natural gas sold in retail in the Baltics doubled and amounted to 303 GWh. The amount of natural gas consumed by the Group for its own use and sold to customers amounted to 7.1 TWh.

Latvenergo Group electricity balance sheet in 2019*





Latvenergo Group electricity balance sheet*

	Units	2015	2016	2017	2018	2019
Retail electricity supply and operating consumption	GWh	7,961	7,666	7,259	7,281	6,773
incl. retail electricity supply	*GWh*	*7,961*	*7,666*	*6,923*	*6,954*	*6,505*
Wholesale electricity supply	GWh	1,907	2,474	3,448	3,030	2,754
Technological electricity consumption	GWh	95	105	91	124	121
TOTAL	**GWh**	**9,963**	**10,245**	**10,798**	**10,435**	**9,648**
Gross electricity generation	GWh	3,882	4,707	5,734	5 076	4,880
Electricity procured within MP**	GWh	1,380	1,457	1,520	1,339	1,199
Purchased electricity	GWh	4,701	4,081	3,544	4,020	3,569
TOTAL	**GWh**	**9,963**	**10,245**	**10,798**	**10,435**	**9,648**

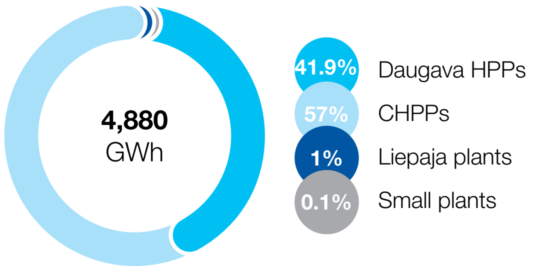
* the amount of electricity generated at the Group's facilities, which has been traded and procured on the electricity exchange for auxiliary consumption purposes, is not included in the Group's electricity balance sheet
** excluding electricity generated by the Group

GRI EU1, EU2

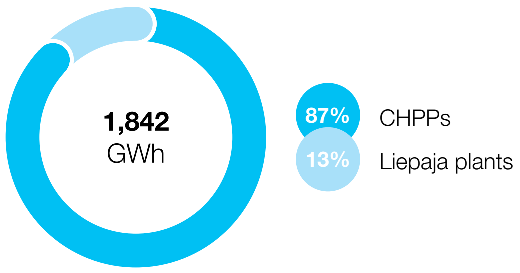
Generation

Latvenergo Group has a balanced and environmentally friendly energy generation portfolio, consisting mostly of hydropower plants and highly efficient combined heat and power plants. Most of the electricity and thermal energy is generated by the three Daugava hydropower plants (HPPs) and two combined heat and power plants (CHPPs) of Latvenergo AS. Energy is also generated by Liepājas enerģija SIA, Aiviekste HPP and Ainazi Wind Power Plant (WPP). The total installed electrical capacity at the Group's generation facilities is 2,591 MW and the thermal capacity is 1,838 MW. In 2019, 4.9 TWh of electricity and 1.8 TWh of thermal energy were generated.

Electricity output in 2019



Thermal energy output in 2019



Installed electrical capacity of generation facilities

	Units	2015	2016	2017	2018	2019
Daugava HPPs	MW	1,536	1,536	1,550	1,558	1,558
CHPPs*	MW	1,025	1,025	1,025	1,025	1,025
Liepaja plants	MW	6	6	6	6	6
Small plants	MW	2	2	2	2	2
TOTAL	**MW**	**2,569**	**2 ,569**	**2,583**	**2,591**	**2,591**

* installed capacity when CHPP-2 is in condensation mode

Installed thermal energy capacity of generation facilities

	Units	2015	2016	2017	2018	2019
CHPPs	MW	1,617	1,617	1,617	1,617	1,617
Liepaja plants	MW	223	221	221	221	221
Small plants*	MW	4	4	4	0	0
TOTAL	**MW**	**1,844**	**1,842**	**1,842**	**1,838**	**1,838**

* Latvenergo AS divested the Kegums boiler house in 2018

Electricity output

	Units	2015	2016	2017	2018	2019
Daugava HPPs	GWh	1,805	2,449	4,270	2,380	2,047
CHPPs	GWh	2,025	2,206	1,411	2,644	2,780
Liepaja plants	GWh	49	47	48	48	48
Small plants	GWh	3	5	5	4	5
TOTAL	**GWh**	**3,882**	**4,707**	**5,734**	**5,076**	**4,880**

Thermal energy output

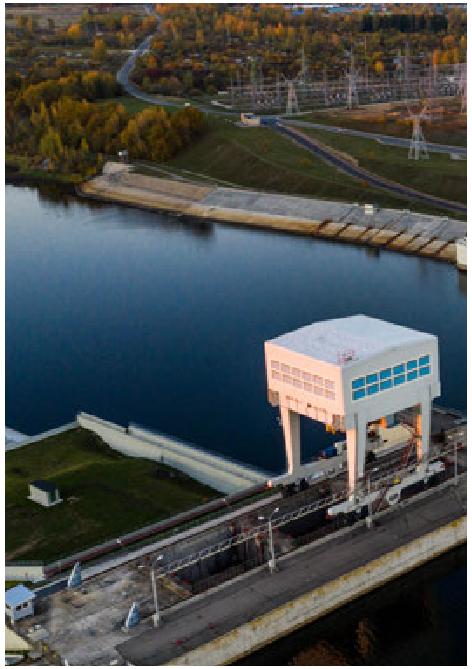
	Units	2015	2016	2017	2018	2019
CHPPs	GWh	2,175	2,417	2,349	2,004	1,603
Liepaja plants	GWh	229	253	258	267	239
Small plants*	GWh	4	5	5	3	0
TOTAL	**GWh**	**2,408**	**2,675**	**2,612**	**2,274**	**1,842**

* Latvenergo AS divested the Kegums boiler house in 2018

Kegums HPP

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

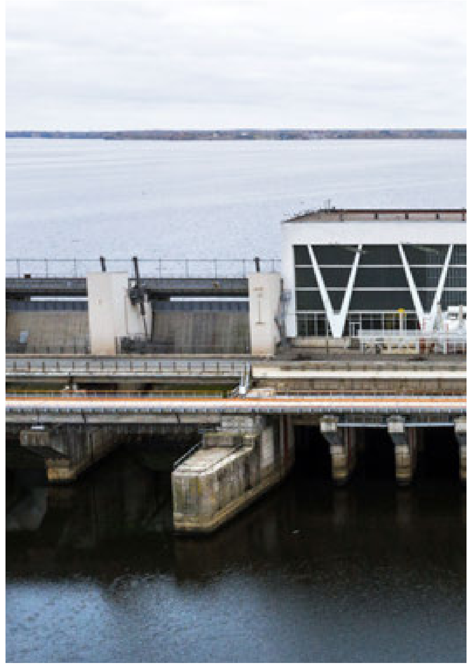
Kegums HPP is the oldest Daugava hydropower plant. It consists of two separate power plants built at different times on the right and left banks of the Daugava River.



Plavinas HPP

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

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



Riga HPP

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

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

Daugava HPPs

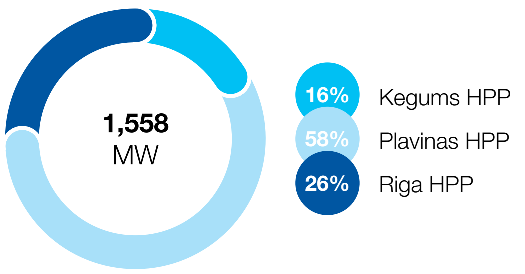
The Daugava HPPs are the biggest hydropower plants in the country, providing a large share of renewable energy not only in the Group, but also in Latvia as a whole. Their ability to generate electricity depends on the water inflow in the Daugava River. During the flooding season, it is possible to cover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

In 2019, the Daugava HPPs generated 2 TWh of electricity, which constituted 42% of the Group's total electricity output. The electricity generation in 2019 was 14% lower than in the previous year due to significantly lower water inflow in the Daugava River than the multiannual average inflow for the second year in a row.

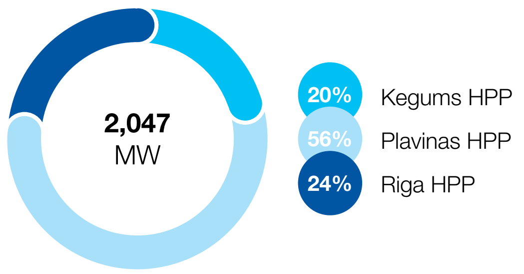
In the reporting year, investments in the Daugava HPPs' assets amounted to EUR 21.4 million, including nearly EUR 17 million invested in the programme for the reconstruction of hydropower units, which will ensure their operation for the next 40 years. The programme provides for the reconstruction of 11 hydropower units, of which five were commissioned by the end of 2019. The reconstruction process is scheduled for completion in 2023, and the total cost of the programme is expected to exceed EUR 200 million. By the end of 2019, the investments already made amounted to EUR 166 million.

Replacement of outdated hydro turbines contributes to an increase in their capacity, efficiency rate and electricity output. This promotes reliable, efficient and competitive operations of the Daugava HPPs within the overall energy system and in the electricity market. More efficient use of water resources mitigates the negative impact of the Group on climate change. Each megawatt hour of electricity generated by the Daugava HPPs reduces CO_2 emissions by 0.345 tons, assuming that this energy would otherwise be generated in condensation mode at combined heat and power plants by using natural gas as fuel.

Installed electrical capacity at Daugava HPPs in 2019



Electricity output at Daugava HPPs in 2019

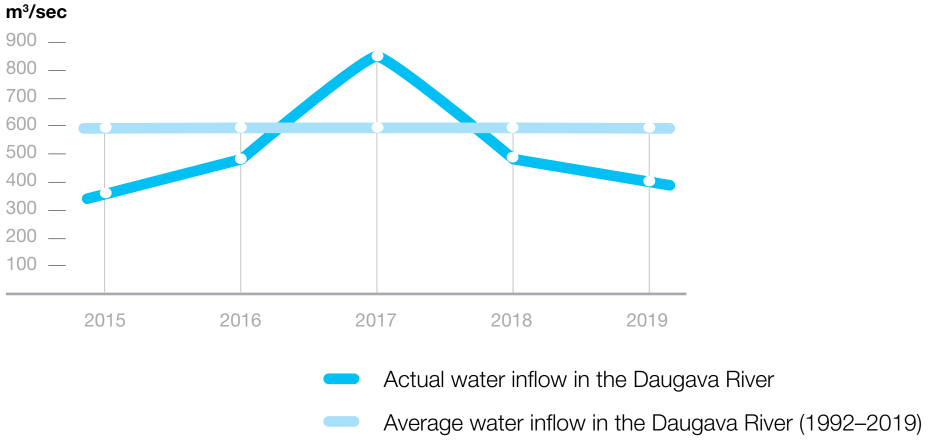


Installed electrical capacity at Daugava HPPs

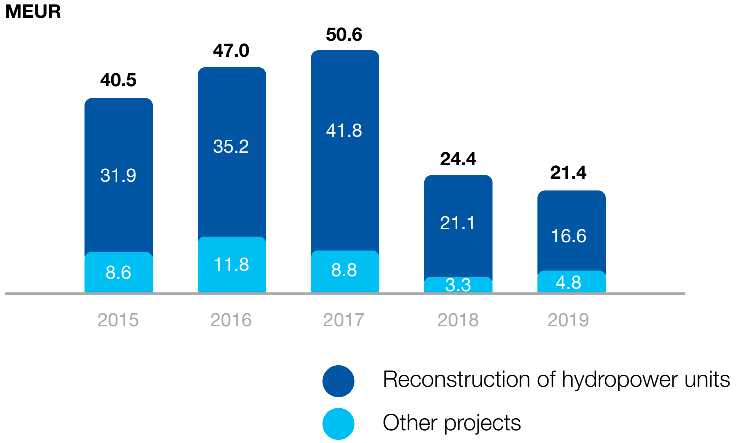
	Units	2015	2016	2017	2018	2019
Kegums HPP	MW	240	240	240	248	248
Plavinas HPP	MW	894	894	908	908	908
Riga HPP	MW	402	402	402	402	402
TOTAL	**MW**	**1,536**	**1,536**	**1,550**	**1,558**	**1,558**

Water inflow in the Daugava River

Source: Latvian Environment, Geology and Meteorology Centre



Investments in Daugava HPPs



CHPP-1

Start of operations: 1955
Electrical capacity: 144 MW

Thermal capacity: 493 MW
Energy source: natural gas

CHPP-1 was completely reconstructed in 2005. Two gas turbines, one steam turbine and three water boilers are operated at the plant.

CHPP-2

Start of operations: 1973
Electrical capacity:
832 MW (in cogeneration mode);
881 MW (in condensation mode)
Thermal capacity: 1124 MW
Energy source: natural gas

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

Investments in CHPPs of Latvenergo AS

	Units	2015	2016	2017	2018	2019
Investments	MEUR	15.0	11.3	22.5	2.5	10.1

Latvenergo AS CHPPs

The upgraded CHPPs of Latvenergo AS are mostly operated in the highly efficient cogeneration mode in accordance with the thermal energy demand which in turn depends on weather conditions and the duration of the heating season. Natural gas, the friendliest type of fossil fuel, is used as the primary fuel for the CHPPs.

The operation of the Latvenergo AS CHPPs can be flexibly adjusted to the electricity market conditions and guarantees a significant baseload electricity capacity for Latvia. Both CHPPs can cover Latvian electricity consumption almost completely in circumstances where, due to certain factors, electricity imports from foreign countries are limited.

In 2019, both plants played a very important role in meeting the demand for electricity, as the hydro energy output both in Latvia and throughout the Nord Pool region was comparatively low, and capacity shortages were observed in regional interconnections for the second year in a row due to dry weather conditions. In the reporting year, the CHPPs of Latvenergo Group generated historically the largest amount of electricity – 2.8 TWh. This is 5% more than in the previous year and accounts for 57% of the Group's total electricity output.

The high electricity output at the CHPPs was enabled by their competitiveness, market demand for electricity and limited regional options to meet this demand. In 2019, the output at the Estonian oil shale plants was decreased due to the high level of harmful emissions. The upgraded CHPPs of Latvenergo AS, on the other hand, emit very low amounts of CO_2 and use energy resources extremely efficiently. The CHPPs are expected to become even more competitive in the future, once the largest heat accumulation tank in the Baltics is built, further reducing the amount of CO_2 emissions. The construction of the tank on the territory of CHPP-2 started in November 2019 and its completion is scheduled for the end of 2020.

The amount of thermal energy generated by CHPP-1 and CHPP-2 in 2019 was 1.6 TWh, a 20% decrease compared to the previous year. The drop was due to the increase in competition in the thermal energy market – five new heat producers have started operating in the thermal energy zones of the Latvenergo AS CHPPs since 2018 – as well as warmer weather during the heating season. The thermal energy generated is sold to Rīgas siltums AS at regulated tariffs.

Electricity output at CHPPs

	Units	2015	2016	2017	2018	2019
CHPP-1	GWh	464	613	595	643	598
CHPP-2	GWh	1,561	1,593	816	2,001	2,182
TOTAL	**GWh**	**2,025**	**2,206**	**1,411**	**2,644**	**2,780**

Thermal energy output at CHPPs

	Units	2015	2016	2017	2018	2019
CHPP-1	GWh	978	1,110	1,195	1,105	883
CHPP-2	GWh	1,197	1,307	1,154	899	720
TOTAL	**GWh**	**2,175**	**2,417**	**2,349**	**2,004**	**1,603**

Latvenergo

Liepājas enerģija SIA and small plants

Liepaja plants

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

Latvenergo AS holds a 51% share in Liepājas enerģija SIA. The company ensures generation, transmission, distribution and supply of thermal energy in the city of Liepaja as well as generation of electricity in cogeneration mode. In 2019, Liepaja plants generated 240 GWh of thermal energy and 47 GWh of electricity. During the year, 63 new customers with the total expected load of 4.2 MW were connected to the central heating network.

Ainazi WPP

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

In 2013, full renovation of both generators was completed. In 2019, 1.7 GWh of electricity were generated at Ainazi WPP.

Aiviekste HPP

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

Electricity generation at Aiviekste HPP was started in 1925, and it was the largest hydropower plant in Latvia until Kegums HPP was put in operation. In 2019, 3.4 GWh of electricity were generated at Aiviekste HPP.

GRI EU3

Trade

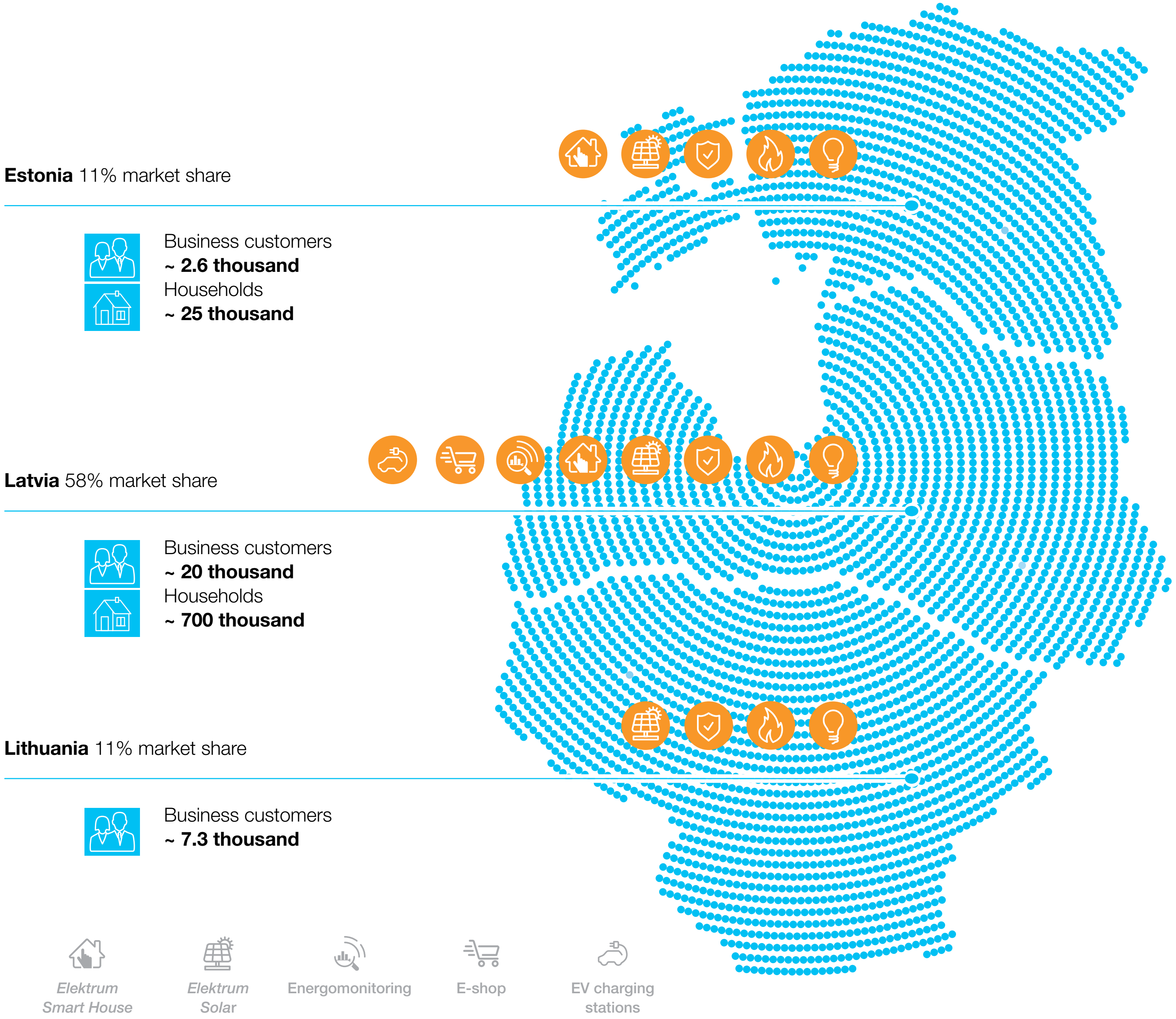
Latvenergo Group is one of the largest electricity traders in the Baltic states; it trades electricity and natural gas as well as an extensive range of related products and services under the *Elektrum* brand.

In 2019, the Group's market share accounted for 23% of the Baltic electricity market, where the total consumption is around 28.1 TWh. 6.5 TWh of electricity were sold to retail customers in the Baltics. The Group has 757 thousand electricity customers in the Baltics, of which 5% are business segment customers and 95% are households. The number of customers outside Latvia amounts to more than 35 thousand.

In the reporting year, the total volume of natural gas consumed and supplied to customers by the Group reached 7.1 TWh, which is 3% more than in 2018. Presently, Latvenergo Group is the second largest natural gas consumer in the Baltic states. Since February 2019, *Elektrum* has also offered natural gas to Latvian households, and the number of customers in this segment reached 5.4 thousand at the end of the year. The total number of natural gas customers of the Group in the Baltics is 6.1 thousand.

Sales of other retail products and services in the Baltics states were developed in the reporting period:

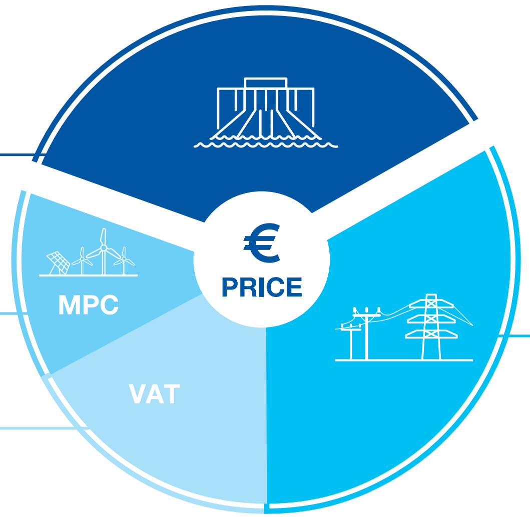
- 320 contracts on installation of solar panels were concluded, which is three times more than in the previous year. The Group's market share in the Baltics is approximately 9%.
- In May, Latvenergo Group became the first energy company in the Baltic states to start online sales of products and services. elektrumveikals.lv is currently offering LED bulbs, safety detectors, electric scooters, smart house devices, and solar panels and collectors. There are plans to improve the range of products in 2020.
- In August, the Group opened its first high-speed electric car charging points, with about 1,500 charges by the end of 2019.



Breakdown of an electricity bill in Latvia*

Price for electricity
includes costs of generation and trade

Price set by the market and competition



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

Mandatory procurement components
are set by the state to support generation of environmentally friendly energy

Transmission and distribution services
are provided by Augstsprieguma tīkls AS and Sadales tīkls AS

Value added tax

* An estimate for a household customer who has 1-phase connection and uses the product *Elektrum Economical* as of 01.04.2020.

Electricity market and market players

TRADE

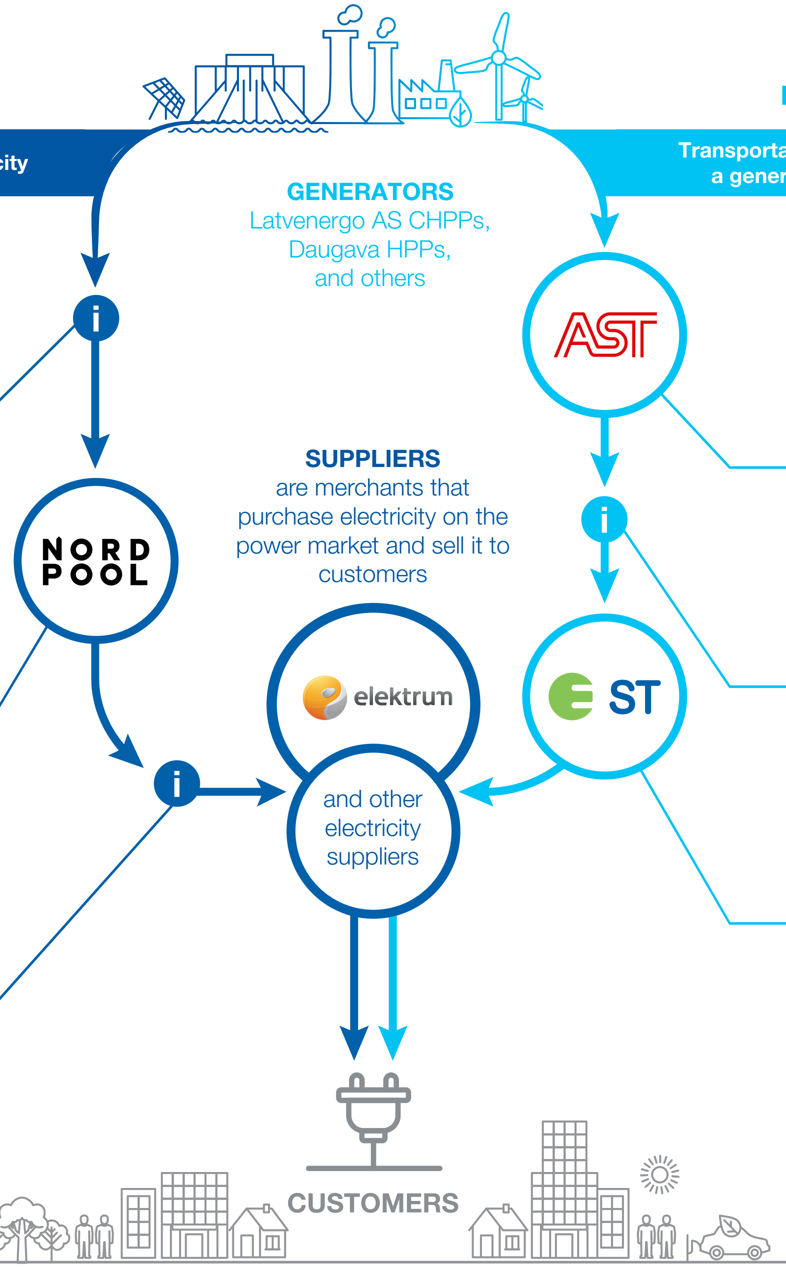
Purchase and sale of electricity

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

Power exchange

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

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



DELIVERY

Transportation of electricity from a generator to a consumer

Transmission

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

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

Distribution

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

Energy Efficiency

Energy efficiency is gaining the attention of both energy consumers and legislators. The Energy Efficiency Directive 2012/27/EU sets out a series of measures aimed at promoting the energy efficiency of both generators and consumers and achieving total energy savings of 20% by the end of 2020 at the EU level (compared against the 2007 baseline scenario for 2020). According to the Directive, each EU member state can establish an energy efficiency obligation scheme (EEOS), within which energy retailers must achieve cumulative savings of energy consumed by their customers. For the next period until 2030, a target has been set at the EU level to reach total savings of 32.5%. The Energy Efficiency Directive is slated for review within the scope of the Green Deal, and a more ambitious energy efficiency target may be set for 2030.

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

Latvenergo AS started measures to promote energy efficiency back in 2014. The key measures implemented so far are:

- seminars and events at the *Elektrum* Energy Efficiency Centre in Jurmala and Liepaja;
- tours and individual consultations at the *Elektrum* Energy Efficiency Centre in Jurmala;
- provision of information to the public at various events and in the media, production and dissemination of informational handouts;
- onsite events and lectures at educational institutions;
- comprehensive information about energy efficiency on the elektrum.lv portal, where customers may follow their hourly energy consumption;
- elektrumveikals.lv has been created, where a *Bulb Selection Guide* is available and where LED bulbs, smart house devices and equipment promoting energy efficiency can be purchased;
- information on energy efficiency solutions in the *Elektrum* customer service centres;
- an *Elektrum* mobile app which also provides information on energy efficiency;
- energy efficiency tips in the customer newsletter *Elektrum Tavām mājām* and on *Elektrum* social networks.

The energy savings achieved so far show that by the end of the first period of the EEOS, Latvenergo AS will exceed its savings target significantly and ensure a substantial increase in energy efficiency.

Mandatory Procurement

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

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

Since 2017, support for the reduced mandatory procurement component (MPC) for energy-intensive processing industry companies has also been provided. The Ministry of Economics decides on the reduction of the MPC payments for energy-intensive companies.

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

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

Every year, Enerģijas publiskais tirgotājs AS receives a state budget grant that helps to maintain a constant MPC value. Since 1 July 2018, it has been 2.268 cents/kWh on average. The grant is financed mainly from the dividends of Latvenergo AS for the use of state capital.

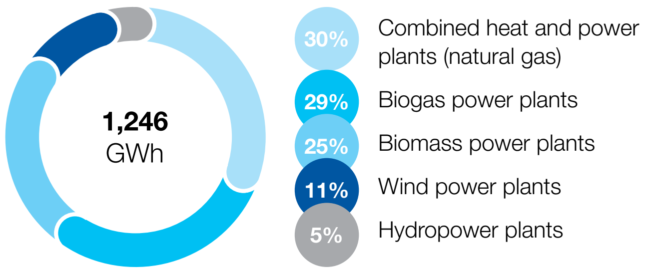
Mandatory procurement: key indicators

In the reporting year, 10% less electricity was procured within the MP process compared to the previous year. The decrease was mainly due to the end of the support period for 10 cogeneration plants. In addition, the Ministry of Economics cancelled permission to sell electricity within MP for 19 power plants and suspended the permits temporarily for 64 plants until non-conformities in the operations of these power plants are eliminated. Along with a smaller amount of electricity procured within MP, the MP costs above the market price have also decreased by 5%.

In 2019, the total MP and the MPC reduction support costs provided to energy-intensive manufacturing companies exceeded the MPC income received by Enerģijas publiskais tirgotājs AS from electricity end users by EUR 6.3 million. In December 2019 and January 2020, Enerģijas publiskais tirgotājs AS received a state grant of EUR 5.9 million for compensation of costs.

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

Electricity purchased within the mandatory procurement



Mandatory procurement: key indicators

	Units	2015	2016	2017	2018	2019
Power plants	number	400	402	408	374	364
Installed capacity	MW	1,364	1,379	1,394	1,360	1,354
Electricity purchased within MP	GWh	1,427	1,503	1,567	1,385	1,246
MP costs above the market price (after SET)	MEUR	224.3	207.9	235.3	158.9	150.9
MPC reduction: state aid to energy-intensive processing industry companies	MEUR	0	0	3.0	4.8	6.2

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GRI EU3, EU4

Distribution

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

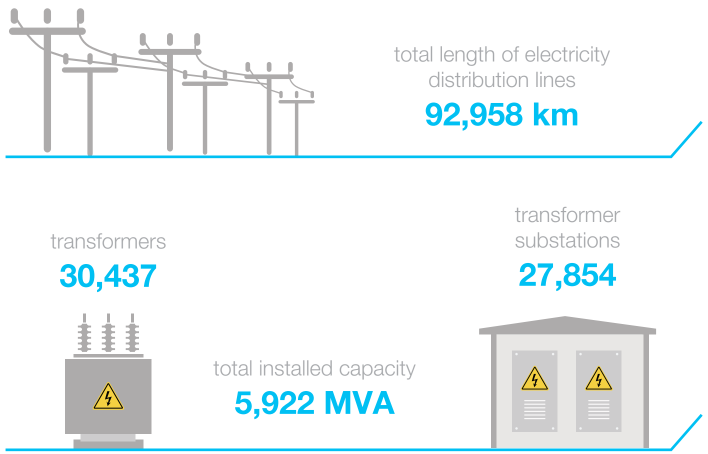
Sadales tīkls AS, a subsidiary of the Group, is the largest distribution system operator in Latvia, providing electricity distribution service to approximately 815 thousand customers. The distribution system operator ensures equal access to electricity networks, which is one of the prerequisites for ensuring competition in the Latvian electricity market.

The distribution network consists of low-voltage and medium-voltage lines formed by cables and overhead lines. As a result of reconstruction of the network, the share of cable lines increases year by year: it has grown from 32% to 37% of the overall line length of power lines over the last five years. The use of cable lines has allowed for reducing the negative impact of weather conditions on electricity networks and the number of disruptions on lines. The volume of electricity not supplied to customers as a result of failures has decreased by 8% during the last five years, from 1,024 MWh in 2015 to 940 MWh in 2019.

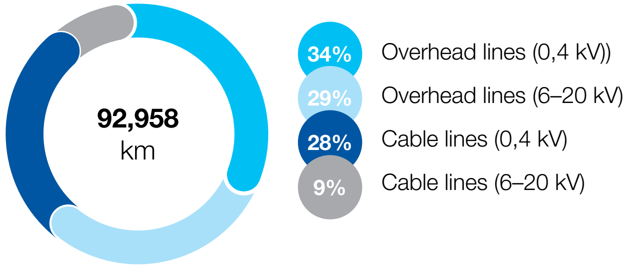
Electricity losses in the distribution system have decreased by 18% compared to 2018. The share of losses was only 3.7%, which is historically the lowest figure. Over the last five years, distribution losses have been reduced by 60 GWh or 18%.

Distribution system service tariffs are approved by the PUC. Since 2017, the implementation of an extensive performance efficiency improvement programme has helped reduce tariffs of the distribution service from 1 January 2020. The variable part of the distribution service in end users' accounts has decreased by 8% on average, while the total payment for electricity distribution has decreased by 5.5% on average. The tariff for the distribution service has been set for the next five years (until 2024).

Distribution network



Length of electricity distribution lines in 2019



Distributed electricity and losses

	Units	2015	2016	2017	2018	2019
Distributed electricity	GWh	6,263*	6,465	6,463	6,600	6,532
Electricity distribution losses, technological and operating consumption	GWh	328**	334	337	327	268
TOTAL	**GWh**	**6,591**	**6,799**	**6,800**	**6,927**	**6,800**
Electricity losses	%	4.6%	4.6%	4.6%	4.4%	3.7%

* excluding 123 GWh which correspond to the regulated electricity tariff revenues received at the beginning of 2015 and recognized in 2014
** 30 GWh added to the amount of losses due to recalculation of actual customer consumption and payments

Electricity received in distribution network

	Units	2015	2016	2017	2018	2019
From transmission network	GWh	5,236	5,304	5,225	5,520	5,506
From small generators	GWh	1,448	1,495	1,575	1,407	1,295
TOTAL	**GWh**	**6,684**	**6,799**	**6,800**	**6,927**	**6,800**

Efficiency programme

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

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

Within the efficiency programme, a reduction in the number of Sadales tīkls AS employees of about 800 is planned. From the launch of the efficiency programme in 2017 to the end of the reporting year, the number of jobs was reduced by about 21% or 529 jobs and the number of vehicles was curtailed by 21% or 224 units. 32 of 70 technical bases have been closed by optimising their geographical location in the territory of Latvia. 707 thousand remotely read smart meters were installed by the end of the reporting year, accounting for 63% of the total fleet of meters and metering 86% of the total volume of electricity consumed by customers.

Investments and maintenance

According to the development plan of Sadales tīkls AS, large investments are made in the maintenance and development of electrical networks every year. Their aim is to promote high-quality and reliable electricity supply, to reduce the frequency and duration of interruptions in electricity supply and to ensure efficient management of electricity networks. Renovation projects are assessed according to uniform criteria for the selection of facilities and planning guidelines.

The main areas of investment in the distribution segment are as follows:

- replacing overhead power lines with cable lines (mostly in forested areas), which helps to reduce the number of disruptions in the electricity supply system due to unfavourable weather conditions;
- renewal of power lines and transformer substations;
- an automation programme, which includes installation of remotely controlled circuit breakers and fault location detectors and gradual connection of the 20 kV network to the automatic fault location system. It provides for faster fault finding and restoration of the power supply, thus reducing the duration of power outages. 44% of the medium-voltage electrical network was connected to the system in 2019;
- introduction of smart electricity meters, which improves customer awareness of electricity consumption and promotes the efficiency of electricity consumption and cost reduction for the distribution system operator, customers and electricity traders.

Investments in distribution assets

	Units	2015	2016	2017	2018	2019
Investments	MEUR	102.0	106.4	107.7	95.1	95.1

Reconstruction and construction

	Units	2015	2016	2017	2018	2019
Overhead lines (0,4 kV)	km	37	22	18	39	81
Cable lines (0,4 kV)	km	934	651	781	858	711
TOTAL low-voltage power lines	**km**	**972**	**673**	**799**	**897**	**792**
Overhead lines (6–20 kV)	km	556	628	522	692	621
Cable lines (6–20 KV)	km	189	140	115	108	139
Cable lines (6–20 KV) (Cable programme)	km	210	208	211	187	59
TOTAL medium-voltage power lines	**km**	**955**	**976**	**848**	**987**	**820**
Transformer substations reconstructed	number	877	773	726	816	690
Connections constructed	number	7,588	9,353	8,907	9,445	11,079

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GRI EU4

Lease of Transmission System Assets

The operation of the segment is ensured by Latvijas elektriskie tīkli AS, which is the holder of the distribution system assets (330 kV and 110 kV power transmission lines, substations and distribution points) and leases the assets to Augstsprieguma tīkls AS, the transmission system operator. Lease of transmission system assets is a regulated segment, and the revenues are calculated according to the methodology approved by the PUC.

Taking into account ownership unbundling models for transmission system assets defined in the EU and having evaluated their impact on the state budget, market development, end users and other stakeholders, Latvia introduced an independent system operator model in 2011. In accordance with this model, transmission assets have been invested in Latvijas elektriskie tīkli AS, which in turn leases them to the transmission system operator Augstsprieguma tīkls AS. At the same time, the Cabinet of Ministers adopted a decision on the need to consider complete unbundling of ownership of the transmission system operator in future periods. Taking into account that the model introduced in 2011 is one of the rarest in Europe, and based on the re-evaluation conducted by the Ministry of Economics, in October 2019 the Cabinet of Ministers decided to carry out complete unbundling of ownership of the transmission system operator by 1 July 2020 by transferring all the transmission system assets to the transmission system operator Augstsprieguma tīkls AS.

The change of ownership of assets is planned through the reduction of the share capital of Latvenergo AS by withdrawing from the asset base of Latvenergo AS the capital shares of Latvijas elektriskie tīkli AS. The value of the capital shares will be ascertained by attracting an independent appraiser and determining their current market value, by which the share capital of Latvenergo AS will be reduced.

In 2019, EUR 87.4 million were invested in transmission system development. The most important transmission network investment projects are *Kurzeme Ring*, the third Latvia–Estonia transmission network interconnection, and reconstruction of the 330 kV power line *CHPP-2–Riga HPP*. Investments in transmission system assets are made in accordance with the development plan of Augstsprieguma tīkls AS approved by the PUC. Capital investment projects in transmission system assets are organised by Augstsprieguma tīkls AS.

Transmission network

5,424 km
total length of electricity transmission lines

17
330 kV substations with a total autotransformer capacity o
4,075 MVA

123
110 kV substations with a total transformer capacity of
5,264 MVA

Length of power transmission lines

	Units	2015	2016	2017	2018	2019
330 kV	km	1,360	1,346	1,346	1,346	1,553
110 kV	km	3,891	3,891	3,894	3,897	3,871
TOTAL	**km**	**5,251**	**5,237**	**5 240**	**5,243**	**5,424**

Substations and transformers and their installed capacities

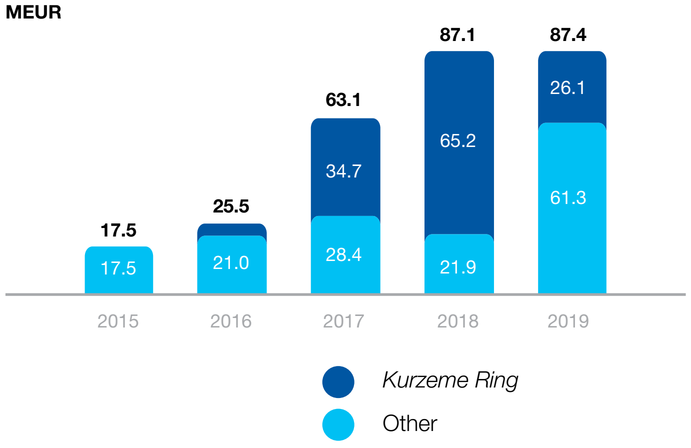
	Units	2015	2016	2017	2018	2019
Substations (330 kV)	number	16	16	16	16	17
Autotransformers (330 kV)	number	25	25	25	26	27
Installed capacity of autotransformers (330 kV)	MVA	3,825	3,825	3,825	3,950	4,075
Transformer substations (110 kV)	number	121	121	123	123	123
Transformers (110 kV)	number	246	245	248	248	248
Installed capacity of transformers (110 kV and 10 kV booster transformers)	MVA	5,102	5,125	5,196	5,215	5,264

The *Kurzeme Ring* project

The project, which was started in 2009, substantially improves the reliability of the power supply in Kurzeme and Latvia as a whole. It allows for more efficient use of the Lithuania–Sweden sea cable *NordBalt* through even greater integration of the Baltic countries in the Nordic electricity market.

The project was implemented in three stages, and its final section *Ventspils–Tume–Riga* was commissioned in 2019. The capacity of *Kurzeme Ring* is 800 MW, and the total length of 330 kV power lines is 337 km. Total costs of the project were slightly less than EUR 230 million, of which EUR 94 million were covered by European Commission co-financing. Furthermore, Augstsprieguma tīkls AS, the transmission system operator, also earmarked congestion charge revenues in the amount of EUR 11.5 million for financing the project.

Investments in transmission system assets



The third Latvia–Estonia transmission network interconnection

The project is important for the entire Baltic region. It will increase the available throughput between the Latvian and Estonian energy systems and reduce the price differences between the Latvian/Lithuanian and Estonian bidding areas.

The length of the interconnection line in Latvia is about 190 km. It is scheduled for completion by the end of 2020. The overall costs of the project in Latvia are estimated to be up to EUR 100 million. An agreement was concluded with the EC Innovation and Networks Executive Agency that provides 65% co-financing. In addition, Augstsprieguma tīkls AS intends to earmark congestion charge revenues in the amount of EUR 30.5 million for financing the project. By 2019, EUR 39.4 million were invested in the project.

The power transmission line *CHPP-2–Riga HPP*

The project was launched in 2017 to strengthen Latvia's internal network and ensure full functionality of the third Estonia–Latvia interconnection not only in normal modes but also in emergency and repair modes.

The estimated costs of the project are around EUR 15 million, and an agreement was concluded with the EC Innovation and Networks Executive Agency that provides for 50% co-financing. In addition, Augstsprieguma tīkls AS intends to earmark congestion charge revenues in the amount of EUR 7.2 million for financing the project. EUR 7.3 million were invested in the implementation of the project by 2019, and it is scheduled for completion by the end of 2020.

Other projects

In order to increase the stability of the electricity supply and provide the necessary capacity, the *Skrunda* substation was built and the *Bolderāja 2* and *Aizkraukle* substations were reconstructed in 2019. Construction work at substations *Krustpils, Daugavpils, Jāņciems* and *Ķegums HPP 2a* continue. Several power transmission lines have been renewed.

Sustainability Indicators

Materiality Assessment

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

Step 1

Identifying relevant sustainability topics. Identifying priority stakeholders.

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

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

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

Step 2

Determining the most material sustainability topics.

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

Step 3

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

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

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

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Step 4

Reassessing sustainability topics and disclosures.

The preparation of the report includes the annual re-evaluation of stakeholders' opinions, the topics identified and the relevant disclosures. This is done by the persons responsible for the relevant areas, considering changes in the operational environment and the Group's operations and the feedback received from stakeholders. During this process, the Group concluded that there was no need to change the sustainability topics in 2019.

The information about occupational health and safety as well as the water consumption data are disclosed in accordance with the 2018 changes in the respective GRI standards.

Materiality matrix

Economic topics

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

Social topics

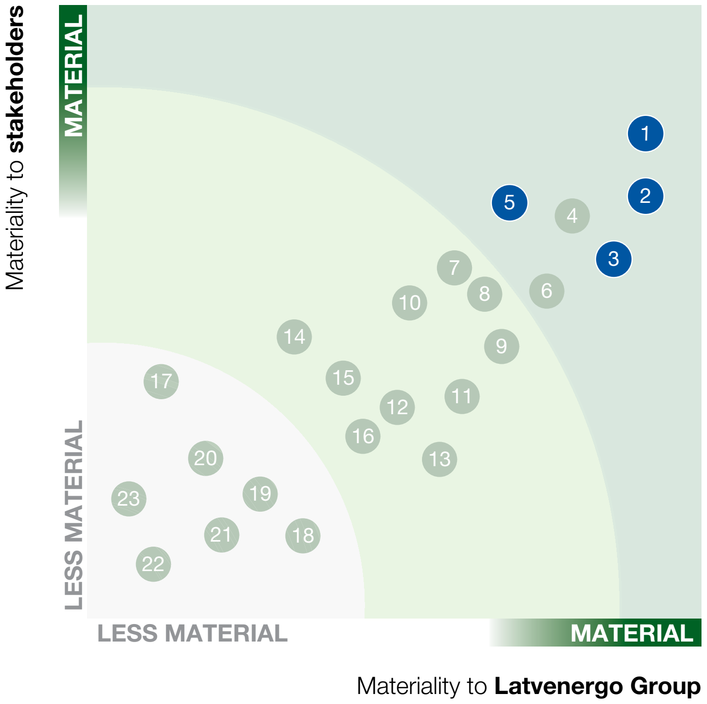
4 Customer satisfaction
6 Emergency planning
8 Occupational health and safety
9 Safety of distribution services
10 Public policy engagement
11 Employee involvement and development
12 Security of personal data
14 Information availability
17 Work-life balance
18 Community contribution
19 Impact on local communities
21 Human rights and diversity in the workplace
23 Freedom of association

Environmental topics

7 Environmental compliance
13 Air pollution
15 Resource and energy consumption
16 Renewable energy
20 Waste and wastewater
22 Biodiversity

Economic Topics

Economic performance



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

Latvenergo Group's provision of energy, the taxes and dividends it pays, and its procurements and investments are an invaluable contribution to the national economy. The operations of the Group focus on the efficient use of resources and well-considered investments in the energy generation and network infrastructure, thus improving the efficiency of the generation facilities and the quality of the distribution service. In its activities, the Group ensures compliance with laws and regulations, adheres to high ethical standards and encourages its partners to comply with equivalent ethical principles.

Efficiency of generation plants

Maintenance and improvement of Latvenergo Group's facilities is very important in ensuring high generation efficiency. Efficiency indicators of facilities are affected by the chosen operation modes, which are adjustable according to market conditions.

In the reporting year, the reconstruction of hydropower units continued at the Daugava HPPs. This allowed for improving the hydropower turbine efficiency ratio and, consequently, increasing the annual electricity output. Until 2023, there are plans to gradually renovate the six hydropower units that have not yet been reconstructed. Establishment of a heat storage system continued at CHPP-2. The heat storage tank will make it possible to accumulate and later use the thermal energy generated in cogeneration mode and thus further enhance the flexibility and efficiency of the CHPP operating modes. The modernised CHPPs of Latvenergo AS can generate energy in the highly efficient cogeneration mode, which allows for the most efficient use of fuel and significantly reduces emissions per unit of energy generated.

Under unfavourable market conditions, the generation at the CHPPs is reduced, using the opportunity of purchasing electricity at the Nord Pool exchange. However, electricity generation at the CHPPs increases in conditions of increased electricity market demand, which we faced in 2019 and 2018, using the energy sources for generation of electricity with maximum efficiency. The output of the Daugava HPPs is planned considering the water inflow in the Daugava River and the possibility to accumulate water in the water reservoirs of the HPPs and generate electricity during periods when the demand and the exchange price are higher. Due to the optimal combination of the generation at the CHPPs and the Daugava HPPs and the import opportunities from other Nord Pool bidding areas, consumers in the Baltics benefit from both price convergence to the Nordic price level and price stability in the long term.

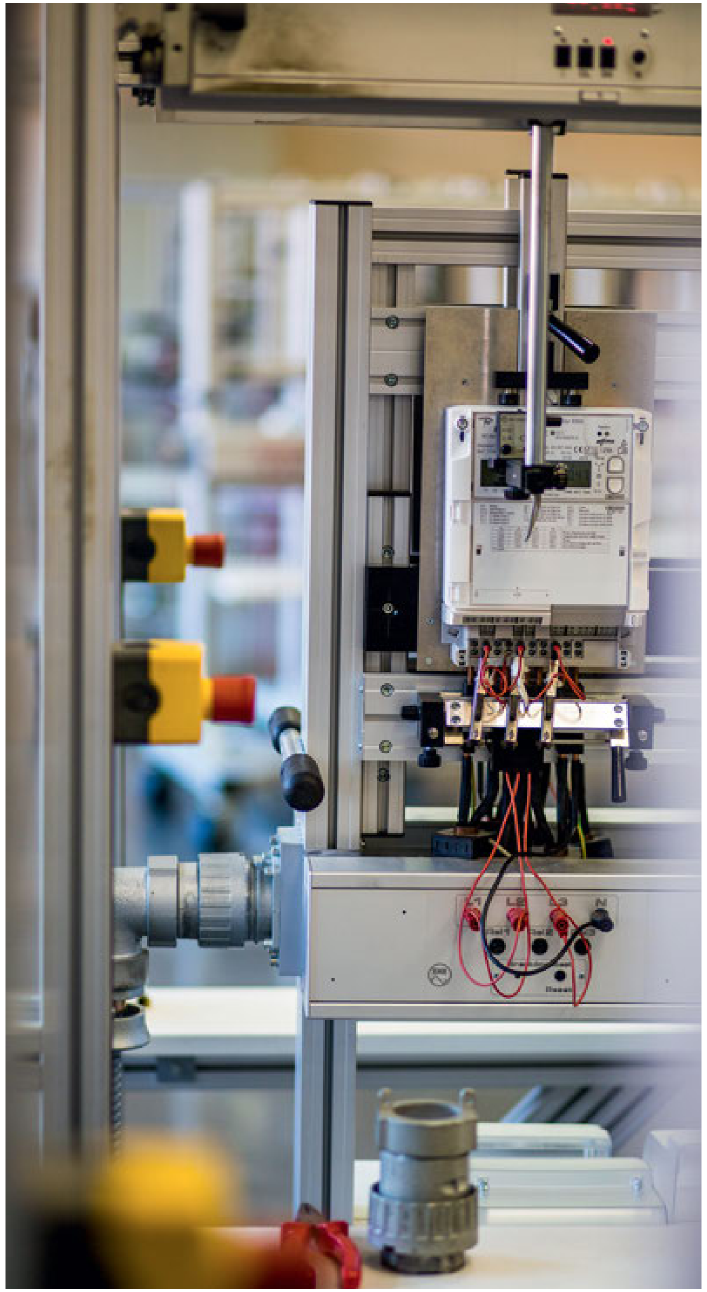
Contribution to the economy

Latvenergo Group enhances the general public well-being both directly and indirectly: it provides sustainable and economically viable services in the energy sector, which are the basis for functioning and development of any other sector, and strengthens the economy in the form of taxes and dividends paid to the state budget, jobs creation, and substantial investment and procurement.

Latvenergo Group operates in all energy trade segments in Latvia, Lithuania and Estonia, thus having a major impact on economic growth throughout the Baltics. In 2019, investments amounted to EUR 229.4 million, and they have exceeded EUR 1 billion over the past five years. Significant amounts have been invested in environmentally friendly energy generation and network development projects. The biggest investment projects have been the Daugava HPP hydropower unit reconstruction programme and the energy infrastructure project *Kurzeme Ring* (see the annex Green Bond Report).

Latvenergo Group is one of the biggest taxpayers in Latvia. In the reporting year, the Group paid EUR 285.4 million to the state budget of Latvia, including EUR 132.9 million as dividends for the use of state capital. The amount of taxes paid in Lithuania and Estonia was EUR 14.4 and 7.6 million respectively. Latvenergo Group is also one of the biggest employers in Latvia, with a total of 3,423 employees as of the end of 2019. The Group provides its employees with competitive wages, contributions to their pension fund and training for improvement of professional skills.

At the end of the reporting year, the value of the Group's assets reached almost EUR 3.9 billion, and equity exceeded EUR 2.2 billion. Detailed information on the performance of the Group is available in the Latvenergo Consolidated Annual Report.



Efficiency and availability of the distribution system

Sadales tīkls AS is building a sustainable power grid, paying attention to the safety of the grid at each site individually and in the grid as a whole as well as to the quality of the equipment and materials supplied and the work performed. The power grid is being rebuilt using efficient technical solutions that are economically feasible in the long term.

The key performance indicators for quality of electricity supply are the System Average Interruption Duration Index (SAIDI) and the System Average Interruption Frequency Index (SAIFI). Both indicators are calculated as an average indicator on a per-customer-per-year basis. Over the last five years, SAIFI has been reduced by 16% and SAIDI has been reduced by 30%. Sadales tīkls AS conducts regular detailed analysis of these indicators and takes measures to improve them. Major actions implemented during the reporting year:

- nearly 1,600 km of power lines were reconstructed, including the replacement of 900 km of overhead lines with cable lines and construction or reconstruction of nearly 700 transformer substations;
- clearance work on power line routes totalling approximately 3,800 km;
- 164 remote-controlled circuit breakers were built, separating power lines in densely populated places and forested areas.

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

Seeking to ensure high-quality services, Sadales tīkls AS continuously improves its customer service-related processes. If provision of electricity supply services is found to be inconsistent with quality requirements, customers are compensated for the losses incurred.

More information is available in the section Distribution.

General compliance and fair competition

The Fraud and Corruption Risk Management Policy of Latvenergo Group sets out basic principles of management of this risk, aiming to reduce the risk of fraud and corruption, potential losses, reputational damage, and the possibility of legal obligations or sanctions being imposed.

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

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

Performance Indicators

GRI 201-1

Direct economic value generated and distributed*

In 2019, the economic value generated by Latvenergo Group corresponded to approximately 3% of Latvia's GDP. Distributed economic value reached 91% of the economic value generated, and it is distributed among the following stakeholders:

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

Latvenergo Group is a significant payer of dividends for the use of state capital in Latvia. In 2019, dividends paid for 2018 comprised EUR 132.9 million, and retained earnings brought forward from previous years were also used for the distribution of dividends. Over the last five years, nearly EUR 500 million was paid as dividends into the state budget. Latvenergo AS dividends are also used as a source of funding for the state budget programme Electricity User Support, ensuring that the MPC value remains unchanged.

The Group's retained economic value comprises depreciation and provisions, which corresponds to approximately one tenth of the economic value generated in the reporting year. In 2019, EUR 229.4 million was earmarked for investment.

Economic value generated and distributed*

	Units	2018	2019
Economic value generated	**MEUR**	**850.1**	**844.7**
Revenue and other income	MEUR	848.9	843.5
Income from financial activities	MEUR	1.2	1.2
Economic value distributed	**MEUR**	**799.3**	**764.7**
Resources, materials, operational and other costs	MEUR	518.9	501.9
Employee remuneration	MEUR	103.4	101.3
Payments for the use of state capital	MEUR	156.4	132.9
Payments to providers of debt capital	MEUR	8.4	9.5
State imposed payments	MEUR	11.2	18.5
Charity and sponsorships	MEUR	1.0	0.6
Retained economic value	**MEUR**	**50.8**	**80.0**

* excluding discontinued operations (see Note 30 of the Annual Report) and the CHPPs' compensation recognized in the profit and loss statement

GRI 201-3

Defined benefit plan obligations and other retirement plans

Latvenergo Group makes contributions to a pension fund and pays termination benefits to employees upon their retirement. These benefits apply to 97% of the Group's employees.

In compliance with the Collective Bargaining Agreement, the Group makes monthly contributions to Pirmais Slēgtais Pensiju fonds AS until the employee reaches the pensionable age for statutory pensions. The contributions amount to 5% of monthly remuneration (until April 2020, employees could redirect part of this 5% towards endowment health insurance). The accumulated private pensions become available to employees still employed at the Group after they reach the age of 60 and to employees no longer employed at the Group after they reach the age of 55 or in case of Group 1 disability. If the employee draws on the accumulated pension after reaching the age of 60, the Group suspends contributions. In 2019, EUR 2.1 million were paid into the pension fund. The operations of Pirmais Slēgtais Pensiju fonds AS are supervised by the Financial and Capital Market Commission.

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

GRI 201-4

Funding received from the state

Latvenergo Group raised EU co-funding for individual investment projects. In 2019, EUR 0.2 million were raised for the establishment of a heat storage system at CHPP-2 of Latvenergo AS. The project is expected to be completed at the end of 2020, and the total planned co-funding amounts to EUR 2.5 million. Liepājas enerģija SIA received EUR 0.3 million EU co-funding for reconstruction of its heat pipelines, which was completed in 2018.

In compliance with the Electricity Market Law, the functions of the public trader in Latvia are performed by Enerģijas publiskais tirgotājs AS, a subsidiary of the Group, which receives a targeted grant from the state budget for restriction of MPC. Its main funding comprises revenues from dividends paid by Latvenergo AS. In 2019, Enerģijas publiskais tirgotājs AS received a EUR 5.5 million targeted grant.

Funding received from the state and the EU

	Cofunding source	Units	2017	2018	2019
Liepaja plants	EU	MEUR	0	0	0.3
Heat accumulation system at CHPP-2	EU	MEUR	0	0	0.2
Grant for limiting MPC*	state	MEUR	69.9	92.7	5.5
TOTAL		**MEUR**	**69.9**	**92.7**	**6.1**

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

GRI 205-2

Communication and training on anti-corruption policies and procedures

In 2019, the Fraud and Corruption Risk Management Policy and the Code of Ethics were updated, and informative material on whistleblowing was prepared. These documents are available to all employees of the Group. The Code of Ethics is available on the Group's website, where it can be accessed by any third party, including all of the Group's business partners. Upon entering into agreements, the Group's companies urge their business partners to comply with high ethical standards to ensure ethical cooperation.

During the reporting period, onsite trainings on prevention of conflict of interest, fraud and corruption, management of the corruption risk, and whistleblowing matters were organised for all managers of Latvenergo AS, who were urged to organise discussions on these matters in their organisational units, thus implementing communication across Latvenergo AS covering nearly 40% of employees of the Group.

Onsite trainings on fraud and corruption risk management and prevention of conflict of interest situations were organised for 62 employees of Sadales tīkls AS (3% of all employees of Sadales tīkls AS). In addition discussions on prevention of conflict of interest, fraud and corruption, and whistleblowing matters in the working groups/organisational units of Sadales tīkls AS were organised.

The development of a new e-training programme on prevention of conflict of interest, prevention of fraud and corruption, and whistleblowing matters started in the reporting period. The programme was in its final stage at the end of the year. E-trainings are planned for all employees of the Group, including management board members in all of the Group's companies as well as their chief officers and department and unit managers.

GRI 205-3

Confirmed incidents of corruption and actions taken

No cases of corruption were identified within Latvenergo Group in the reporting period. According to the risk assessment results, the risk of fraud and corruption at the Group is properly managed.

GRI 206-1

Legal actions for anti-competitive behaviour and monopoly practices

In 2019, no cases of anti-competitive behaviour or misuse of the dominant position by Latvenergo Group were identified, and no court proceedings against Latvenergo Group were initiated or were ongoing.

GRI 419-1

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

No significant fines or non-monetary sanctions were applied in 2019 for any failure by the Group to comply with laws and regulations in the social and economic area.

GRI EU11

Average generation efficiency of thermal plants

Generation efficiency indicators are calculated as the ratio of electricity and thermal energy generated and the energy necessary for their generation.

In 2019, the generation efficiency indicator of the Daugava HPPs increased by 4%, whereas at the Latvenergo AS CHPPs it decreased by 5 percentage points. These indicators are affected by the operation modes chosen at the generation facility, which in turn are flexibly adjusted to the electricity and thermal energy market conditions. The high level of generation of the CHPPs was facilitated by regional electricity demand, as the electricity generation of oil shale power plants in Estonia decreased considerably due to the high prices of CO_2 emission allowances in 2019.

Generation facility efficiency indicators

	Units	2015	2016	2017	2018	2019
Daugava HPPs	m^3/kWh	18.8	18.9	18.6	18.6	17.9
CHPPs	%	79	83	88	77	72
Liepaja plants	%	90	90	91	90	90

GRI EU30

Average plant availability factor

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

The availability factors of the Daugava HPPs increased in the reporting year, which is explained by the commissioning of reconstructed hydropower units. The factor is expected to improve even more after all the hydropower units are reconstructed. The availability factors for the CHPPs were slightly lower compared to the previous year, as the amount of repairs was higher.

In 2019, the Daugava HPPs were operational for an average of 1,692 hours and on back-up for an average of 5,098 hours. The average annual duration of scheduled repair work per hydropower unit was 1,189 hours. Unscheduled repairs amounted to 2,842 hours in total.

The CHPPs were operational for an average of 3,182 hours and on back-up for an average of 4,828 hours. The average annual duration of scheduled repair work per unit was 721 hours. Unscheduled repairs amounted to 562 hours in total.

Average plant availability

	Units	2015	2016	2017	2018	2019
Daugava HPPs	%	87	81	76	76	85
CHPPs	%	82	82	80	88	85

GRI EU12

Distribution losses as a percentage of total energy

One of the most important indicators describing the efficiency of the distribution segment is distribution losses as a percentage of total electricity received in the grid. In 2019, Latvenergo Group reached the historically lowest electricity loss rate of 3.7%.

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

Distribution losses

	Units	2015	2016	2017	2018	2019
Distribution losses	%	4.6	4.6	4.6	4.4	3.7

GRI EU26

Percentage of the population unserved in licensed distribution or service areas

The service area specified in the electricity distribution licence covers 99% of the territory of the Republic of Latvia. Electricity distribution services are ensured to over 815 thousand customers. The services are provided to all households that have concluded agreements on electricity supply within the service area specified in the licence.

GRI EU27

Number of residential disconnections for non-payment

In 2019, electricity supply was disconnected for 8,887 households due to failure to pay in a timely manner. 51% of disconnections lasted up to 48 hours. Cases where disconnections were longer than one month (13%) were mainly related to connections used by customers irregularly or rarely. 88% of households in the reporting year had their electricity connection restored within 24 hours after payment.

Number of residential disconnections for non-payment

	Units	2017	2018	2019
Up to 48 hours	number	3,164	4,123	4,513
From 48 hours to 1 week	number	1,219	971	1,726
From 1 week to 1 month	number	1,460	1,297	1,451
More than 1 month	number	2,418	1,747	1,197
TOTAL	**number**	**8,261**	**8,138**	**8,887**

Length of time between arrangement of payment and reconnection

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

Latvenergo

GRI EU28, EU29

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

Well-targeted investment in the reconstruction of distribution networks and intensive clearance work on power line routes has contributed to substantially reduced SAIFI and SAIDI over the last five years. Part of the power line maintenance and repair work was carried out without cutting voltage for consumers.

In comparison with 2018, the number and duration of power outages increased, which is explained by massive damages to the electrical network caused by storms. However, both indicators generally improve year on year – if massive damages are disregarded, SAIFI decreased by 3% and SAIDI decreased by 5% in 2019.

System Average Interruption Frequency Index (SAIFI)

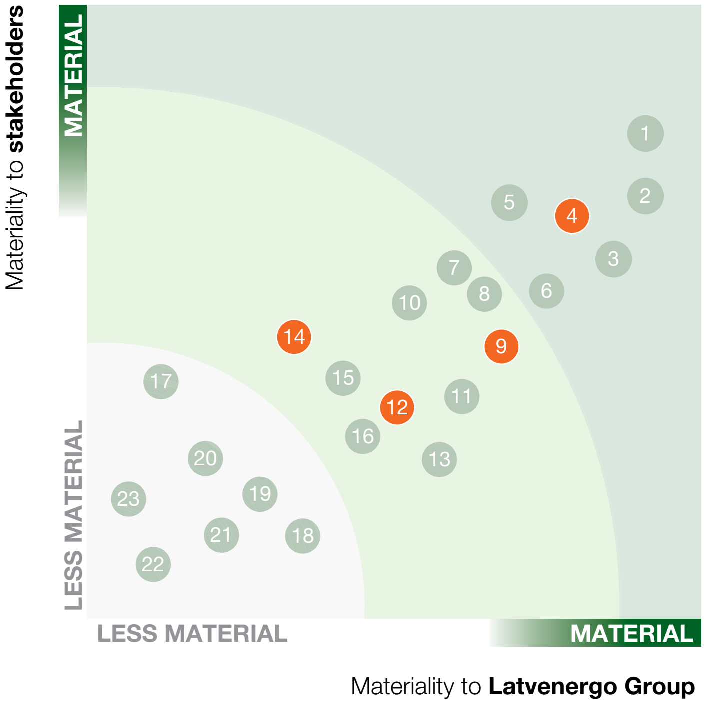
	Units	2015	2016	2017	2018	2019
Unscheduled: weather conditions (massive damage)	number	0.2	0.2	0.2	0.0	0.3
Unscheduled: damage (incl. by third parties)	number	2.1	2.2	2.0	1.9	1.8
Scheduled: network maintenance and overhaul	number	0.8	0.7	0.6	0.6	0.6
TOTAL	**number**	**3.2**	**3.1**	**2.8**	**2.5**	**2.7**

System Average Interruption Duration Index (SAIDI)

	Units	2015	2016	2017	2018	2019
Unscheduled: weather conditions (massive damage)	min	18	26	18	3	33
Unscheduled: damage (incl. by third parties)	min	126	104	100	102	90
Scheduled: network maintenance and overhaul	min	206	156	143	123	123
TOTAL	**min**	**350**	**286**	**261**	**228**	**246**

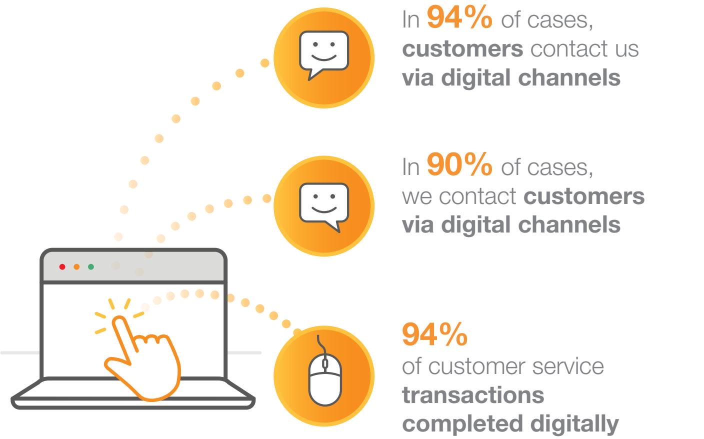
Social Topics

Product responsibility



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

Latvenergo Group's operations are targeted at developing and offering competitive electricity services that meet customers' needs as well as at building long-term, mutually beneficial and loyal relationships with customers. Distribution services are based on the provision of high-quality and secure electricity supply in Latvia. To achieve these goals, the Group follows the principles of cost-effectiveness and operational excellence.



Customer Satisfaction

Trade

Customer satisfaction is substantially impacted by service quality, accessibility and convenience. Since 2018, Latvenergo AS has been implementing the Digital Transformation Programme to develop digital and automated solutions that provide customers with convenient and modern service as well as promote effective communication with the company. In the reporting year, new functionalities were introduced on the *Elektrum* portal: e-shop, natural gas trade and service provision, and the possibility to conveniently pay for multiple contracts. Other improvements were introduced in customer service processes, allowing for the automation of manual operations and efficient use of resources, including by using machine learning technologies.

Latvenergo Group extends its range of products and services on a regular basis to strengthen customer relations and competitiveness. In 2019, the Group started supplying natural gas to Latvian households, and the Group has become the first energy company in the Baltic States to start online sales of products and services. At elektrumveikals.lv it is currently possible to purchase LED bulbs, security detectors, electric scooters, electric vehicle-charging and smart house devices, and solar panels and collectors.

Customer service key performance indicators in Latvia

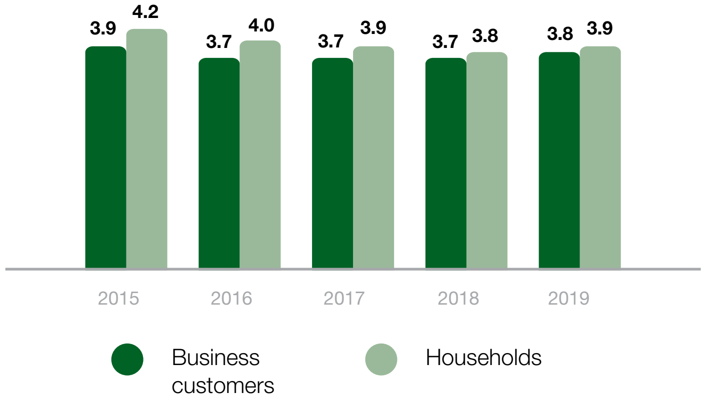
	Units	2015	2016	2017	2018	2019
Calls answered	%	90	87	89	83	91
Calls answered within 30 seconds	%	78	73	76	64	79
E-mails answered within 24 hours	%	n/a	54	90	58	87
The average waiting time at the customer service centres	min	n/a	10	7	11	4
Claims answered within 3 days	%	n/a	n/a	n/a	80	90
First call resolution for the household segment	%	n/a	91	90	91	90

To assess the quality of customer service and identify the opportunities for its improvement in a timely manner, a number of customer service key performance indicators have been defined at the Group. In 2019, positive dynamics were observed in the indicators compared to the previous year, and high availability and service level were ensured throughout customer service channels.

The Group conducts regular customer satisfaction and loyalty surveys in the household and business customer segments in Latvia. These surveys measure satisfaction with the Group, its services, customer service, payment options and the availability and content of information. In order to evaluate customer satisfaction with service in more depth, monitoring of the net promoter score (NPS) started in 2019 in all customer service channels.

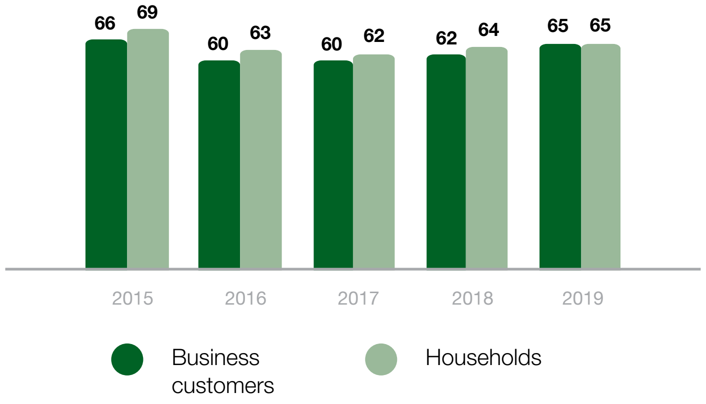
Elektrum customer satisfaction index

- Shows customer satisfaction with the service provider.
- Measurement on a scale from 1 to 6.
- In 2019, customer satisfaction increased slightly in the household and business customer segments.



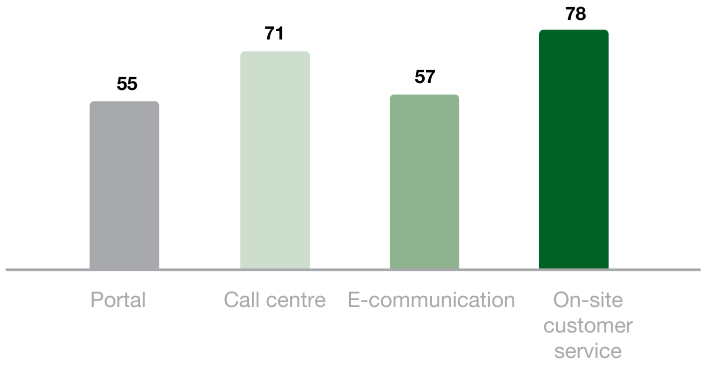
Elektrum customer loyalty index

- Shows the level of customer loyalty – commitment to the service provider and readiness to continue cooperation in the long term.
- Measurement on a scale from 1 to 100.
- In 2019, customer loyalty increased slightly in the household and business customer segments.



Elektrum net promoter score

- Shows readiness of customers to recommend the service provider based on their service experience.
- Measurement on a scale from –100 to +100 (according to the international NPS methodology).
- The NPS is very high for all customer service channels, in particular for the call centre and on-site service.



Distribution

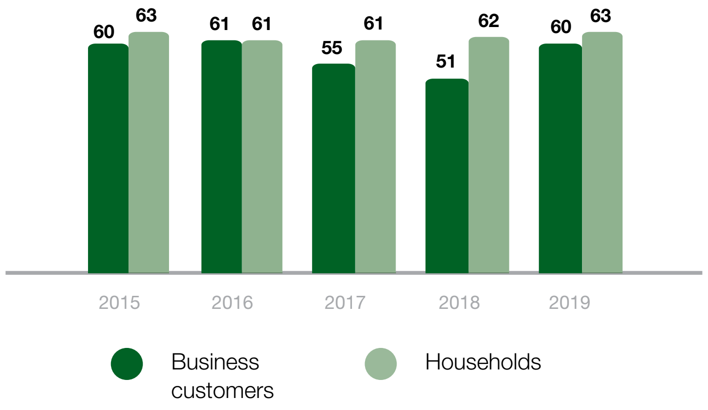
During the reporting year, Sadales tīkls AS continued to develop digital and automated services, which significantly improved the availability of services and reduced manual operations in customer service processes. The website created in 2019 contains extensive and easy-to-use information on services, several e-calculators and a digital map with ongoing and scheduled work in the distribution network. On self-service portals, customers may at any time do everything from a service application to conclusion of a contract. They can coordinate projects and plans and get permits for construction, forestry and excavation work. The new e-tools of Sadales tīkls AS provide customers with e-services, e-approvals and e-information 24/7.

Industry professionals also appreciate the digital transformation of Sadales tīkls AS – the project *Leave paper for other needs! Let's meet in the e-environment – sadalestikls.lv!* received the highest evaluation in the category *Digital Transformation of an Enterprise* of the Latvian Annual Technology Award *Platinum Mouse 2019.*

In 2019, customer satisfaction indicators gradually improved. Household customers and businesses appreciate the performance of employees, the provision of prompt information, and the self-service opportunities in the e-environment. The continuity of the power supply is very important for all customer groups and was recognised as an area that still needs improvement.

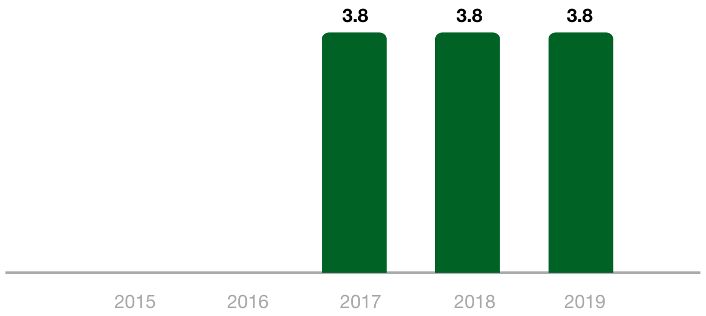
Customer satisfaction index of Sadales tīkls AS

- Shows customer satisfaction with the service provider.
- Measurement on a scale from 1 to 100.
- In 2019, a significant increase in satisfaction was observed in the segment of legal customers. The indicators increased most rapidly among small and medium-sized organisations.



Customer experience monitoring of Sadales tīkls AS

- Shows customer satisfaction with the services in general and with individual groups of services.
- Measurement on a scale from 1 to 5 (measured for all customer segments together, since 2017).
- In 2019, the overall rating of all services remained unchanged.



Safety of distribution services

Safe electricity supply is a priority for Sadales tīkls AS. The company is responsible for the external power supply network, but not for the internal wiring or electrical appliances in customers' facilities. However, as a socially responsible company, it reminds the public about electrical safety rules and educates children, young people and adults on a regular basis about correct actions in daily activities and the danger of electricity.

Sadales tīkls AS organises and supports informative and educational programmes and campaigns which aim to reduce the number of electrical accidents due to negligent use of electrical appliances and performing business activities in the vicinity of the electrical network. Employees of the company – in their capacity as Ambassadors of Electrical Safety – go to schools and participate in activities dedicated to safety. Since 2013, the ambassadors have attended more than 800 educational institutions and summer camps in Latvia and participated in more than 100 events devoted to safety. Over 130 thousand children and young people have been educated on electrical safety.

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

Security of personal data

To ensure compliance with the requirements of the General Data Protection Regulation (EU) 2016/679, Latvenergo Group has been constantly improving its personal data processing and internal regulatory documents. Employees whose duties involve working with personal data have workshops, knowledge tests and e-training on a regular basis.

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

For customers to be able to monitor the processing of their personal data and respect for their rights as data subjects, and to strengthen protection of their personal data, a solution has been introduced that reminds customers about updating their contact information and allows them to conveniently administer consent for further communication and create a security password for safe communication with the company.

Information availability

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

Trade

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

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

In Lithuania and Estonia, customer service is ensured via the elektrum.lt and elektrum.ee customer service portals as well as by phone.

The most popular customer service channel is the elektrum.lv portal with around 818 thousand visits per month, of which 58% are unique users. The popularity of the *Elektrum* mobile application continues to grow: it is used by more than 107 thousand customers, which is 15% of the total number of customers. The use of other service channels has been decreasing every year.

To facilitate access to information, customer service is also provided in Russian and English, while informational materials at customer service centres are also available in Russian. Customer service centres ensure access for customers with reduced mobility. To reduce the waiting time for customers with children and pregnant women, separate queues are arranged for them.

Based on customer interests and needs, the Group continues to raise the awareness of energy efficiency and electrical safety among customers and society in general. Advice on these issues is regularly published in the customer newsletter *Elektrum tavām mājām* and on the *Elektrum* social network accounts. The *Elektrum* Energy Efficiency Centre holds informative activities and campaigns on energy efficiency.

Distribution

All services of Sadales tīkls AS are available in the e-environment 24/7. In 2019, 86% of applications for the implementation of new connections and increase of load were submitted electronically.

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

For information on raising public awareness of electrical safety, see the section Corporate Social Responsibility.

Performance Indicators

GRI 417-3

Incidents of non-compliance concerning marketing communications

No cases of non-compliance of Latvenergo Group's marketing activities with legal or voluntary provisions were identified in 2019.

GRI 418-1

Complaints regarding breaches of customer privacy and losses of customer data

In 2019, no complaints were received from supervisory authorities or other institutions about personal data breaches, and no incidents involving theft and loss of personal data were registered. No incidents causing high risk to the rights and freedoms of natural persons were identified.

GRI EU25

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

There were three accidents involving third parties in electrical installations of Sadales tīkls AS in 2019. One lethal accident was caused by touching electricity lines with a fishing rod, and one severe accident was caused by touching of electricity lines with machinery. In one case, the electric shock was caused by damaging the cable insulation during excavation work.

Number of accidents to third parties involving company assets

	Units	2015	2016	2017	2018	2019
Fatal	number	2	0	1	0	1
Serious	number	0	1	0	0	1
Not serious	number	5	2	5	3	1
TOTAL	**number**	**7**	**3**	**6**	**3**	**3**
Legal cases	number	0	0	0	0	0

Society

6 Emergency planning
10 Public policy engagement

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

Emergency planning

Latvenergo Group has created an emergency and crisis management system. Its purpose is a common approach for resolving issues that arise during emergency or crisis situations to ensure continuous and reliable operations of the Group or their prompt and efficient recovery.

Actions in crisis situations provide for cooperation with the Crisis Management Council, the Energy Crisis Centre, local governments, the Department of Management and Operations of the State Fire and Rescue Service (SFRS), the National Armed Forces and Augstsprieguma tīkls AS. The emergency and crisis management plan has been coordinated with the Ministry of Economics, which is responsible for the development of the national energy policy and for the planning and management of energy crisis recovery measures.

In cooperation with Augstsprieguma tīkls AS, annual training is carried out where possible emergency scenarios are simulated. These activities involve employees of Latvenergo Group and specialists from the Department of Management and Operations of the SFRS and from the National Armed Forces. To improve recovery response and reduce material losses, the training process is subsequently analysed and preventive measures to be taken are defined.

Public policy engagement

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

The Group's experts make recommendations for the development of various Latvian regulatory documents and policy planning documents for the energy sector. The most important activities in 2019: Amendments to the Electricity Market Law, recommendations for the development of the National Energy and Climate Plan, involvement in the creation of rules for the single natural gas market and in the process of changing PUC regulations. In 2019, the PUC established a new regulatory approach for determining electricity distribution tariffs, basing them on elements of incentive regulation. In accordance with this approach, draft tariffs of distribution services were prepared that provide for a reduction in tariffs of 5.5% on average starting from 1 January 2020.

The Group's involvement in shaping energy sector policy is ensured through its participation in the European electricity sector association Eurelectric and the association for power and heat generation VGB PowerTech e.V. During the reporting year, experts of the Group contributed to the development of Eurelectric position papers on the European Green Deal, the GHG reduction targets for 2030 and the EU sustainable financing strategy. The Group joined the updated electrification declaration of the Electrification Alliance, where the EU and Member States' policymakers and stakeholders are urged to use the advantages of electricity and support the European Green Deal. At the beginning of 2020, Latvenergo Group joined the Eurelectric declaration *15 pledges to customers*, committing to offer customers innovative and energy-efficient services and electricity solutions as well as to support the development of electric mobility and microgeneration from renewable energy sources.

In 2019, experts of the Group discussed innovations in electricity generation at the VGB Congress in Salzburg and at other conferences, meetings of technical committees and working groups. Upon Latvenergo Group's request, improvements to the VGB database and a translation of the VGB standard *Interaction of conformity assessment and occupational safety in hydropower plants* into Latvian were initiated.

Latvenergo Group participates in energy and energy efficiency-related forums and conferences to promote exchange of opinions on the future of the industry. The most important matters discussed in 2019 were future challenges of the electricity market; change in energy use habits; promoting sustainable energy efficiency; development and introduction of commercially sustainable innovations; new driving forces of the Baltic energy market; strategy and future challenges of Sadales tīkls AS.

Performance Indicators

GRI 415-1

Political contributions

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

Employees and the work environment

8 Occupational health and safety

11 Employee involvement and development

Latvenergo Group's management acknowledges that employees are the core value of the company. Diversity of employees and their different and complementary competencies are essential for achieving the Group's goals and growth. In order to promote the responsibility of each employee for the achievement of objectives, in 2019 a new approach to work performance management was established, and the system of incentives was improved in cooperation with the trade union *Enerģija;* implementation will begin in 2020. For the second year, the Excellence Programme strengthened employee engagement and willingness to implement innovative ideas.

Personnel management policy and basic principles

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

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

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

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

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

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

Occupational health and safety

Latvenergo Group pays particular attention to and constantly monitors the safety of the working environment. In accordance with the requirements of Latvian legislation, an annual occupational health and safety action plan is drafted. The Group provides its employees with workspace suitable for their needs, personal protective equipment and technical resources, and it trains employees on occupational safety and safe working methods.

Occupational health and safety management system

The Group has voluntarily introduced an occupational health and safety (OHS) management system, which meets the requirements of the OHS management system standard OHSAS 18001 and allows for targeted minimisation of OHS risks at the company and implementation of appropriate policies. The system has been certified externally and covers all operating segments and employees of the Group. In 2020, there are plans to switch to the new ISO 45001 standard, which is more compatible with other ISO standards introduced by the Group and thus facilitates integration of management systems.

Management of OHS processes and internal documents allow for identifying risks and non-conformities in a timely manner. In response to the information provided by employees, when inappropriate working environment conditions are identified or an accident occurs, responsible persons take actions to control and correct the situation and to prevent any consequences. Accidents are investigated in accordance with the procedure set forth by regulatory enactments. In addition, near-accidents are recorded and analysed.

Employees may report dangerous situations to occupational safety specialists by phone or e-mail darba.aizsardziba@latvenergo.lv, to the head of the organisational unit or trustees. There are boxes for anonymous reports in individual organisational units. Job instructions include clauses about situations where starting work is prohibited. An employee may refuse to perform work in dangerous conditions by informing the head of the organisational unit or the trustee orally or in writing.

Occupational safety specialists keep track of changes in legislation, improve their knowledge at courses and workshops, meet employees, inspect workplaces and evaluate working conditions. Any conclusions made are used for the improvement of the OHS management system.

Resolution of occupational safety issues

Resolution of occupational safety issues takes place in cooperation with employee representatives: trustees who are elected from among employees and participate in the improvement of the working environment and risk assessment. The Group trains trustees in occupational safety matters and allocates time for the performance of these duties. In 2019, 28 employees were elected as trustees within the Group. The period of authorisations (5 years) and involvement of trustees in improvement of occupational safety are included in the Collective Bargaining Agreement.

Latvenergo Group considers the opinions of employees about working conditions and necessary improvements. A working environment risk assessment is prepared after any inspection of a workplace which the employee can read and propose adjustments to, if necessary. Employees are urged to get involved in the improvement of the common areas and surroundings by reporting any non-conformities or potential dangers.

Employee surveys and direct contact with responsible persons are used to learn the opinions of employees, and any occupational safety issues may be reported anonymously. In 2019, 35% of employees of the Group expressed their opinions on wellness and the physical working environment.

Occupational safety specialists regularly identify employees who require training in the performance of job duties or professional improvement. OHS training needs may also be determined during annual interviews with one's immediate superior. According to the needs of employees, the Group ensures training in provision of first aid, electrical safety, working at heights, working with dangerous equipment, and other specific training. The Group fully covers the training costs, and employees may attend training during work hours.

To reduce risks to the safety and health of employees, in accordance with the requirements of the Labour Protection Law, the Group provides collective protective equipment (for example, safety signs) and personal protective equipment (for example, gloves and helmets). Personal protective equipment is purchased on a regular basis, and the responsible persons monitor the work process to identify working environment risks that require the use of such equipment.

The Group also provides briefing on safe work performance to all contractors' employees. The instructions and applicable documents on safe performance of work with which contractors' employees must familiarise themselves are also available in electronic form.

Employee health

The health insurance of Latvenergo Group's employees includes specialist services, rehabilitation, vaccination, and mandatory health checks corresponding to occupation. The latter are arranged for employees during working hours in accordance with their occupational and working environment risk assessment. After the checks, the employer takes into account the recommendations of the specialists and takes measures in accordance with the individual needs of each employee. Information about the health condition of employees and its compliance with the work being performed is processed with respect for privacy and confidentiality, in accordance with the General Data Protection Regulation (EU) 2016/679 and the Personal Data Processing Law.

Additional health promotion measures for employees of the Group include:

- accident insurance;
- opportunities to engage in sporting activities in some facilities of the Group;
- support for participation in sports events (for example, in the Riga Marathon and the Cycling Union Race);
- the Collective Bargaining Agreement includes additional guarantees in case of disease.

Employee involvement

In 2019 – the year of the 80th anniversary of Latvenergo – employees of the Group could participate in a number of special events:

- the first conference of employees of Latvenergo Group, the main topic being one of the key values of the Group – openness;
- brain games for employees of the Group;
- the educational challenge game *SmartEnerGo,* which involved over 500 employees of the Group;

- any team building events meeting employees' interests and organised by them.

The Group conducts anonymous surveys every year to find out employees' engagement level and their views on various factors of the work environment. Employees may conveniently submit their proposals for improvements in working processes, new products and services to the Bank of Ideas in the Group's intranet, where they can keep track of the progress of these proposals.

Employee development

Latvenergo Group's employees can improve their skills and knowledge both on the recommendation of managers and on their own initiative. This can be done through internal and external face-to-face training and the Group's e-learning platform. During annual interviews, employees may agree with their managers on any necessary training and the methods of its implementation.

Educating managers and developing leadership skills play an important role in employee development. In 2019, *On the Operations of Latvenergo Group,* the first part of the managers' basic knowledge standard, was completed. This study material, developed for managers, was appreciated and, at the suggestion of the managers, adapted and delivered to employees.

In 2019, Latvenergo AS extended the trainings led by employees of the company who are experts in their area. 321 employees participated in them, devoting almost 3,000 hours to the training. A lot of attention was paid to the improvement of sales skills and gaming methods, and microtrainings were used to make the training process more motivating. In November 2019, Latvenergo AS received an acknowledgement from the Ministry of Education for the use of creative solutions – gaming elements – in adult education.

Excellence Programme

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

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

In parallel to developing their competences, participants of the programme implement projects promoting openness, exchange of knowledge and more efficient processes, and they create innovative solutions and services, increasing the competitiveness of the company. In 2019, 40 employees were involved in the programme and helped to implement important projects like the employee conference *LE-Go!,* the educational challenge game *SmartEnerGo* devoted to the anniversary of the Group, and an action programme for readiness of high-risk facilities in case of undesirable environmental events. Participants of the programme were also involved in the development of training materials, creation of a kids' playroom room in the main building of the Group, and a pilot project on the use of gaming elements in the training process.

The Heads of the Excellence Programme shared their experiences in the creation of the programme at the *Responsible Ideas Market* conference.

Knowledge continuity and involvement of new employees

Ensuring knowledge continuity is essential for the sustainability of Latvenergo Group's operations. The Group encourages employees to accumulate knowledge and transfer it to colleagues and facilitates timely preparation of successors at workplaces that require specific technical knowledge.

One of the priorities in terms of knowledge transfer is provision of quality practical training to students of higher and secondary vocational educational institutions. Every year, the Group offers paid internships. In 2019, this opportunity was used by 103 students, 13 of whom started to work at the Group on a permanent basis. The Group cooperates with educational institutions in Latvia in order to encourage the interest of young people in exact science subjects and engineering professions and the development of the future workforce in Latvia in general.

The quality of practical training is also improved through mentor programmes. In 2019, 86 mentors were trained under such programmes. The six best mentors gained experience at the leading Finnish energy company Fortum Oyj. Latvenergo's membership in the European Alliance for Apprenticeships since 2017 demonstrates its ability to ensure the quality of practical training.

Latvenergo AS also has an integrated employee attraction programme. Its aim is to improve the motivation of current employees and to attract new employees. The project involves the Management Board and managers of the company as well as current and potential employees and the trade union. In 2019, the main action lines and activity groups of the programme were developed, focusing on cooperation in the development of society-oriented culture and strengthening of the employer's image.

Information on job and internship offers at Latvenergo AS and the benefits of being employed at the company can be found on the website created for employee attraction: www.iesledzkarjeru.lv.

Performance Indicators

GRI 102-8, 102-41

Number of employees and the Collective Bargaining Agreement

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

A large number of technical positions are characteristic of the energy industry; therefore, the workforce structure of the Group has a relatively high proportion of male individuals: 71% of all employees in 2019 were male and 29% were female. This figure remained unchanged from the previous year and has not changed significantly in recent years.

Number of employees by operating segments

	Units	2015	2016	2017	2018	2019
Generation and trade	number	992	987	949	877	880
Distribution	number	2,568	2,521	2,344	2,019	1,957
Lease of transmission system assets	number	11	10	9	8	6
Corporate functions	number	606	613	606	604	580
TOTAL	**number**	**4,177**	**4,131**	**3,908**	**3,508**	**3,423**

Most employment contracts are concluded as full-time open-ended contracts. In 2019, only 8 employees or 0.2% of the workforce had part-time agreements (0.1% of male and 0.5% of female employees). 1.8% of the workforce had employment contracts for a fixed term (0.9% of male and 3.9% of female employees). These figures did not change significantly compared to previous years.

The Group's companies Latvenergo AS, Sadales tīkls AS, Latvijas elektriskie tīkli AS and Enerģijas publiskais tirgotājs AS have signed a Collective Bargaining Agreement with the trade union *Enerģija.* In addition to meeting the requirements of laws and regulations, the Collective Bargaining Agreement provides protection for the employees' economic and social interests. In 2019, management representatives of the Group met with the trade union at 22 meetings.

In 2019, the Collective Bargaining Agreement was applicable to 96% of the Group's employees, and in recent years this percentage has not changed significantly. The Collective Bargaining Agreement applies not only to trade union members, but also to all employees of the abovementioned companies. Thus, equal treatment of social guarantees is ensured for all employees, and the likelihood of conflict between employees and the employer is reduced.

GRI 402-1

Minimum notice period regarding operational changes

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

GRI 403-8

Employees covered by the occupational health and safety (OHS) management system

Since 2018, the externally certified OHS management system has covered all operating segments and employees of the Group.

Workers covered by OHS management system

	Units	2015	2016	2017	2018	2019
Workers covered by OHS management system	number	4,177	4,131	3,908	3,508	3,423
	%	100	100	100	100	100
Workers covered by an internally-audited OHS management system	number	544	537	515	3,508	3,423
	%	13	13	13	100	100
Workers covered by an externally-audited or externally-certified OHS management system	number	544	537	515	3,508	3,423
	%	13	13	13	100	100

GRI 403-9

Work-related injuries

Accidents at the Group are registered and investigated in compliance with the laws and regulations of the Republic of Latvia. Four accidents among contractors' employees were registered in 2019 (1 in 2018).

Work-related injuries

	Units	2015	2016	2017	2018	2019
Recordable work-related injuries	number	8	8	8	10	8
	index	0.23	0.23	0.23	0.33	0.28
Low-consequence work-related injuries	*number*	*5*	*7*	*6*	*7*	*5*
	index	*0.14*	*0.20*	*0.18*	*0.23*	*0.17*
High-consequence work-related injuries	*number*	*2*	*1*	*2*	*3*	*3*
	index	*0.06*	*0.03*	*0.06*	*0.10*	*0.10*
Fatalities	*number*	*1*	*0*	*0*	*0*	*0*
	index	*0.03*	*0*	*0*	*0*	*0*
Number of hours worked	number	6,998,562	7,058,181	6,842,263	6,037,998	5,772,056

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

GRI EU15

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

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

Expected retirement rate

Profession group		5 years		10 years	
	Units	women	men	women	men
Managers	%	0.2	0.7	0.5	1.2
Specialists	%	2.0	4.3	4.0	8.6
Craft and related trades workers	%	0.1	2.1	0.1	4.4
Other professions	%	0.6	0.6	1.3	1.0
TOTAL	**%**	**2.9**	**7.7**	**5.9**	**15.2**

GRI 404-1

Average hours of training per year

In 2019, 68,500 hours were dedicated to face-to-face training, which was attended by 2,159 employees of the Group. An average of 20 hours per employee was devoted to training. Male employees spent an average of 23 hours in training, while female employees spent an average of 15 hours in training.

To facilitate the acquisition of the latest technologies, the Group provides both internal courses and training by equipment suppliers for technical personnel. In 2019, 51 technical specialists were trained for a total of over 677 hours. A total of 26 employees obtained professional qualifications through training financed by the employer, devoting 13,760 hours to training.

Average hours of training (TH) per employee

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

GRI EU18

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

The Group's occupational safety specialists provide contractors' employees with occupational safety briefings as required by Latvian laws and regulations, energy standards and agreements signed with contractors. The instructions and applicable documents on safe performance of work with which contractors' employees must familiarise themselves are also available in electronic form.

Environmental Topics

Environmental protection

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

One of Latvenergo Group's priorities in environmental protection is mitigation of climate change and preservation of natural resources. Zero-emission electricity generation at the hydropower plants of the Group and activities focusing on the use of wind energy in the future ensure progress towards the zero-emission targets set by the EU. As regards environmental protection, the Group plans its activities in accordance with the basic principles of sustainable development, environmental legislation and the ISO 14001 standard. Environmental protection in energy generation and supply processes is one of the priorities of the Group's operations.

Environmental policy and management

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

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

The ability of Latvenergo Group to continuously improve is confirmed by the certified environmental management system meeting the requirements of ISO 14001 and the energy management system meeting the requirements of ISO 50001. The Group's commitment to use energy sources in a sound way is defined in its Energy Management Policy. Systematic work on environmental protection is also confirmed by the Sustainability Index determined by the Institute for Corporate Sustainability and Responsibility every year. In 2019, Latvenergo AS scored 99.4% and Sadales tīkls AS scored 91.1% in environmental performance.

Environmental compliance

Latvenergo Group performs its economic activity in an environmentally friendly way and uses natural resources responsibly. In its operations, the Group complies with the environmental requirements set out in EU and Latvian legislation and in installation operation permits. Compliance of operations is ensured by modernisation of equipment and introduction of the best available technologies as well as by the professional activities of employees. The Group actively cooperates with state environmental institutions, providing information related to environmental protection, fulfilling the conditions of permits for polluting activities and consulting on the application of environmental requirements. In 2019, no warnings from environmental protection authorities or substantiated complaints from the public were received.

In compliance with applicable law, the Group makes annual contributions to replenish fish stocks in the Daugava River basin to minimise the impact of the Group's activities on biodiversity. In the reporting year, 1.4 million salmon, sea trout, pike perch, whitefish, vimba and pike fry and 8.4 million lamprey larvae were released into the Daugava River basin.

Involvement of the Group in climate change mitigation

Climate change caused by greenhouse gases is one of the most pressing global environmental issues and is also affected by the energy sector. Latvenergo Group works in line with Latvian and EU activities for the achievement of climate targets. The EU has set the achievement of climate neutrality by 2050 as one of its objectives.

The Emissions Trading System (ETS) is an important EU climate policy tool which aims to foster GHG emissions reduction and investments in low-carbon solutions. Fuel combustion plants with total rated thermal input above 20 MW must participate, and CHPP-1 and CHPP-2 of Latvenergo AS meet this criterion.

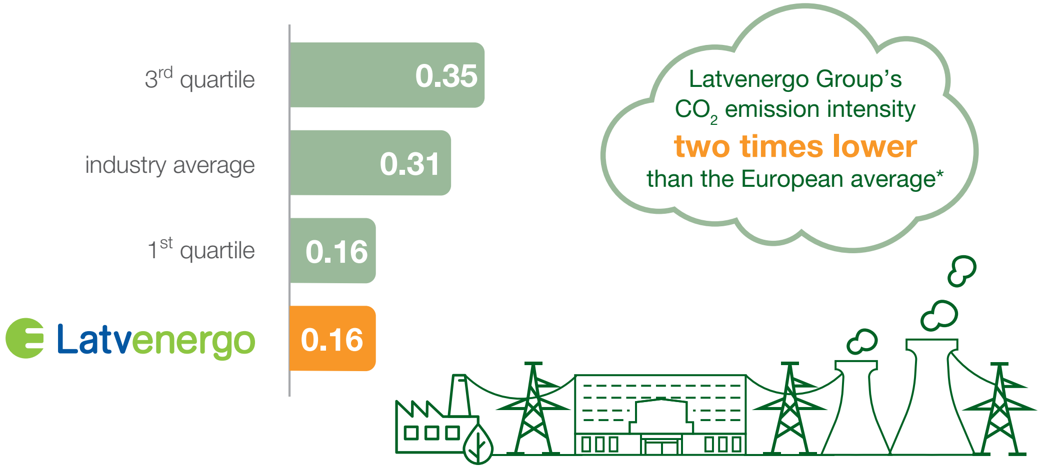
The fourth EU ETS period, which will start in 2021 and continue until 2030, has the objective to reduce GHG emissions by 43% compared to emissions in 2005. The sectors not covered by ETS should reduce their GHG emissions by 30%. The Latvian objectives are defined in the National Energy and Climate Plan of Latvia 2021-2030.

Although Latvenergo Group is already one of the greenest electricity producers in Europe, meeting the climate targets will be a big challenge for the Group as well. That is why the Group is already making targeted investments to develop a zero-emission and low-emission generation portfolio and contribute to climate change mitigation. The main areas of investment are:

- increasing the efficiency of energy generation and maximising the use of renewable energy sources (including reconstruction of the Daugava HPPs);
- reducing losses in the electricity distribution system;
- developing products and services aimed at energy efficiency and low-emission or zero-emission generation.

In 2019, Latvenergo Group also joined the updated electrification declaration of the Electrification Alliance.

CO_2 emission intensity of the European electric utilities, t/MWh*



* according to the data of 2018 collected by Moody's Investors Service

Air pollution

In addition to water and wind energy sources, Latvenergo Group uses natural gas and biomass for generation of energy, and their combustion process produces NO_x, CO and particulate matter emissions into the air. To prevent the emissions from exceeding the levels established in legislation and permits, the Group carries out monitoring and recording of these emissions.

Resource and energy consumption

Efficient use of resources is becoming increasingly important at the Latvian, European and global level. In order to minimise wasteful consumption of energy, Latvenergo AS and Liepājas enerģija SIA have implemented an energy management system, while the principles of energy management of Sadales tīkls AS have been integrated into the environmental management system.

Most important energy management improvements of 2019

Latvenergo AS	• reconstruction of generation equipment • starting the construction of a heat storage system at CHPP-2 • optimisation of performance of generating capacities • modernisation of lighting and ventilation systems
Sadales tīkls AS	• renovation of the heating system • electric meters with regulated heating temperature installed
Liepājas enerģija SIA	• repair of the boiler house • reconstruction of district heating networks • optimisation of generation and control modes of heat sources

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

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

Operating a CHPP in cogeneration mode allows for the most efficient use of fuel and significantly reduces emissions per unit of energy generated. In 2019, the fuel utilisation factor in the CHPP cogeneration mode ranged from 85% to 92%, while in condensation mode it averaged 54%. Using the cogeneration potential, CHPP-1 saved 27% of primary energy sources and CHPP-2 saved 11%.

The establishment of a heat storage system at CHPP-2 started in 2018 and continued in the reporting year; this will make it possible to accumulate the thermal energy generated in cogeneration mode and thus optimise the adjustment of the CHPP operating modes to changing market conditions and peak load coverage. The heat storage system will ensure:

- primary energy savings (not less than 2.4 GWh/year);
- reduction in CO_2 emissions (approximately 9 thousand t/year);
- storing of thermal energy (at least 65 GWh/year).

Renewable energy

The use of renewable sources in energy generation is one of the milestones in achieving climate targets. In order to implement the objectives set for Latvia in the Energy Development Guidelines 2016–2020, the strategy of Latvenergo Group intends to promote the use of renewable sources in electricity generation. Therefore, the Group is exploring wind energy opportunities, use of solar panels, and energy storage projects.

The Group generates a substantial proportion of electricity and thermal energy using renewable energy sources: water, wood and wind. In 2019:

- renewable energy sources accounted for 27% of the consumption of primary energy sources, amounting to nearly 30 thousand TJ (for more information, see GRI Indicators 301-1 and 302-1);
- of 6.7 TWh of energy generated, 33% was produced from renewable sources (for more information, see the section Generation).

Maintenance and renovation of the Daugava HPPs' capacities plays a vital role in maintaining a high proportion of renewable energy. The Group also promotes the use of renewable energy by offering products to customers. The service *Elektrum Solar,* which provides for the possibility to use independently generated electricity from solar light, is available to customers in all three Baltic states.

Performance Indicators

GRI 301-1, 302-1

Material and energy consumption

In 2019, renewable energy sources accounted for 27% of the total consumption of primary energy sources, while fossil fuel accounted for 73%. The proportion of renewables and fossil fuels is different for electricity generation and thermal energy generation. By consumption of primary sources, the share of renewables in electricity generation was 32% and the share of such sources in thermal energy generation was 11%. The share of renewables in overall energy source consumption largely depends on the amount of energy generated, which is mainly determined by hydrological conditions and market factors (see the section Generation and Trade).

In 2019, energy consumption for the Group's own use to ensure generation processes was 157 GWh or 2.3% of the energy generated. In 2019, the fuel used for vehicles comprised about 0.8 million litres of petrol and 2.4 million litres of diesel fuel. Compared to the previous year, petrol consumption decreased by 13%, while diesel consumption increased by 3%.

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

Consumption of primary energy resources

	Units	2015	2016	2017	2018	2019
Water, wind*	TJ	6,511	8,834	15,391	8,584	7,386
Wood	TJ	693	759	767	842	752
Renewable energy resources	*TJ*	*7,204*	*9,593*	*16,158*	*9,426*	*8,139*
Natural gass	TJ	19,194	20,185	15,607	22,440	21,784
Diesel fuel	TJ	2	1	1	1	1
Fossil energy resources	*TJ*	*19,196*	*20,186*	*15,608*	*22,441*	*21,785*
TOTAL	**TJ**	**26,400**	**29,779**	**31,766**	**31,867**	**29,922**

Consumption of primary energy resources for electricity generation

	Units	2015	2016	2017	2018	2019
Water, wind*	TJ	6,511	8,834	15,391	8,584	7,386
Wood	TJ	181	193	189	61	1
Renewable energy resources	*TJ*	*6,692*	*9,027*	*15,580*	*8,645*	*7,387*
Natural gass	TJ	10,910	10,583	6,477	14,300	15,864
Fossil energy resources	*TJ*	*10,910*	*10,583*	*6,477*	*14,300*	*15,864*
TOTAL	**TJ**	**17,602**	**19,610**	**22,057**	**22,945**	**23,251**

Consumption by primary energy resources for thermal energy generation

	Units	2015	2016	2017	2018	2019
Wood	TJ	512	566	578	781	751
Renewable energy resources	*TJ*	*512*	*566*	*578*	*781*	*751*
Natural gass	TJ	8,284	9,602	9,130	8,141	5,920
Diesel fuel	TJ	2	1	1	1	1
Fossil energy resources	*TJ*	*8,286*	*9,603*	*9,131*	*8,142*	*5,921*
TOTAL	**TJ**	**8,798**	**10,169**	**9,709**	**8,923**	**6,672**

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

GRI 303-3

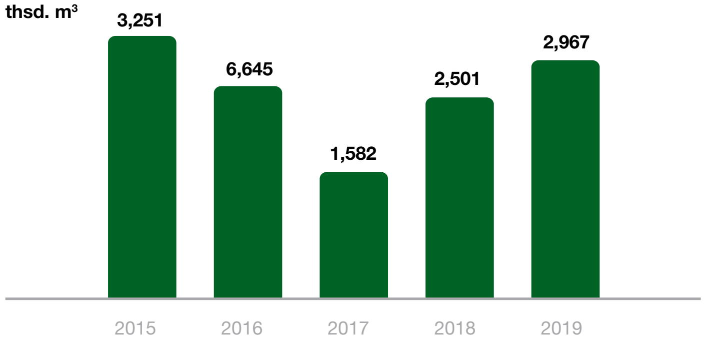
Water consumption

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

The Group's water consumption includes surface, underground and supply system water. In 2019, almost 3 million m³ of water was consumed, of which 98% was surface and underground water obtained in low to low-medium stress areas. Of the water used for operational needs in 2019, 95% was surface water, 3% was underground water and 2% was supply system water. The largest consumer of surface water is CHPP-2, which consumed 2.8 million m³ of water in the reporting year, of which 89% was cooling water. The consumption of water resources at CHPP-2 is mainly affected by the operating modes of the generation units and the amount of energy generated. The largest consumer of underground water is CHPP-1, which consumed 37 thousand m³ of underground water to feed the heating networks.

The data on water consumption are based on meter readings.

Water withdrawal



GRI 305-1, 305-4

Direct greenhouse gas emissions and emission intensity

The amount of direct greenhouse gas emitted by Latvenergo Group is determined by fuel consumption, the amount of energy generated and the operating modes of the generation plants. CO_2 emissions intensity is measured per unit of electricity generated at the Group and is influenced by the share of renewable energy sources in the consumption of primary energy sources as well as the CHPPs' generation efficiency. The lower the specific emissions of CO_2, the higher the share of electricity generated from renewable energy sources and the more efficient the CHPPs.

Total CO_2 emissions did not change compared to the previous year. CO_2 intensity increased by 12%, which can be explained by more electricity generated by the CHPPs in accordance with the market demand in the reporting year. Moreover, more than 30% of the electricity generated in the reporting year was generated in condensation mode, which entails higher CO_2 levels.

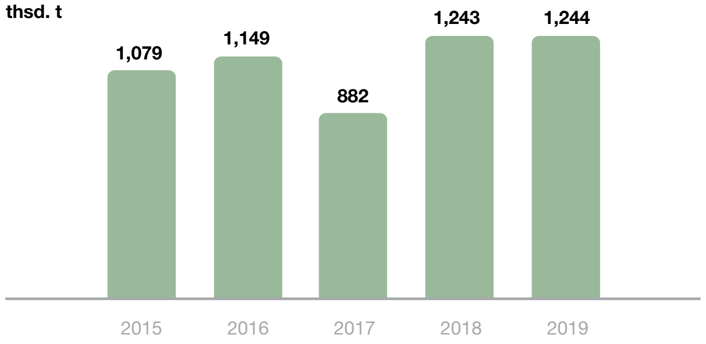
CO_2 emissions are calculated in compliance with the requirements of the emissions permits and the legislation of the Republic of Latvia and the EU. The total amount of the Group's emissions is composed of:

- emissions from installations that participate in the EU Emissions Trading System (combustion plants with total rated thermal input exceeding 20 MW);
- emissions from non-participating installations, which emitted about 9,000 tonnes of CO_2 in the reporting year.

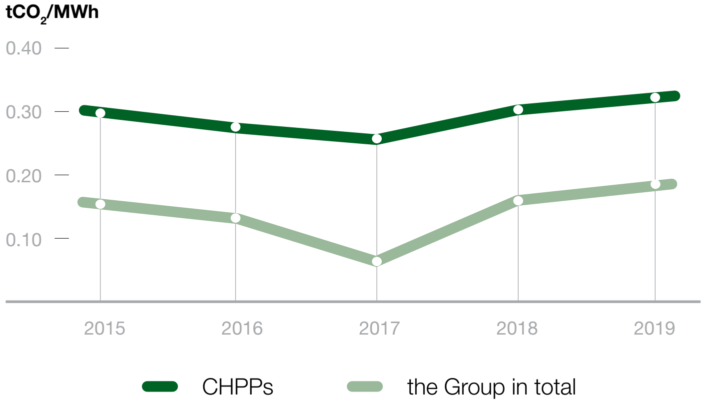
The total amount also includes emissions associated with supporting the energy generation process. In addition to the amount specified, CO_2 is emitted by transport fuel. In 2019, CO_2 emissions from road vehicles amounted to 8.1 thousand tonnes.

The Group also operates equipment that contains sulphur hexafluoride (SF_6) gas and cooling equipment that contain gases with an insignificant global warming potential. These are closed installations where no gas leakage has been detected; therefore, these gases are not included in the calculation.

CO_2 emissions from cumbustion plants



CO_2 emission intensity



GRI 305-7

NO_x, SO_2 and other significant air emissions

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

- Natural gas is the most environmentally friendly type of fossil fuel and is used by both Latvenergo AS CHPPs and some Liepaja plants. However, apart from carbon dioxide, combustion of natural gas emits nitrogen oxides (NO_x) and carbon monoxide (CO) into the atmosphere.
- Latvenergo AS uses diesel as the back-up fuel at the CHPPs. When burning diesel fuel, insignificant amounts of sulphur dioxide (SO_2) and particulate matter emissions are produced. Diesel fuel emits hydrocarbons during storage.
- Use of wood at the Liepaja plants produces NO_x, CO and particulate matter emissions.

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

NO_x, CO, SO_2 and other emissions

	Units	2015	2016	2017	2018	2019
NO_x	t	737	803	613	904	912
NO_x from combustion plants	kg/MWh	0.17	0.16	0.15	0.18	0.20
NO_x for the Group combined	kg/MWh	0.12	0.11	0.07	0.12	0.14
CO	t	319	361	318	426	427
CO from combustion plants	kg/MWh	0.08	0.07	0.08	0.09	0.09
CO for the Group combined	kg/MWh	0.05	0.05	0.04	0.06	0.06
SO_2	t	4	4	5	5	4
Other*	t	4	17	19	15	14

* incl. emissions of solid particles and hydrocarbons

GRI 307-1

Non-compliance with environmental laws and regulations

In 2019, the Group welcomed four scheduled thematic inspections from the State Environmental Service and one scheduled monitoring from the Health Inspectorate. No significant warnings or sanctions were issued by the regulatory bodies.

GRI EU5

Allocation of CO_2 emissions allowances in the allowances trading system

The EU Emissions Trading System sets forth that free emissions allowances are granted only for thermal energy generation, and the number of allowance units granted will be gradually reduced to 30% of the necessary amount by 2020. One allowance unit is equivalent to one tonne of CO_2 emitted. See Note 13b to the Annual Report for the allowance units purchased, used and sold.

CO_2 emission allowances granted

	Units	2015	2016	2017	2018	2019
CHPPs	number	392,255	343,330	295,942	250,091	205,721
Liepaja plants	number	29,855	21,158	18,218	15,374	12,624

Annexes
to the Sustainability Report

Green Bond Report

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

The green bonds issued by Latvenergo AS are listed on the Nasdaq Riga AS Baltic Bond List. The ISIN code of the bonds is LV0000801777. The bond issuance was organised by SEB banka AS. The maturity date of the bonds is 10 June 2022, with a fixed annual interest rate (coupon) of 1.9%. The Moody's rating for the bonds is Baa2 with a stable outlook, which corresponds to Latvenergo's credit rating.

The green bond programme was implemented as a continuation of the Latvenergo AS bond issue launched in 2012 and of the diversification of financing sources. Currently, the total value of bonds issued is EUR 135 million, constituting 15% of the Group's total borrowings at the end of 2019.

The main requirement for green bonds is that the funds raised are used exclusively for specified environmental projects, promoting the use of renewable energy sources, energy efficiency, environmental protection and a sustainable environment. The selection criteria for eligible projects, the selection procedure, creation of a special account and regular reporting are set out in the Latvenergo Green Bond Framework available on the Latvenergo website.

The Green Bond Framework was awarded the highest possible rating – Dark Green – by CICERO, an independent environmental expert. This indicated the compliance of the planned eligible projects with long-term environmental protection and climate change reduction targets as well as good corporate governance and transparency.

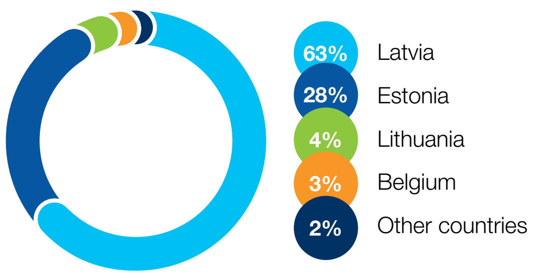
Moody's has assigned the highest grade – GB1 (excellent) – rating for the green bonds. Latvenergo was commended for its transparent and well-considered decision-making process, transparent and comprehensible management of proceeds from the bond issue, and effective reporting and disclosure practices.

The funds raised within the green bond programme were invested in generation, transmission and distribution projects. The largest eligible projects are the Daugava HPP hydropower unit reconstruction programme and the energy infrastructure project *Kurzeme Ring*. In 2017, an internal audit was conducted on the management of proceeds from the bond issue and the compliance of the selection of eligible projects with the Green Bond Framework. The audit concluded that the processes had been implemented appropriately.

The eligible projects of the green bond programme are divided into four groups:

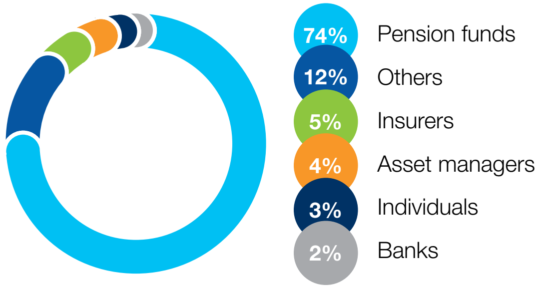
- renewable energy – building of new renewable energy capacities and reconstruction of existing ones – hydropower, bioenergy (non-food), wind energy and related infrastructure;
- energy efficiency – building and reconstruction of transmission and distribution networks to reduce network losses and ensure possibilities for the connection of renewable energy capacities; smart grid projects;
- environmental protection – flood protection, waste management and water resource management;
- sustainable environment – environmental research and development, and programmes in the areas of environmental protection and biodiversity.

Investors by region*



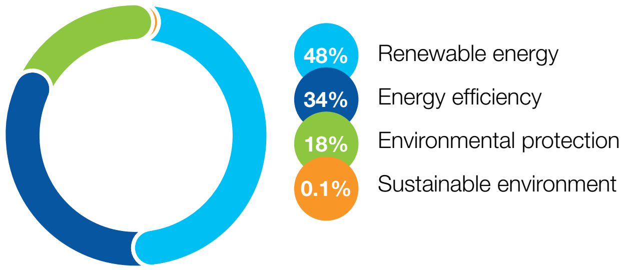
* according to the coupon payment of June 2019

Investors by type*



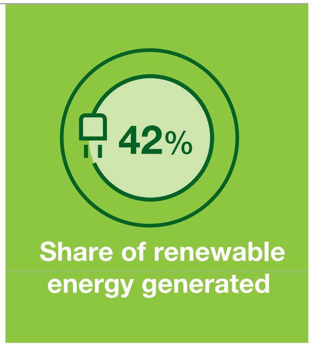
* according to the coupon payment of June 2019

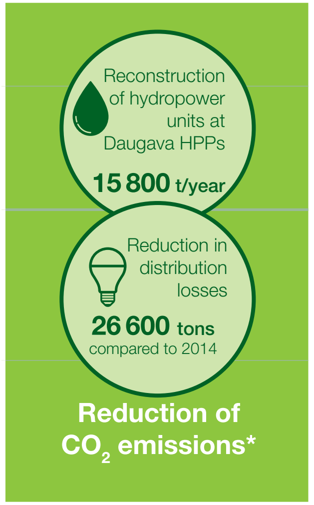
Investment by project group



Eligible projects of the green bond programme

Group operating segment (share of total eligible costs)	Eligible projects	Eligible costs, EUR million	Project objectives and benefits
GENERATION 66.0%	Reconstruction of hydropower units and technological equipment at Daugava HPPs	**47.9**	Extending the service life of the hydropower units and increasing their capacity and efficiency ratios. Maintaining a high share of renewables in energy generation. Increasing the safety of operation of the Daugava HPPs. Reducing the oil leakage risk. Implementation of the programme allows for a reduction of CO_2 emissions of up to 15,800 tons per year. In 2019, the share of renewable energy generated by the Group was 42%.
	Renovation of hydroengineering structures at the Daugava HPPs and Aiviekste HPP	**18.1**	Improving the resilience and safety of hydroengineering structures and dams and extending their service life. Reducing accident risk probability at dams and managing flood risk more efficiently, thus diminishing the potential impact on the public, property and the environment.
	Study of migratory fish replenishment in the Daugava River	**0.07**	Reducing the impact on biodiversity. Potential measures to offset the impact of the Daugava HPPs on fish stocks more efficiently and to reduce the impact on biodiversity will be identified and explored.
DISTRIBUTION 9.1%	Building and reconstruction of electricity lines and transformer points	**7.2**	Reducing the duration of power interruptions and electricity losses. Extending the service life of the distribution grid. Since 2014, interruption duration and interruption frequency indexes have been reduced substantially (SAIFI by 29% and SAIDI by 48%). The reduction of CO_2 emissions resulting from the decrease in distribution losses is 26,600 tons compared to 2014.
	Smart electricity meters	**1.9**	Reducing the duration of power interruptions and electricity losses. Opportunities for more efficient electricity consumption and use of smart energy efficiency products and services. Since 2014, 707,000 smart meters have been installed; these account for around 2/3 of the total fleet of electricity meters and measure 86% of the total amount of electricity consumed by customers.
	Annual monitoring of white storks	**0.004**	Reducing the impact on biodiversity. Data on the stork population and the proportion of their nests located on electricity line poles have been obtained.
LEASE OF TRANSMISSION SYSTEM ASSETS 24.9%	Second section of *Kurzeme Ring: Grobiņa-Ventspils*	**24.9**	Expanding interconnection capacity (in accordance with the EU climate and energy targets for 2030), which in turn facilitates the integration of renewable energy sources into the transmission grid, increases the security of the electricity supply and promotes competition in the electricity market. The capacity of *Kurzeme Ring* is 800 MW and the total length of the 330 kV electricity lines is 337 km. The length of the electricity lines built within the second phase *Grobiņa-Ventspils* is 117 km. The third and final section of *Kurzeme Ring* was put in operation in 2019.
KOPĀ		**100,0**	





* Estimated reduction of CO_2 emissions as a result of reconstruction of the Daugava HPPs' hydropower units: up to 15,800 tons per year (at a CO_2 emissions intensity of 0.371 t CO_2/MWh when the CHPP-2 operates in condensation mode). Estimated reduction of CO_2 emissions as a result of reduction of distribution losses: 26,600 tons compared to 2014.

GRI Index

General Disclosures

		Page	External assurance
	Organisation profile		
102-1	Name of the organization	8	✓
102-2	Activities, brands, products, and services	8, 38	✓
102-3	Location of headquarters	8	✓
102-4	Location of operations	8	✓
102-5	Ownership and legal form	8	✓
102-6	Markets served	8	✓
102-7	Scale of the organization	8	✓
102-8	Information on employees and other workers	70	✓
102-9	Supply chain	32–33	✓
102-10	Significant changes to the organization and its supply chain	8, 32–33, 38	✓
102-11	Precautionary principle or approach	29–31	✓
102-12	External initiatives	16	✓
102-13	Membership of associations	36	✓
EU1	Installed capacity, broken down by primary energy source and by regulatory regime	40–44	✓
EU2	Net energy output broken down by primary energy source and by regulatory regime	40–44	✓
EU3	Number of residential, industrial, institutional and commercial customer accounts	45, 49	✓
EU4	Length of above and underground transmission and distribution lines by regulatory regime	49–52	✓
EU5	Allocation of CO_2 emissions allowances or equivalent, broken down by carbon trading framework	76	✓
	Strategy		
102-14	Statement from senior decision-maker	5–6	✓

		Page	External assurance
	Ethics and integrity		
102-16	Values, principles, standards, and norms of behavior	8, 21, 29–31	✓
	Governance		
102-18	Governance structure	21–24, 28	✓
	Stakeholder engagement		
102-40	List of stakeholder groups	34–36	✓
102-41	Collective bargaining agreements	70	✓
102-42	Identifying and selecting stakeholders	34	✓
102-43	Approach to stakeholder engagement	34–35	✓
102-44	Key topics and concerns raised	34–35	✓
	Reporting practice		
102-45	Entities included in the consolidated financial statements	8	✓
102-46	Defining report content and topic Boundaries	54	✓
102-47	List of material topics	55	✓
102-48	Restatements of information	7	✓
102-49	Changes in reporting	7, 54	✓
102-50	Reporting period	7	✓
102-51	Date of most recent report	7	✓
102-52	Reporting cycle	7	✓
102-53	Contact point for questions regarding the report	7	✓
102-54	Claims of reporting in accordance with the GRI Standards	7	✓
102-55	GRI content index	80–83	✓
102-56	External assurance	29–30, 85–86	✓

Specific standard disclosures

Sustainability topic	Materiality in the Group: Generation and Trade	Materiality in the Group: Distribution	Materiality in the Group: Lease of Transmission Assets	GRI Standard	GRI disclosure		Page	External assurance
Economic Topics								
Efficiency of generation plants	✓			103 Management Approach 2016			56	✓
				Electric Utilities Sector Disclosures (G4)	EU11	Average generation efficiency of thermal plants	59	✓
					EU30	Average plant availability factor	60	✓
Contribution to the economy	✓	✓	✓	103 Management Approach 2016			56	✓
				201 Economic Performance 2016	201-1	Direct economic value generated and distributed	58	✓
					201-3	Defined benefit plan obligations and other retirement plans	58	✓
					201-4	Financial assistance received from government	59	✓
Efficiency and availability of distribution system		✓		103 Management Approach 2016			57	✓
				Electric Utilities Sector Disclosures (G4)	EU12	Distribution losses as a percentage of total energy	60	✓
					EU26	Percentage of population unserved in licensed distribution or service areas	60	✓
					EU27	Number of residential disconnections for non-payment	60	✓
					EU28	Power outage frequency (SAIFI)	61	✓
					EU29	Average power outage duration (SAIDI)	61	✓
Compliance and fair business	✓	✓	✓	103 Management Approach 2016			57	✓
				205 Anti-corruption 2016	205-2	Communication and training about anti-corruption policies and procedures	59	✓
					205-3	Confirmed incidents of corruption and actions taken	59	✓
				206 Anti-competitive Behavior 2016	206-1	Legal actions for anti-competitive behavior, anti-trust, and monopoly practices	59	✓
				419 Socioeconomic Compliance 2016	419-1	Non-compliance with laws and regulations in the social and economic area	59	✓

Social Topics								
Customer satisfaction	✓	✓		103 Management Approach 2016			62–64	✓
Emergency planning	✓	✓		103 Management Approach 2016			66	✓
Occupational health and safety	✓	✓	✓	103 Management Approach 2016			68	✓
				403 Occupational Health and Safety 2018	403-1	OHS management system	68	✓
					403-2	Hazard identification, risk assessment, and incident investigation	68	✓
					403-3	Occupational health services	68	✓
					403-4	Worker participation, consultation, and communication on OHS	68	✓
					403-5	Worker training on OHS	68	✓
					403-6	Promotion of worker health	68	✓
					403-7	Prevention and mitigation of OHS impacts directly linked by business relationships	68	✓
					403-8	Workers covered by an OHS management system	70	✓
					403-9	Work-related injuries	71	✓
				Electric Utilities Sector Disclosures (G4)	EU18	Percentage of contractor and subcontractor employees that have undergone relevant health and safety training	71	✓
Safety of distribution services		✓		103 Management Approach 2016			64	✓
				Electric Utilities Sector Disclosures (G4)	EU25	Number of injuries and fatalities to the public involving company assets	65	✓
Public policy engagement	✓	✓	✓	103 Management Approach 2016			66	✓
				415 Public Policy 2016	415-1	Political contributions	66	✓
Employee involvement and development	✓	✓	✓	103 Management Approach 2016			68–69	✓
				402 Labor-Management Relations 2016	402-1	Minimum notice periods regarding operational changes	70	✓
				404 Training and Education 2016	404-1	Average hours of training per year	71	✓
				Electric Utilities Sector Disclosures (G4)	EU15	Percentage of employees eligible to retire in the next 5 and 10 years	71	✓
Personal data security	✓	✓		103 Management Approach 2016			64	✓
				418 Customer Privacy 2016	418-1	Complaints concerning breaches of customer privacy and losses of customer data	65	✓
IInformation availability	✓	✓		103 Management Approach 2016			65	✓
				417 Marketing and Labeling	417-3	Incidents of non-compliance concerning marketing communications	65	✓

Environmental Topics							
Environmental compliance	✓	✓	103 Management Approach 2016			72–73	✓
			307 Environmental Compliance 2016	307-1	Non-compliance with environmental laws and regulations	76	✓
Air pollution	✓		103 Management Approach 2016			73	✓
			305 Emissions 2016	305-1	Direct (Scope 1) GHG emissions	75	✓
				305-4	GHG emissions intensity	75	✓
				305-7	NO_x, SO_x, and other significant air emissions	76	✓
Resource and energy consumption	✓		103 Management Approach 2016			73–74	✓
			301 Materials 2016	301-1	Materials used by weight or volume	74	✓
			302 Energy 2016	302-1	Energy consumption within the organization	74	✓
			303 Water 2018	303-3	Water withdrawal	75	✓
Renewable energy	✓		103 Management Approach 2016			74	✓

Abbreviations

AS	*akciju sabiedrība* (Eng. joint-stock company)
CCO	Chief Commercial Officer
CDO	Chief Development Officer
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CHPP	combined heat and power plant
CICERO	Center for International Climate and Environmental Research – Oslo
COO	Chief Operating Officer
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CTSO	Chief Technology and Support Officer
CSR	corporate social responsibility
EBITDA	earnings before interest, taxes, depreciation, and amortization
EC	European Commission
ECL	Employers' Confederation of Latvia
EEOS	energy efficiency obligation scheme
EU	European Union
EU ETS	European Union Emissions Trading System
GHG	greenhouse gas
GRI	Global Reporting Initiative
HPP	hydropower plant
IFRS	International Financial Reporting Standards
ISIN	International Securities Identification Number
ISO	International Organization for Standardization
LUA	Latvian University of Agriculture
MP	mandatory procurement
MPC	mandatory procurement component
NGO	non-governmental organisation
NPS	net promoter score
OECD	Organization for Economic Cooperation and Development
OHS	Occupational health and safety
OHSAS	Occupational Health and Safety Assessment Series of Standards
OÜ	*osaühing* (Eng. private limited company)
PUC	Public Utilities Commission
RTU	Riga Technical University
SAIDI	system average interruption duration index
SAIFI	system average interruption frequency index
SDG	Sustainable Development Goal
SET	subsidised electricity tax
SFRS	State Fire and Rescue Service
SIA	*sabiedrība ar ierobežotu atbildību* (Eng. limited liability company)
SJSC	state joint-stock company
UAB	*uždaroji akcinė bendrovė* (Eng. private limited-liability company)
WPP	wind power plant

Latvenergo

Independent Practitioner's Assurance Report on the Sustainability Report

To the Managament Board of Latvenergo AS

We have undertaken a limited assurance engagement in respect of the Sustainability report of Latvenergo AS ('the Company') and its subsidiaries ('Latvenergo Group') for the year ended 31 December 2019 on pages 4 to 84 of the 2019 Sustainability and Annual report of Latvenergo AS ('the 2019 Sustainability report').

Management's Responsibility

The Management of the Company is responsible for the preparation and presentation of the 2019 Sustainability report, in accordance with the requirements of the Core level application of Global Reporting Initiative Guidelines ("GRI Guidelines"), issued by Global Reporting Initiative, a network-based non-profit organization with secretariat based in Amsterdam, the Netherlands (the "reporting criteria"). This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation of the 2019 Sustainability Report that is free from material misstatement, whether due to fraud or error.

Our Responsibility

Our responsibility is to express a limited assurance conclusion, based on our limited assurance procedures, on whether anything has come to our attention to indicate that the 2019 Sustainability report is not prepared, in all material respects, in accordance with the reporting criteria.

We conducted our limited assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000, 'Assurance engagements other than audits or reviews of historical financial information', issued by the International Auditing and Assurance Standards Board. This Standard requires that we comply with ethical requirements and plan and perform the assurance engagement to obtain limited assurance about whether the 2019 Sustainability report is free from material misstatement.

This report, including the conclusion, has been prepared solely for the Management of the Company, to assist the Management in reporting on the Company's and Latvenergo Group's sustainability performance and activities. We permit the disclosure of this report within the 2019 Sustainability and Annual report.

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

Independence and Quality Control

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

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

Summary of the Work Performed

Our procedures included examination, on a test basis, of evidence relevant to the 2019 Sustainability report. It also included an assessment of the significant estimates and judgements made by the Management in the preparation of the 2019 Sustainability report in accordance with the GRI guidelines.

Our work consisted of:

- Interviewing the management and senior executives to evaluate the application of the GRI guidelines and to obtain an understanding of the control environment related to sustainability reporting;
- Obtaining an understanding of the relevant processes for collecting, processing and presenting data included in the 2019 Sustainability report;
- Verifying the information included in the 2019 Sustainability report through inquiries to the relevant management personnel of the Company and its subsidiaries;
- Testing data included in the 2019 Sustainability report on a selective basis;

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- Inspecting documentation to corroborate statements of management and senior executives in our interviews;
- Comparing the financial data included in the 2019 Sustainability report to the 2019 financial statements of Latvenergo Group; and
- Evaluating the overall format and content of the 2019 Sustainability report, taking into account the compliance of the disclosed information with the applicable criteria.

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

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

Inherent Limitations

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

We have not carried out any work on data reported for prior reporting periods nor in respect of future projections and targets included in the 2019 Sustainability report.

Limited Assurance Conclusion

Based on our work performed, nothing has come to our attention that causes us to believe that the 2019 Sustainability report is not prepared, in all material respects, in accordance with the reporting criteria.

PricewaterhouseCoopers SIA
Certified audit company
Licence No. 5

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

Riga, Latvia
7 April 2020

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Latvenergo Group Consolidated and Latvenergo AS 2019 Annual Report

Latvenergo Group Consolidated and Latvenergo AS Annual Report

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

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 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

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*

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.

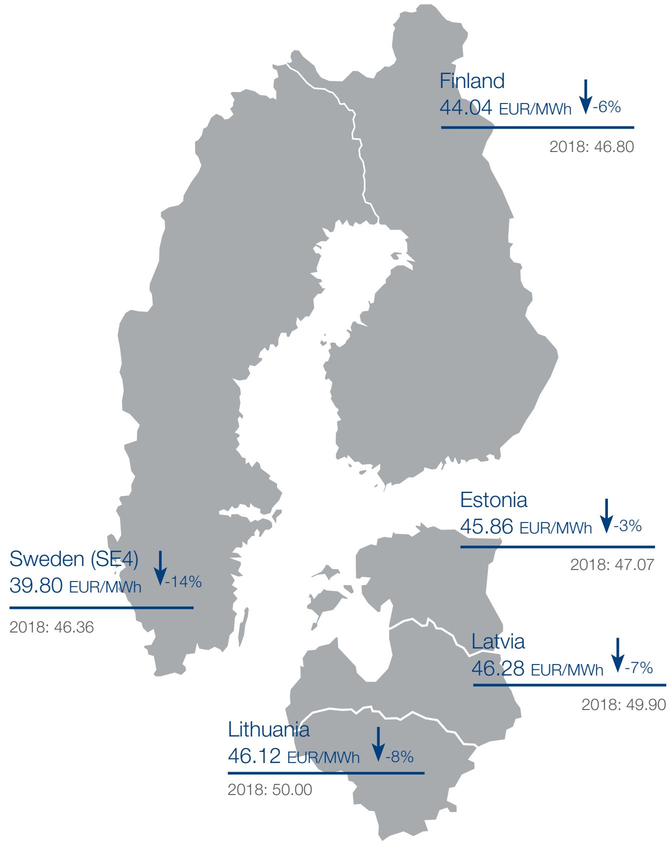
Operating environment

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.

Electricity wholesale price on *Nord Pool* power exchange



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).

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.

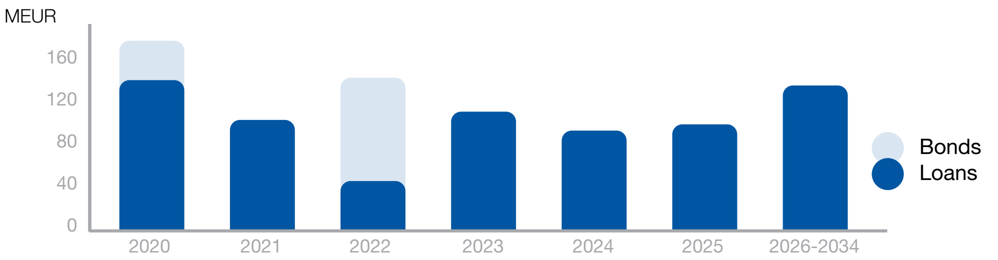
Diversified sources of funding

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:

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

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 101 to 148 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 101 to 148 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 101 to 148 are an integral part of these Financial Statements

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Accounting director of Latvenergo AS

7 April 2020

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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–controlling 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 101 to 148 are an integral part of these Financial Statements

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7 April 2020

Latvenergo

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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

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.

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 01/01/2019	Parent Company 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**	**–**

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

		Group		Parent Company	
	Notes	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.

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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 transmission 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)

Latvenergo

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.

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 2019	Group 2018	Parent Company 2019	Parent Company 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 2019	Group 2018	Parent Company 2019	Parent Company 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**

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**	**Transmission 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.

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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

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		31/12/2018	
			Interest held, %	EUR'000	Interest held, %	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		31/12/2018	
			Interest held, %	EUR'000	Interest held, %	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'.

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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**

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**

Latvenergo

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;

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

	Group				Parent Company			
	Fair value measurement using				Fair value measurement using			
Type of liability	**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								
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.

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.

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%).

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		Group						Parent Company					
		Discount rate		Future salary changes		Average employee length of service		Discount rate		Future salary changes		Average employee length of service	
	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 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		Parent Company	
	2019	2018	2019	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		Parent Company	
	31/12/2019	31/12/2018	31/12/2019	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**

EUR'000

	Group		Parent Company	
	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):

EUR'000

	Group		Parent Company	
	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		Interest rate	Maturity date
		31/12/2019	31/12/2018		
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	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	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 97 to 148 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

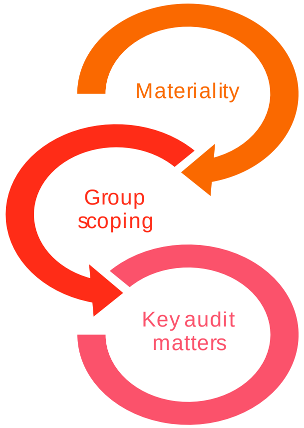
We are independent of the Company and the Group in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements of the Law on Audit Services that are relevant to our audit of the financial statements in 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 146 to 147.* 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 89 to 96 of the accompanying Sustainability and Annual Report,
- Non-financial Report included in the Management Report as set out on page 94 of the accompanying Sustainability and Annual Report, and
- the Corporate Governance Report, set out in separate statement prepared by the Company's management and available on the Company's website http://www.latvenergo.lv section Investors as at the date of this audit report,

but does not include the financial statements and our auditor's report thereon, and the Sustainability Report as set out on pages 4 to 84 of the accompanying Sustainability and Annual Report to which we have issued separately a limited assurance report on pages 85 to 86), which we obtained prior to the date of this auditor's report.

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

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

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

In 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.