LATVENERGO CONSOLIDATED AND LATVENERGO AS

UNAUDITED CONDENSED FINANCIAL STATEMENTS FOR 2019

Latvenergo Group is the most valuable energy company* and one of the largest power supply providers in the Baltics. Latvenergo operates in all energy trade segments in Latvia, Lithuania and Estonia.

CONTENTS

Management Report

Unaudited Condensed Annual Financial Statements**

FINANCIAL CALENDAR

08. 04. 2020.

Latvenergo Consolidated Annual Report 2019

29. 05. 2020.

Condensed Consolidated Interim Financial Statements for the 3-Month Period Ending 31 March 2020 (unaudited)

28. 08. 2020.

Condensed Consolidated Interim Financial Statements for the 6-Month Period Ending 30 June 2020 (unaudited)

27. 11. 2020.

Condensed Consolidated Interim Financial Statements for the 9-Month Period Ending 30 September 2020 (unaudited)

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DISCLAIMER

The financial report includes future projections that are subject to risks, uncertainties and other important factors beyond the control of Latvenergo Group; therefore, the actual results in the future may differ materially from those stated or implied in the future projections.

The report has been prepared in Latvian and in English. In the event of any discrepancies between the Latvian and the English reports, the Latvian version shall prevail.

According to the TOP10 most valuable Baltic companies https://www.top101.lv/en/top10/baltics-2019

*** Financial Statements include* Latvenergo *consolidated and Latvenergo AS financial information prepared in accordance with the International Financial Reporting Standards as adopted by the European Union*

Highlights

The improvement of the Nordic hydrobalance affected the fall in electricity prices in the region.

Latvia
46.28 EUR/MWh **(7%)**
2018: **49.90**

Nord Pool system price
38.94 EUR/MWh **(11%)**
2018: **43.99**

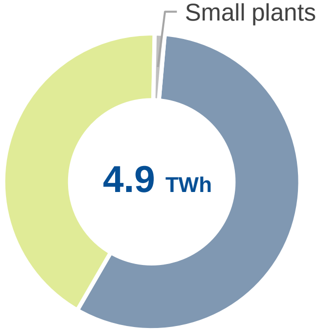
Stable financial results

MEUR

841.6	243.5	94.4	3,864.9
REVENUE	EBITDA	PROFIT	ASSETS

The amount of power generated at the Daugava HPPs decreased by 14%, which was impacted by lower water inflow in the river Daugava. There was record-high generation at Latvenergo AS CHPPs.

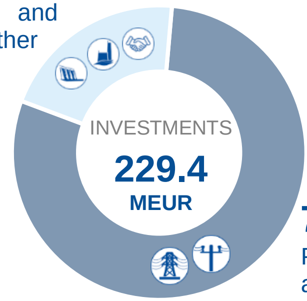
(14%)
2.0 TWh
HPPs
2018: **2.4**



+5%
2.8 TWh
CHPPs
2018: **2.6**

Latvenergo Group's investments contribute to high-quality and secure energy supply to customers.

21%
Generation and trade and other



79%
Power network assets

Latvenergo **– an energy company that operates in all energy trade segments in Latvia, Lithuania and Estonia.**

6.5 TWh of electricity sold to Baltic retail customers

755 thous.
Electricity customers

303 GWh of natural gas sold to Baltic retail customers

6,100
Natural gas customers

On 15 October, the international credit rating agency Moody's affirmed the credit rating of Latvenergo AS at investment grade Baa2 with a stable outlook.

Baa2
MOODY'S

Latvenergo Group in Brief

Latvenergo 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 is comprised of the parent company Latvenergo AS and seven subsidiaries. All shares of Latvenergo AS are owned by the state and held by the Ministry of Economics of the Republic of Latvia.

Latvenergo Group divides its operations into three operating segments: generation and trade, distribution and lease of transmission system assets. This division is made according to the internal organisational structure, which forms the basis for regular performance monitoring, decision-making on resources allocated to segments and their performance measurement. From a commercial point of view, each segment is managed differently.

The generation and trade segment

- comprises electricity and thermal energy generation operations, electricity and natural gas trade in the Baltics and administration of mandatory procurement in Latvia.

The distribution segment

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

The transmission system asset leasing segment

- conducts the lease of transmission system assets (330 kV and 110 kV transmission lines, substations and distribution points) to the transmission system operator. Payments for the lease of transmission system assets are calculated in accordance with the methodology approved by the PUC.

Latvenergo Group in Brief

Latvenergo Group's Strategy

Latvenergo Group's strategy for 2017–2022 provides for:

- 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 promotes an increase in value for the Group;
- development of a customer-driven, functional, safe and efficient power network.

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%

Taking into consideration the development directions of the Group, Latvenergo AS approved the Strategic Development and Efficiency Programme in 2017. The strategic development section is designed with the aim to contribute to the growth of the Group by engaging in new business development directions. Meanwhile, 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 exceeds 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.

Latvenergo Group Key Performance Indicators

Latvenergo Group Operational Figures

		2019	2018	2017	2016	2015
Electricity supply, incl.	GWh	9,259	9,984	10,371	10,140	9,868
Retail electricity[2)]	GWh	6,505	6,954	6,923	7,665	7,961
Wholesale electricity[3)]	GWh	2,754	3,030	3,448	2,474	1,907
Retail natural gas	GWh	303	147	33	-	-
Electricity generation	GWh	4,880	5,076	5,734	4,707	3,882
Thermal energy generation	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)

Latvenergo Group Financial Figures

		2019	2018	2017	2016	2015
Revenue[*]	MEUR	841.6	838.8	881.2	885.7	885.0
EBITDA[1)*]	MEUR	243.5	281.9	497.7	347.3	263.3
Profit	MEUR	94.4	76.0	322.0	130.6	85.0
Assets	MEUR	3,864.9	3,798.8	4,415.7	3,901.2	3,517.4
Equity	MEUR	2,265.5	2,320.1	2,846.9	2,418.7	2,096.7
Net debt[1)*]	MEUR	564.0	505.4	496.7	528.4	604.5
Investments	MEUR	229.4	220.6	243.8	200.7	190.5

Latvenergo Group Financial Ratios

	2019	2018	2017	2016	2015
Net debt / EBITDA[1)]	2.2	1.8	1.0	1.6	2.3
EBITDA margin[1)]	29%	34%	56%	39%	30%
Return on equity (ROE)[1)]	4.1%	2.9%	12.2%	5.8%	4.1%
Return on assets (ROA)[1)]	2.5%	1.8%	7.7%	3.5%	2.4%
Return on capital employed (ROCE)[1)*]	3.4%	2.5%	6.4%	5.1%	3.2%
Net debt / equity[1)]	25%	22%	17%	22%	29%

* Financial figures and ratios are presented by excluding discontinuing operations (unbundling transmission system asset ownership) – see Note 17 to the Unaudited Condensed Financial Statements.
1) Formulas are available on page 23
2) Including operating consumption
3) Including sale of energy purchased within the mandatory procurement on the Nord Pool

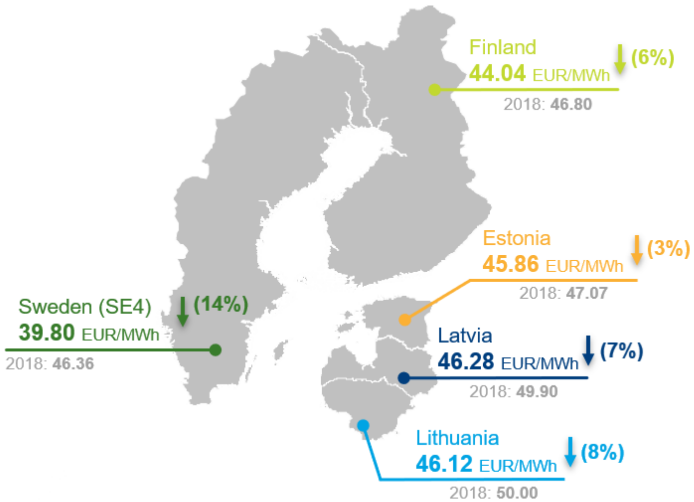
Operating Environment

Latvenergo Group's operations and performance are influenced by various global and regional factors, including electricity and natural gas prices. In 2019:

- the Nord Pool system price decreased by 11% and the electricity spot price in Latvia decreased by 7% compared to the previous year;
- the price of natural gas at the GASPOOL and TTF trading platforms was on average 34% lower compared to the year 2018.

Lower electricity prices

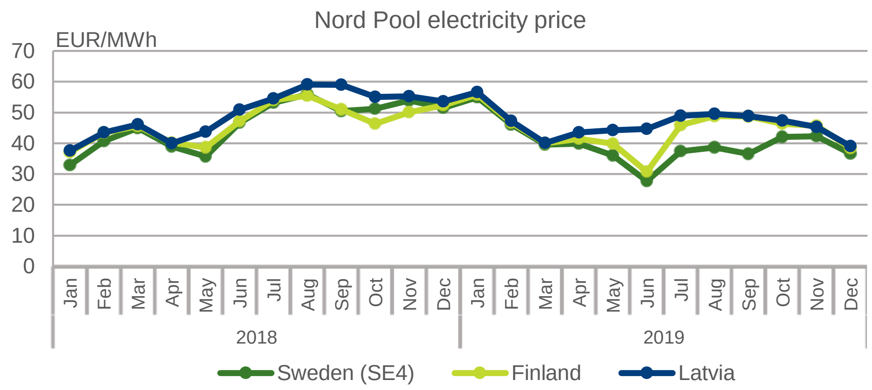
In 2019, electricity prices in the Nordics and the Baltics were lower compared to the previous year due to the normalization of the Nordic hydrobalance and lower prices of other energy resources.



The main factors influencing the electricity price in Nordics were warmer weather, reducing the electricity demand, better hydrological conditions in the Nordics and 19% greater output at wind farms compared to the year 2018. Due to lower electricity demand, demand for raw materials (natural gas and coal) decreased, resulting in lower electricity prices on the Nord Pool.

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 available capacity at the NordBalt interconnection was 93% where electricity imported was 3,7 TWh, while at EstLink it was 98%, where imported 3,9 TWh.

In 2019, the average Nord Pool system price was 38.94 EUR/MWh, which was 11% lower than the previous year. The electricity spot price in Latvia was 7% lower than the previous year. Price differences between Latvia and Sweden (SE4) increased almost two times, reaching 6.48 EUR/MWh. The electricity price difference between Latvia and Estonia reached 0.42 EUR/MWh. Meanwhile, the price of electricity for 1 megawatt hour in Latvia and Lithuania did not differ significantly.

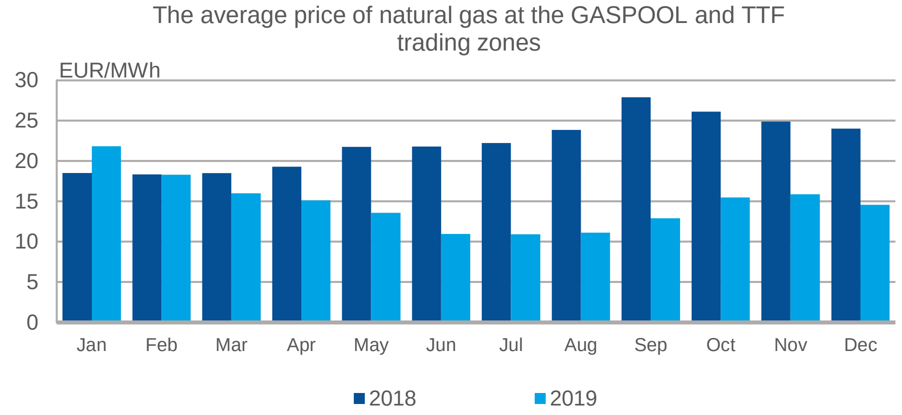


Total electricity consumption in the Baltics in 2019 remained at the same level as in 2018: 28.1 TWh. Electricity output in the Baltics decreased by 21% and amounted to 15.9 TWh. The largest decrease occurred in Estonia (-41%) since electricity output at oil shale plants in Estonia fell significantly on account of high emission allowance prices. Due to lower electricity generation in the Baltics, the electricity deficit increased by half and reached 11.8 TWh.

Operating Environment

The natural gas price decreases

Natural gas is the main fuel resource in the Latvenergo AS CHPPs' operation. In the reporting year, the price of natural gas was impacted by greater liquefied natural gas deliveries compared to the previous year. In 2019, the liquefied natural gas imports in Europe was 121.4 billion cubic meters, which is historically the highest volume of imports (in 2018 - 71.8 billion m3). Meanwhile, warmer weather reduced the natural gas demand. The natural gas reserve fill rate in Europe's gas storage facilities at the end of 2019 reached 88%, which is higher than the previous year, when it was 69%. In 2019, the average (Front Month) price of natural gas at the GASPOOL (Cal 20) and TTF (Cal 20) trading platforms was 34% lower than a year earlier. The average natural gas (Front Month) price was 14.8 EUR/MWh at the GASPOOL trading platform and 14.7 EUR/MWh at the TTF.



Natural gas prices are linked to oil prices - other energy resource prices also affect the natural gas market dynamics.

- The average price of Brent (Front Month) crude oil in 2019 was 64.2 USD/bbl, which was 11% lower than a year earlier. In 2019, oil output in the United States increased significantly, while in OPEC and Russia it continued to decrease due to the aim to stabilize oil market prices. Trade tensions between China and the United States affected not only oil market price volatility but also global economic growth rates. Oil price fluctuations were also affected by other global political and economic factors.
- In 2019, the average price of coal (API2 Cal 20) decreased by 16% compared to 2018, reaching 69.5 USD/t. In many countries, coal-fired power stations are being scaled back to meet climate targets. High coal reserves, lower natural gas prices and higher CO_2 emission allowance prices reduced the coal demand in Europe.
- 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. The prices were also affected by the Brexit process.

Operating Environment

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 on 23 September 2028. On 26 September 2018, the Cabinet of Ministers 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 were recognized as other income of Latvenergo AS (in 2018, the amount was EUR 81.0 million).

As of January 1, 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 PUC, on November 27, 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 664 million.

Given that this model is one of the rarest in Europe, and based on an assessment by the Ministry of Economics, 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 / EC 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 approximately EUR 234 million.

On 15 October, 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 Environment

Dividends

Latvenergo AS dividend payout is regulated by the Law on the Budget of the Republic of Latvia. According to the regulation, the dividend payout in the year 2020 (for the reporting year 2019) amounts to EUR 127.1 million (incl. corporate income tax). The actual amount of the dividend payout is set at the Shareholder's Meeting of Latvenergo AS after the approval of the annual report, upon evaluation of the results of the previous year.

Latvenergo AS dividends will be used as a source of funding for the state budget programme *Electricity User Support*, thereby decreasing the mandatory procurement public service obligation fee.

Latvenergo Group's capital structure ratios are sufficient to proceed with the dividend payout. As of 31 December 2019, the Group's asset value amounts to almost EUR 3.9 billion and its equity exceeds EUR 2.2 billion.

Amendments to the Electricity Market Law

After the reporting year, on 27 February 2020, the Saeima included in the agenda the draft law "On Amendments to the Electricity Market Law". 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.

Financial Results

In accordance with the CM decision of 8 October 2019 on the unbundling of transmission assets from Latvenergo Group until 1 July 2020, the Unaudited Condensed Financial Statements of the Group for the year 2019 were prepared in such a way that the operations of the transmission segment are reported as discontinuing operations. This therefore affects the profit and loss positions previously published; for more information, see Note 17 to the Unaudited Condensed Financial Statements.

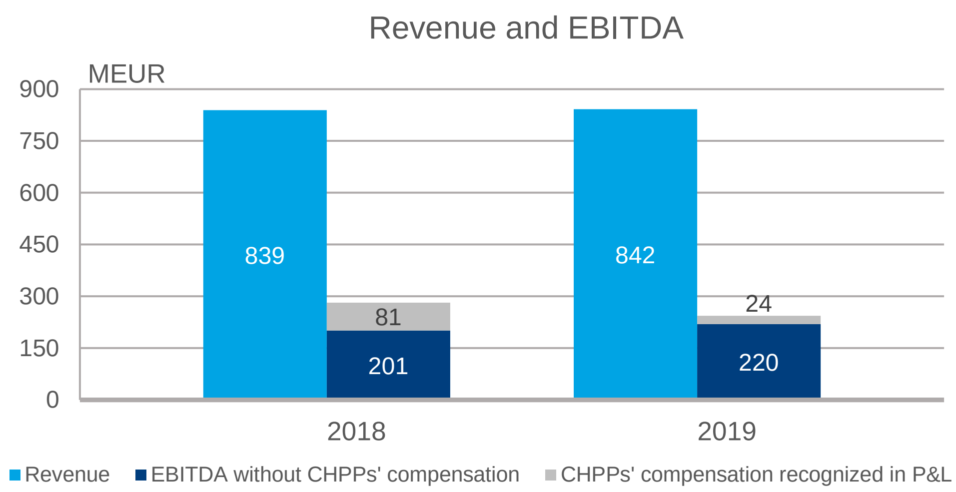
In 2019, Latvenergo Group's revenue reached EUR 841.6 million, which was EUR 2.8 million more than in the previous year. Meanwhile, the Groups profit increased by EUR 18.4 million or 24% compared to the previous year.

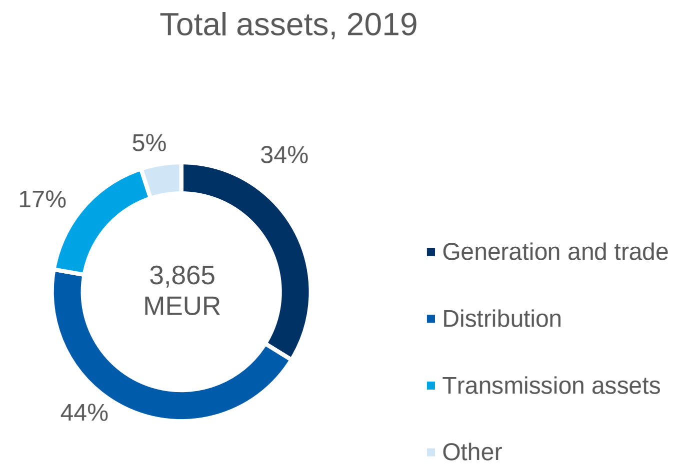
Latvenergo Group's EBITDA decreased by 14% compared to the previous year, reaching EUR 243.5 million. It was impacted mainly by EUR 57.0 million lower compensation for the Latvenergo AS CHPPs' capacity payments recognised in the profit and loss statement of Latvenergo AS. In 2019, EUR 24.0 million of the compensation were recognized as other income of Latvenergo AS (in 2018, the amount was EUR 81.0 million).

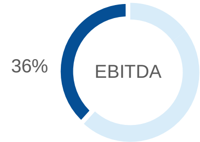
Latvenergo Group financial figures		2019	2018	Δ	Δ, %
Revenue	MEUR	841.6	838.8	2.8	0%
EBITDA	MEUR	243.5	281.9	(38.4)	(14%)
Net profit	MEUR	94.4	76.0	18.4	24%
Assets	MEUR	3,864.9	3,798.8	66.1	2%

Latvenergo Group's financial figures are stable, and its capital structure ratios are better than the industry average

As of 31 December 2019, the Group's net debt to equity was 25% (as of 31 December 2018, it was 22%) and its net debt to EBITDA ratio was 2.2 (1.8). The capital structure ratios of Latvenergo Group are better than the industry average.







Generation and Trade

Segment weight in Latvenergo Group

Revenue
59%

EBITDA
36%

Assets
34%

Employees
26%

Generation and trade is Latvenergo Group's largest operating segment by revenue. In 2019, the majority or 87% of the segment's revenue came from electricity and natural gas trade, while 13% came from thermal energy supply.

The segment's results were negatively impacted by EUR 57.0 million lower compensation for the Latvenergo AS CHPPs' capacity payments recognised in the profit and loss statement of Latvenergo AS and by 14% or 333 GWh lower electricity output at the Daugava HPPs. Meanwhile, the higher sales price of electricity had a positive impact on the segment's results in 2019.

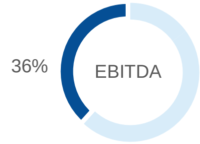
In the reporting year, the total volume of electricity generated at Latvenergo Group's plants amounted to 4,880 GWh, which corresponded to 75% of the amount of electricity sold to retail customers (in 2018, it was 73%).

The volume of electricity sold to Latvenergo Group's customers can be larger than its generation volumes. This is possible 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. In this way, Latvenergo Group manages the profit potential of sales of electricity generated, utilizes possibilities to reduce the procurement costs of electricity necessary for customers, and reduces its exposure to market price fluctuation risks.

Operational figures		**2019**	**2018**	**Δ**	**Δ, %**
Electricity supply, incl.	GWh	9,259	9,984	(725)	(7%)
*Retail electricity**	*GWh*	6,505	6,954	(449)	(6%)
*Wholesale electricity***	*GWh*	2,754	3,030	(275)	(9%)
Retail natural gas	GWh	303	147	156	106%
Electricity generation	GWh	4,880	5,076	(196)	(4%)
Daugava HPPs	GWh	2,047	2,380	(333)	(14%)
CHPPs	GWh	2,780	2,644	136	5%
Liepaja plants and small plants	GWh	53	52	1	1%
Thermal energy generation	GWh	1,842	2,274	(431)	(19%)
CHPPs	GWh	1,603	2,004	(401)	(20%)
Liepaja plants	GWh	240	270	(30)	(11%)

Financial figures		**2019**	**2018**	**Δ**	**Δ, %**
Revenue	MEUR	517.9	511.8	6.2	1%
EBITDA	MEUR	102.2	146.6	(44.4)	(30%)
Assets	MEUR	1,308.4	1,329.3	(20.9)	(2%)
Investments	MEUR	32.8	28.9	3.9	14%
EBITDA margin		19.7%	28.6%	(8.9pp)	(31%)

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



Generation and Trade

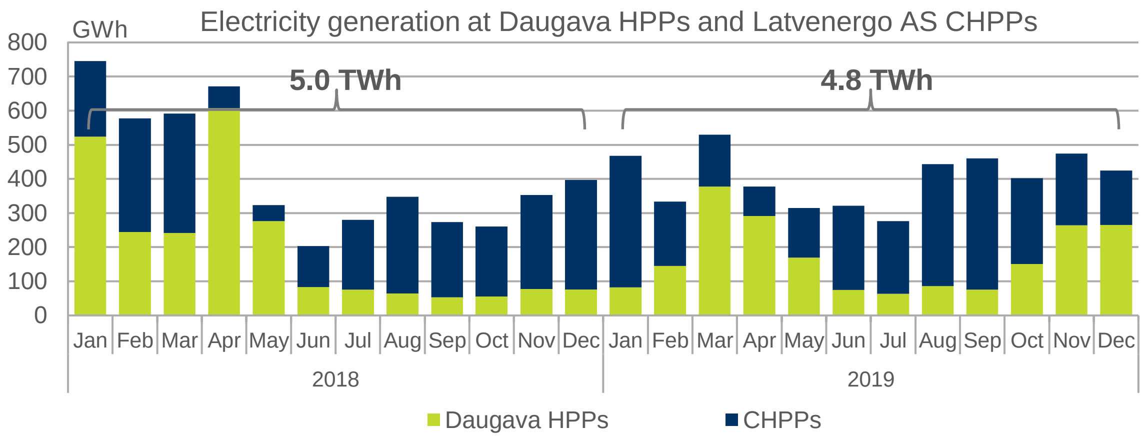
Generation

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.

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 river. The average water inflow in the Daugava River in 2019 was 401 m3/s, while a year earlier it was 485 m3/s. The share of electricity generated from renewable energy sources at Latvenergo Group was 42% (in 2018 it was 47%).

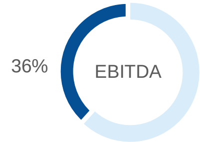
> For the second year in a row, Latvenergo AS CHPPs had record-high electricity generation

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 CO2 emissions and use energy resources to produce electricity in the most efficient way. Also, in the period when the Daugava HPPs were affected by the low water inflow in the Daugava, both CHPPs generated more to meet the demand of the electricity market.



Due to the optimal combination of Latvenergo Group's generation at the CHPPs and Daugava HPPs and the import opportunities from other Nord Pool bidding areas, consumers in the Baltic states benefit from price convergence to the Nordic electricity market price level, which is historically the lowest price region in Europe.

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°.



Generation and Trade

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 (natural gas, solar panels, etc.).

> *Latvenergo* – an energy company that operates in all energy trade segments 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.

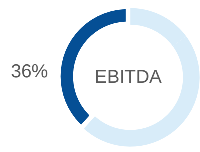
The natural gas retail sales volume doubled compared to the previous year and amounted to 303 GWh. In 2019, Latvenergo Group's natural gas consumption in the Baltics was 7.1 TWh, which was 3% more than in 2018. Currently, Latvenergo Group is the second largest natural gas consumer in the Baltics.

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 5.9 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 8%. 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.

Completed in 2019:

- 6.5 TWh of electricity sold to retail customers
- The amount of natural gas used for both operating consumption and trade reached 7.1 TWh.
- Solar panels installed for 273 customers in the Baltics with a total capacity of 2.1 MW
- At the end of the year, the total number of *Elektrum Insured* customers reached 65,900
- More than 2,200 units sold in *Elektrum* e-shop



Generation and Trade

Mandatory procurement

According to the Electricity Market Law, the functions of public trader are performed by Enerģijas publiskais tirgotājs AS.

Mandatory procurement expenditures* are covered through a public service obligation fee (hereinafter – PSO fee) charged to end users in Latvia. The PSO fee is determined on the basis of the actual costs in the preceding year and approved by the PUC.

Operating figures		2019	2018	Δ	Δ, %
Mandatory procurement PSO fee income	MEUR	151.2	161.5	(10.3)	(6%)
Mandatory procurement reduction – state support to energy-intensive manufacturing companies	MEUR	6.2	4.8	1.4	29%
Mandatory procurement expenditures*	MEUR	151.3	159.5	(8.2)	(5%)
Incl. cogeneration	MEUR	54.0	57.5	(3.5)	(6%)
Incl. renewable energy resources	MEUR	96.8	101.4	(4.6)	(5%)

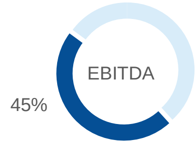
* Mandatory procurement expenditures – costs of electricity purchased within the mandatory procurement and the guaranteed fee for electrical capacity installed at power plants minus revenues from the sale of electricity purchased on the Nord Pool exchange and plus income from support paid by producers and plus the costs of balancing mandatory procurement

> In 2020, the average PSO fee has remained unchanged

On 27 November 2019, the PUC approved the new PSO fee, and as of 1 January 2020 the average PSO fee is 2.268 euro cents/kWh. The average PSO fee has been at this level since 1 July 2018, when it was reduced by 12% on average. The decrease in PSO fee affected the decrease in PSO revenue by 6% in 2019.

In 2019, MP expenditures reached EUR 151.3 million, which is a decrease of 5% compared to the previous year. The decrease in MP expenditures was due to a 10% reduction in the amount of electricity purchased (in 2019 – 1,246 GWh; in 2018 – 1,385 GWh). This was also affected by the fact that in the reporting year, the Ministry of Economics revoked permits for several power plants and suspended permits for plants found to be incompatible with the electricity connection schemes until these shortcomings are resolved. Also, in 2019, the support period for 10 natural gas cogeneration plants ended.

In 2019, Enerģijas publiskais tirgotājs AS made payments from the state budget to energy-intensive manufacturing companies in the amount of EUR 6.2 million (in 2018 – EUR 4.8 million), thus reducing their MP payments. The decision on reduction of MP expenditures for energy-intensive manufacturing companies was made by the Ministry of Economics of the Republic of Latvia.



Distribution

Segment weight in Latvenergo Group

Revenue
36%

EBITDA
45%

Assets
44%

Employees
57%

The distribution segment is Latvenergo Group's largest segment by EBITDA and asset value and the second largest segment by revenue. The segment's revenue decreased by 1% compared to the previous year due to a lower amount of distributed electricity and comprised EUR 319.7 million, while EBITDA increased by 4%, reaching EUR 125.1 million.

The segment's results were positively impacted mainly by the decrease in costs compared to the previous year. This decrease stems from the approved efficiency programme, which was launched in 2017. Also, the results were positively impacted by 18% lower distribution losses. However, the segment's results were negatively impacted by a decrease in distributed electricity.

> The efficiency programme contributes to the profitability of the distribution segment

Currently, Sadales tīkls AS has several efficiency projects, including process reviews and digitalization, installation of smart meters, changes in customer relationship management processes, decreasing transportation units, and optimizing the number of technical and support real estate bases. Within the framework of this programme, we are planning to reduce the number of employees at Sadales tīkls AS by around 800 in total by 2022. As of 31 December 2019, the number of employees at Sadales tīkls AS has been reduced by approximately 500. At the end of 2019, the amount of smart electricity meters installed by the company comprised 706.8 thousand, which was approximately 60% of the total number of electricity meters of customers of Sadales tīkls AS.

Operational figures		**2019**	**2018**	**Δ**	**Δ, %**
Electricity distributed	GWh	6,532	6,600	(68)	(1%)
Distribution losses	GWh	268	327	(59)	(18%)

Financial figures		**2019**	**2018**	**Δ**	**Δ, %**
Revenue	MEUR	319.7	323.0	(3.2)	(1%)
EBITDA	MEUR	125.1	119.8	5.3	4%
Assets	MEUR	1,697.8	1,669.7	28.1	2%
Investments	MEUR	95.1	95.1	0.0	0%
EBITDA margin		39.1%	37.1%	2.0pp.	5%

Considering the changes in the methodology of calculation of distribution tariffs set by the PUC, on November 27, 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; thus, as of 1 January 2020, the average electricity distribution service tariff was reduced by 5.5%.

In 2019, investments in distribution remained at the same level as a year earlier and comprised EUR 95.1 million. The value of distribution assets was EUR 1,697.8 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.

In 2019, the electricity loss rate was 3.7%, which is the lowest since Sadales tīkls AS started its independent business in 2007. The decrease in distribution losses from 327 GWh in 2018 to 268 GWh in 2019 was possible not only due to the reduction of distributed electricity, but also through the monitoring of electricity consumption, capital investments and planned repairs aimed at reducing losses.

Completed in 2019:

- Renewed a total of 1,612 km of low and medium-voltage power lines
- Restored and constructed 690 transformer substations
- Installed 162,284 smart electricity meters
- Power line routes cleared from shrubs at a length of 3,778 km

Lease of Transmission System Assets

Revenue
4%

EBITDA
14%

Assets
17%

Employees
0.2%

Segment weight in Latvenergo Group

The value of transmission system assets exceeds EUR 600 million

The revenue of the transmission system asset leasing segment represents 4% of Latvenergo Group's revenue. In the reporting year, both the segment's revenue and EBITDA decreased slightly compared to the previous year and comprised EUR 40.0 million and EUR 39.8 million respectively. Leasing of transmission system assets is a regulated segment. Revenue in this segment is calculated in accordance with the methodology approved by the PUC.

Financial figures		2019	2018	Δ	Δ, %
Revenue	MEUR	40.0	42.2	(2.2)	(5%)
EBITDA	MEUR	39.8	41.5	(1.7)	(4%)
Total assets	MEUR	664.3	579.3	85.0	15%
Investments	MEUR	87.4	87.1	0.3	0%

In 2019, investment in transmission system assets remained at the same level as a year earlier and comprised EUR 87.4 million. The largest investment was made in the energy infrastructure project *Kurzeme Ring*. In 2019, EUR 26.1 million was invested in this project (in 2018: EUR 65.2 million).

As of 31 December 2019, the value of transmission system assets comprised EUR 664.3 million.

In accordance with the CM decision of 8 October 2019 on the unbundling of transmission assets from Latvenergo Group, the operations of the transmission segment are reported as discontinuing operations.

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. EUR 87.4 million of this was invested in transmission system assets.

> Investment in power network assets – 79% of the total

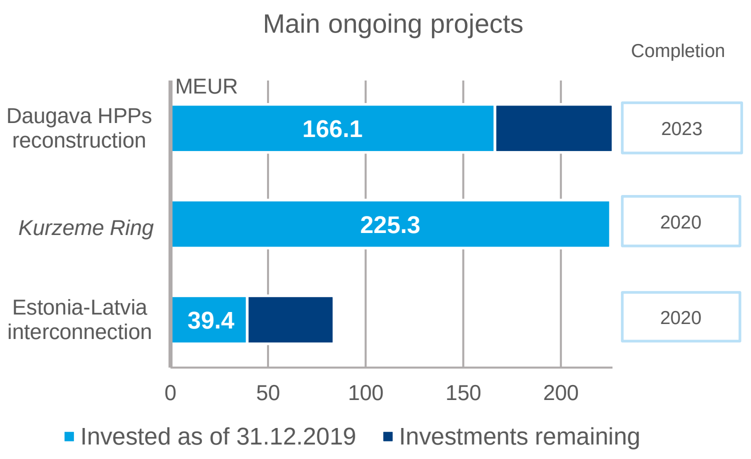
To ensure high-quality power network service, technical parameters and operational safety, a significant amount is invested in the modernization of the power network. In 2019, the amount invested in power network assets represented 79% of total investment.

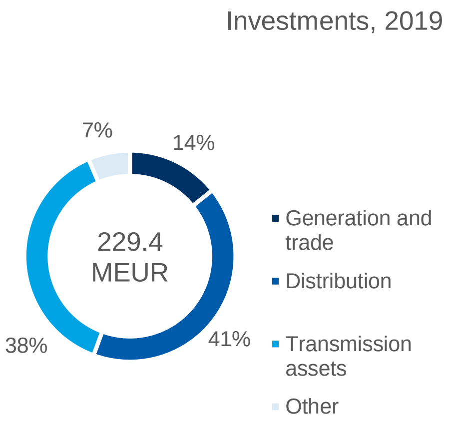
Contributing to environmentally friendly projects, in the reporting year, EUR 16.6 million was invested in the Daugava HPPs' hydropower unit reconstruction.

Investment projects:

Hydropower unit reconstruction programme for the Daugava HPPs (Reconstruction of the Daugava HPPs)

The programme provides for the reconstruction of 11 hydropower units in order to provide environmentally safe, sustainable and competitive operations and efficient water resource management. As of 31 December 2019, five reconstructed hydropower units have been put into operation within the programme. Latvenergo Group is proceeding with a gradual overhaul of six Daugava HPPs' hydropower units. The programme is scheduled for completion by 2023, with estimated total reconstruction costs exceeding EUR 200 million. As of 31 December 2019, work completed within the scope of the contract reached EUR 166.1 million. Reconstruction will ensure functionality of the hydropower units for another 40 years.





The *Kurzeme Ring* project

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.

The project has been completed and the total project construction costs are less than EUR 230 million, of which about half was covered by the European Commission's co-financing. In addition to this, the transmission system operator (Augstsprieguma tīkls AS) allocated congestion management revenue to finance the project.

The third Estonia–Latvia power transmission network interconnection

The project is of major significance for the future electricity transmission infrastructure of the whole Baltic region. The construction of the new 330 kV interconnection is scheduled for completion by the end of 2020 and planned construction costs of the project in Latvia are less than EUR 100 million. EU co-funding in the amount of 65% was attracted, and in addition to this, Augstsprieguma tīkls AS will allocate congestion fee revenue in the amount of 31.0 million EUR. On 16 May 2019, the first poles were erected in Rūjiena Municipality, marking the start of the project's construction.

Funding and Liquidity

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.

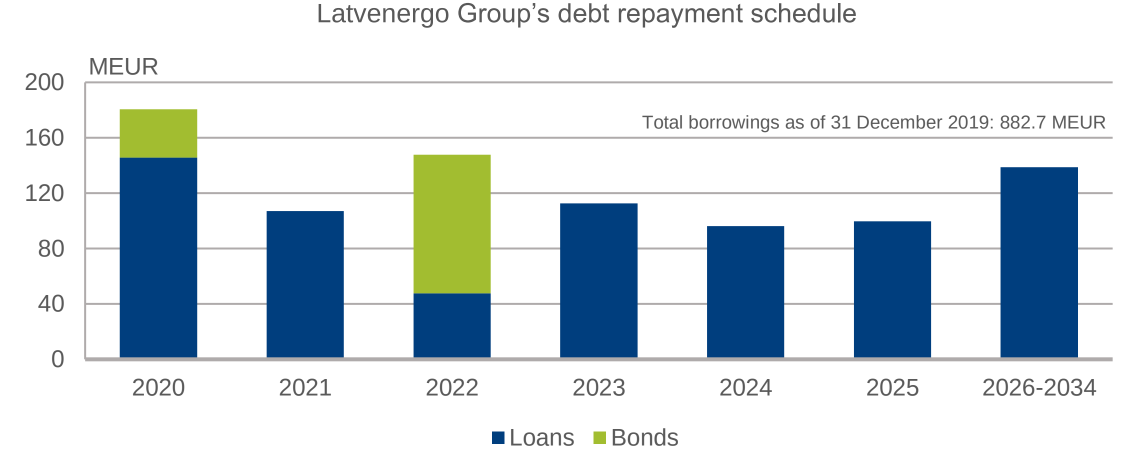
Planning the sourcing of borrowings in a timely manner is also crucial in order to ensure loan refinancing risk management and debt repayment in due time.

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

As of 31 December 2019, the Group's borrowings amount 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.

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



As of 31 December 2019, all borrowings are denominated in euro currency. The weighted average repayment period has not changed compared to the previous year and constitutes 4.2 years. The effective weighted average interest rate (with interest rate swaps) is 1.5% (31 December 2018: 1.4%). Also, sufficient coverage of debt service requirements has been ensured (debt service coverage ratio: 2.0).

In 2019, all the binding financial covenants set in Latvenergo Group's loan agreements were met.

On 15 October, the international credit rating agency Moody's affirmed the credit rating of Latvenergo AS at investment grade Baa2 with a stable outlook. In setting the credit rating of Latvenergo AS, Moody's particularly appreciated Latvenergo's competitive position in the domestic electricity market, its cost-effective and environmentally friendly hydropower asset base, its share of regulated distribution revenues, and its strong financial profile. 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.

Financial Risk Management

The activities of Latvenergo Group 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 uses 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 the Group due to falling revenue from generation and a mismatch between floating market prices and fixed retail prices.

The main sources of Latvenergo Group's 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 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 supply-demand factors and seasonal fluctuations, natural gas price volatility 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 Group enters into long-term fixed price customer contracts, uses electricity financial derivatives and enters into fixed price contracts for natural gas supply. The impact of price risk on generation is hedged gradually – 80%–90% of projected electricity output is sold 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 interest rate risk mainly arises from long-term borrowings at variable rates. They expose the Group 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 borrowings had a fixed interest rate with an average period of 2 years as of 31 December 2019.

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 are denominated in euros, and during the reporting year, there was no substantial exposure to foreign currency risk as regards the Group's investments.

To manage the Group's 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 Group's 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 current ratio was 2.0 (1.5).

The Group continuously monitors cash flow and liquidity forecasts, evaluating the total volume of undrawn borrowing facilities and cash and cash equivalents.

Latvenergo AS Key Performance Indicators

Latvenergo AS operational figures

		2019	2018	2017
Electricity supply, incl.	GWh	5,502	5,826	6,265
*Retail electricity***	GWh	4,211	4,406	4,619
*Wholesale electricity****	GWh	1,290	1,419	1,645
Retail natural gas	GWh	303	147	33
Electricity generation	GWh	4,832	5,028	5,687
Thermal energy generation	GWh	1,603	2,007	2,354
Number of employees		1,328	1,355	1,431
Moody's credit rating		Baa2 (stable)	Baa2 (stable)	Baa2 (stable)

Latvenergo AS financial figures

		2019	2018	2017
Revenue	MEUR	437.5	435.2	498.6
EBITDA*	MEUR	112.7	160.9	387.1
Profit	MEUR	101.2	212.7	150.9
Assets	MEUR	3,137.0	3,141.1	3,649.2
Equity	MEUR	1,949.3	1,993.8	2,382.6
Net debt*	MEUR	751.6	674.7	581.9
Investments	MEUR	48.3	41.4	89.3

Latvenergo AS financial ratios

	2019	2018	2017
Return on equity (ROE)*	5.1%	9.7%	6.6%
Net debt / equity*	39%	34%	24%
EBITDA margin*	26%	37%	78%

* Formulas are available on page 23
** Including operating consumption
*** Including sale of energy purchased within the mandatory procurement on the Nord Pool

Statement of Management Responsibility

Based on the information available to the Management Board of Latvenergo AS, the *Latvenergo Consolidated and Latvenergo AS Unaudited Condensed Financial Statements for 2019*, including the Management Report, have been prepared in accordance with the International Financial Reporting Standards and in all material aspects present a true and fair view of the assets, liabilities, financial position and profit and loss of Latvenergo Group and Latvenergo AS. Information provided in the Management Report is accurate.

The *Latvenergo Consolidated and Latvenergo AS Unaudited Condensed Financial Statements for 2019* were approved by the Management Board of Latvenergo AS on 28 February 2020 and have been signed by Chairman of the Management Board Āris Žīgurs and Member of the Management Board Guntars Baļčūns as authorized persons.

Āris Žīgurs
Chairman of the Management Board

Guntars Baļčūns
Member of the Management Board

28 February 2020

Formulas

In order to ensure an objective and comparable presentation of the financial results, Latvenergo Group and Latvenergo AS use 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, and the binding financial covenants set in the Group's loan agreements, Latvenergo Group has set and therefore uses the following financial figures and ratios:

- Profitability measures: EBITDA; EBITDA margin; return on assets (ROA); return on equity (ROE); return on capital employed (ROCE);
- Financial leverage measures: net debt; equity-to-asset ratio; net debt / EBITDA; net debt / equity; debt service coverage ratio;
- Liquidity measure: current ratio;
- Dividend policy measure: dividend pay-out ratio.

The definitions and components of the financial figures and ratios are described below.

These financial figures and ratios have not changed since the previous period.

Formulas

Net debt =

(borrowings at the end of the period - LET borrowings) - (cash and cash equivalents at the end of the period - LET cash)

Net debt/EBITDA =

$$\frac{\text{(net debt at the beginning of the 12-month period + net debt at the end of the 12-month period)} \times 0.5}{\text{EBITDA (12-month rolling)}}$$

$$\text{EBITDA margin} = \frac{\text{EBITDA (12-month rolling)}}{\text{revenue (12-month rolling)}} \times 100\%$$

$$\text{Net debt/equity} = \frac{\text{net debt at the end of the reporting period}}{\text{equity at the end of the reporting period}} \times 100\%$$

$$\text{Return on assets} = \frac{\text{net profit (12-month rolling)}}{\text{average value of assets}} \times 100\%$$

$$\text{Average value of assets} = \frac{\text{assets at the beginning of the 12-month period + assets at the end of the 12-month period}}{2}$$

$$\text{Return on equity} = \frac{\text{net profit (12-month rolling)}}{\text{average value of equity}} \times 100\%$$

$$\text{Average value of equity} = \frac{\text{equity at the beginning of the 12-month period + equity at the end of the 12-month period}}{2}$$

$$\text{Return on capital employed} = \frac{\text{operating profit of the 12-month period}}{\text{average value of equity + average value of borrowings (without LET)}} \times 100\%$$

Average value of borrowings =

$$\frac{\text{borrowings from FI at the beginning of the 12-month period + borrowings from FI at the end of the 12-month period}}{2}$$

$$\text{Debt service coverage ratio} = \frac{\text{net income +/- extraordinary items + depreciation + interest expense}}{\text{principal payments + interest payments}}$$

$$\text{Current ratio} = \frac{\text{current assets at the end of the reporting period}}{\text{current liabilities at the end of the reporting period}}$$

$$\text{Return on segment assets} = \frac{\text{operating profit of the segment (12-month rolling)}}{\text{average value of segment assets}} \times 100\%$$

$$\text{Equity-to-asset ratio} = \frac{\text{total equity at the end of the reporting period}}{\text{total assets at the end of the reporting period}} \times 100\%$$

$$\text{Dividend pay-out ratio} = \frac{\text{dividends paid in the reporting year}}{\text{profit of the parent company in the previous reporting year}} \times 100\%$$

List of Abbreviations

Abbreviations

bbl –	barrel of oil (158.99 litres)
Daugava HPPs –	Daugava hydropower plants
EBITDA –	earnings before interest, corporate income tax, share of profit or loss of associates, depreciation and amortization, and impairment of intangible and fixed assets
kV –	kilovolt
LEGMC –	Latvian Environment, Geology and Meteorology Centre
LET –	Latvijas elektriskie tīkli AS
MEUR –	million euros
MW –	megawatt
MWh –	megawatt hour (1,000,000 MWh = 1,000 GWh = 1 TWh)
MP –	mandatory procurement
nm^3 –	normal cubic meter
OECD –	The Organisation for Economic Co-operation and Development
PSO –	public service obligation
PUC –	Public Utilities Commission
CHPPs –	Latvenergo AS combined heat and power plants
SAIDI –	System Average Interruption Duration Index
SAIFI –	System Average Interruption Frequency Index
SET –	Subsidised Energy Tax
WPP –	Wind power plant

Unaudited Condensed Interim Financial Statements

Statement of Profit or Loss

EUR'000

	Notes	Group 2019	Group 2018	Parent Company 2019	Parent Company 2018
Revenue	4	841,636	838,805	437,529	435,199
Other income		25,863	91,098	23,558	91,181
Raw materials and consumables used	5	(477,660)	(497,148)	(271,069)	(284,592)
Personnel expenses		(101,349)	(103,359)	(45,039)	(42,396)
Other operating expenses		(44,964)	(47,449)	(32,328)	(38,465)
EBITDA		**243,526**	**281,947**	**112,651**	**160,927**
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	7, 8	(143,161)	(199,964)	(67,543)	(127,124)
Operating profit		**100,365**	**81,983**	**45,108**	**33,803**
Finance income	6	1,187	1,157	12,995	11,446
Finance costs	6	(9,480)	(8,406)	(11,734)	(10,135)
Dividends from subsidiaries		–	–	54,858	177,646
Profit before tax		**92,072**	**74,734**	**101,227**	**212,760**
Income tax		(7,945)	(9,209)	–	(27)
Profit for the year from continuing operations		**84,127**	**65,525**	**101,227**	**212,733**
Profit for the year from discontinued operation	17	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	–	–

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**
Comprehensive (loss) / income to be reclassified to profit or loss in subsequent periods:					
- (losses) / gains from change in hedge reserve	14 c	(11,771)	9,531	(11,771)	9,531
Net comprehensive (loss) / income to be reclassified to profit or loss in subsequent periods	14 c	**(11,771)**	**9,531**	**(11,771)**	**9,531**
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		(2,043)	436	(1,148)	(108)
Net comprehensive (loss) / income not to be reclassified to profit or loss in subsequent periods		**(2,043)**	**436**	**(1,148)**	**(108)**
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	–	–

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 and property, plant and equipment	7	2,775,531	3,316,172	1,135,112	1,156,699
Right–of–use assets	8	5,522	–	3,476	–
Investment property		301	467	39,435	61,796
Non–current financial investments	10	39	40	831,350	830,542
Non–current loans to subsidiaries	16 e	–	–	588,434	595,004
Investments in other financial assets	14 a	16,885	16,935	16,885	16,935
Other non–current receivables	11 b	434	30,920	421	331
Total non–current assets		**2,798,712**	**3,364,534**	**2,615,113**	**2,661,307**
Current assets					
Inventories	9	104,781	71,975	89,522	58,410
Receivables from contracts with customers	11 a	111,677	117,955	84,226	81,025
Other current receivables	11 b, c	76,938	84,830	12,075	14,445
Prepayment for income tax		140	11,619	140	10,152
Non–current assets held for sale		146	–	–	–
Deferred expenses		3,015	2,598	2,082	1,552
Current loans to subsidiaries	16 e	–	–	205,822	170,811
Derivative financial instruments	14 c	6,717	15,853	6,717	15,853
Cash and cash equivalents	12	122,422	129,455	121,261	127,554
Current assets excluding discontinued operation		**425,836**	**434,285**	**521,845**	**479,802**
Assets of discontinued operation	17	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**
EQUITY AND LIABILITIES					
Equity					
Share capital		834,883	834,791	834,883	834,791
Reserves		1,075,235	1,125,466	778,162	794,555
Retained earnings		318,555	351,350	336,242	364,477
Reserves of discontinued operation	17	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	14 b	702,129	700,028	696,863	690,568
Non–current lease liabilities	8	4,349	–	3,126	–
Provisions		18,491	20,178	8,489	8,625
Deferred income tax liabilities		8,327	12,297	–	–
Deferred income from contracts with customers	14 c	6,149	3,923	6,149	3,923
Other deferred income	15 I, a	142,453	143,494	–	–
Derivative financial instruments	15 I, b, c	194,910	303,519	187,174	210,105
Total non–current liabilities		**1,076,808**	**1,183,439**	**901,801**	**913,221**
Current liabilities					
Borrowings	14 b	180,542	114,315	176,036	111,700
Current lease liabilities	8	1,216	–	376	–
Trade and other payables		115,706	135,008	78,381	92,062
Income tax payable		2	2	–	–
Deferred income from contracts with customers	15 II, a	13,701	13,271	–	–
Other deferred income	15 II, b, c	24,920	26,438	24,094	24,022
Derivative financial instruments	14 c	6,983	6,281	6,983	6,281
Current liabilities excluding discontinued operation		**343,070**	**295,315**	**285,870**	**234,065**
Liabilities of discontinued operation	17	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**

Statement of Changes in Equity

EUR'000

	Group							Parent Company			
	Attributable to equity holder of the Parent Company							Attributable to equity holder of the Parent Company			
	Share capital	Reserves	Retained earnings	Reserves of a discontinued operation	Total	Non–controlling interests	TOTAL	Share capital	Reserves	Retained earnings	TOTAL
As of 31 December 2017	**1,288,715**	**1,125,728**	**424,406**	–	**2,838,849**	**8,042**	**2,846,891**	**1,288,715**	**791,681**	**302,242**	**2,382,638**
Implementation effect of IFRS 9 'Financial instruments'	–	–	(290)	–	**(290)**	–	**(290)**	–	–	(629)	**(629)**
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 (Note 9 b)	(454,413)	–	–	–	**(454,413)**	–	**(454,413)**	(454,413)	**–**	**–**	**(454,413)**
Increase of share capital (Note 7 a)	489	–	–	–	**489**	–	**489**	489	–	–	**489**
Dividends for 2017	–	–	(156,418)	–	**(156,418)**	(2,116)	**(158,534)**	–	–	(156,418)	**(156,418)**
Disposal of non–current assets revaluation reserve	–	(10,229)	10,229	–	**–**	–	**–**	–	(6,549)	6,549	**–**
Total contributions and profit distributions recognised directly 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	–	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*	92	–	–	–	**92**	–	**92**	92	–	–	**92**
Dividends for 2018	–	–	(132,936)	–	**(132,936)**	(2,279)	**(135,215)**	–	–	(132,936)	**(132,936)**
Disposal of non–current assets revaluation reserve	–	(7,481)	7,481	–	**–**	**–**	**–**	–	(3,474)	3,474	**–**
Discontinued operation (Note 17)	–	(28,936)	–	28,936	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total contributions and profit distributions recognised directly 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	–	(13,814)	–	–	**(13,814)**	–	**(13,814)**	–	(12,919)	–	**(12,919)**
Total comprehensive (loss) / income for the year	**–**	**(13,814)**	**92,660**	–	**78,846**	**1,699**	**80,545**	**–**	**(12,919)**	**101,227**	**88,308**
As of 31 December 2019	**834,883**	**1,075,235**	**318,555**	**28,936**	**2,257,609**	**7,878**	**2,265,487**	**834,883**	**778,162**	**336,242**	**1,949,287**

* On 28 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 invested in the share capital of Latvenergo AS and changes regarding increase of share capital registered in the Commercial Register of the Republic of Latvia.

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 from continuing operations		92,072	74,734	101,227	212,760
Profit before tax from discontinued operation	17	12,668	13,778	–	–
Adjustments:					
– Amortisation, depreciation and impairment of non–current assets		194,898	243,458	89,508	139,444
– Net financial adjustments		8,605	7,571	(959)	(966)
– Other adjustments		(3,746)	(1,293)	(1,337)	(316)
– Dividends from subsidiaries		–	–	(54,858)	(177,646)
Operating profit before working capital adjustments		**304,497**	**338,248**	**133,581**	**173,276**
Decrease in current assets		8,093	102,478	13,998	143,875
Increase / (decrease) in trade and other payables		11,757	(90,344)	(38,789)	(79,741)
Impact of non–cash offsetting of operating receivables and liabilities from subsidiaries, net		–	–	269,711	201,571
Cash generated from operating activities		**324,347**	**350,382**	**378,501**	**438,981**
Interest paid		(9,537)	(9,066)	(11,741)	(10,781)
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**	**377,844**	**394,395**
Cash flows from investing activities					
Loans issued to subsidiaries, net		–	–	(272,103)	(323,539)
Purchase of intangible assets and property, plant and equipment		(254,947)	(238,501)	(70,981)	(60,644)
Proceeds from investments in subsidiaries		–	–	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)**	**(321,920)**	**(330,756)**
Cash flows from financing activities					
Proceeds on borrowings from financial institutions		180,291	93,500	180,000	90,000
Repayment of borrowings	14 b	(112,102)	(105,931)	(109,513)	(102,522)
Received financing from European Union		579	–	250	–
Lease payments		(821)	–	(18)	–
Dividends paid to non–controlling interests		(2,279)	(2,116)	–	–
Dividends paid to equity holder of the Parent Company		(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	**12**	**(6,733)**	**(106,548)**	**(6,293)**	**(105,301)**
Cash and cash equivalents at the beginning of the year	12	129,455	236,003	127,554	232,855
Cash and cash equivalents at the end of the year	**12**	**122,722**	**129,455**	**121,261**	**127,554**

Notes to the Unaudited Condensed Annual Financial Statements

1. CORPORATE INFORMATION

All shares of public limited company Latvenergo (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 Latvenergo AS is 12 Pulkveža Brieža Street, Riga, Latvia, LV–1230. According to the Energy Law of the Rupublic 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;
- Enerģijas publiskais tirgotājs AS (since 25 February 2014) with 100% interest held;
- Liepājas enerģija SIA (since 6 July 2005) with 51% 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 (Latvenergo AS helds 46.30% of interest) that manages a defined–contribution corporate pension plan in Latvia.

Latvenergo AS shareholding in subsidiaries and other non–current financial investments of the Group are disclosed in Note 10 'Non–current Financial Investments'.

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.

Latvenergo Group Consolidated and Latvenergo AS Annual Report 2018 has been approved on 8 May 2019 by the Latvenergo AS Shareholder's meeting (see on Latvenergo AS web page section "Investors" – http://www.latvenergo.lv/eng/investors/reports/).

Latvenergo Consolidated and Latvenergo AS Unaudited Condensed Annual Financial Statements for 2019 include the financial information in respect of the Latvenergo Group and Latvenergo AS for the period starting on 1 January 2019 and ending on 31 December 2019 and comparative information for the period starting 1 January 2018 and ending 31 December 2018.

Latvenergo Consolidated and Latvenergo AS Unaudited Condensed Annual Financial Statements for 2019 were authorised by the Latvenergo AS Management Board on 28 February 2020.

2. SIGNIFICANT ACCOUNTING POLICIES

These Latvenergo Consolidated and Latvenergo AS Condensed Annual Financial Statements are prepared in accordance with the International Financial Reporting Standards as adopted for use in the European Union (IFRS) and principal accounting policies applied to these financial statements were identical to those used in the Latvenergo Group Consolidated and Latvenergo AS Financial Statements of 2018. These policies have been consistently applied to all reporting periods presented in financial statements, unless otherwise stated. Where it is necessary, comparatives are reclassified.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.

Latvenergo Group and Latvenergo AS has applied IFRS 16 *Leases* in Financial Statements for 2019 with initial application date as of 1 January 2019.As lessees Latvenergo Group and the Parent Company adopted IFRS 16 by recognising in the Financial Statements the right–of–use assets and lease liabilities. Upon implementation of IFRS 16, Latvenergo Group and the Parent Company made an assessment on the identified right–of–use assets, non–cancellable lease terms and lease payments. Latvenergo Group and the Parent Company use a single accounting model for all lease contracts. 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 (see Note 8).

Latvenergo Consolidated and Latvenergo AS Unaudited Condensed Annual Financial Statements are prepared under the historical cost convention, except for some financial assets and liabilities (including derivative financial instruments) measured at fair value through profit or loss and for the revaluation of property, plant and equipment carried at revalued amounts through other comprehensive income as disclosed in accounting policies presented in Latvenergo Group Consolidated and Latvenergo AS Annual Report 2018.

Latvenergo Consolidated and Latvenergo AS Unaudited Condensed Annual Financial Statements had been prepared in euros (EUR) currency and all amounts shown in these Financial Statements are presented in thousands of EUR (EUR'000). All figures, unless stated otherwise are rounded to the nearest thousand.

3. OPERATING SEGMENT INFORMATION

Operating segments of the Group and the Parent Company

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	**Distri–bution**	**Lease of trans–mission system***	**Corporate functions**	**TOTAL segments**	**Adjust–ments and eliminations**	**TOTAL Group**	**Generation and trade**	**Corporate functions**	**TOTAL segments**	**Adjust–ments and eliminations**	**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**	**461,983**	**(23,287)**	**437,529**
Results												
EBITDA	**102,192**	**125,091**	**39,798**	**13,886**	**280,967**	**–**	**280,967**	**92,550**	**20,101**	**112,651**	**–**	**112,651**
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	(56,485)	(75,276)	(24,756)	(11,400)	**(167,917)**	–	**(167,917)**	(53,196)	(14,347)	**(67,543)**	–	**(67,543)**
Segment profit / (loss) before tax	**45,707**	**49,815**	**15,042**	**2,486**	**113,050**	**(8,311)**	**104,739**	**39,354**	**5,754**	**45,108**	**56,119**	**101,227**
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 and property, plant and equipment	(110,490)	(77,432)	(25,856)	(12,042)	**(225,820)**	–	**(225,820)**	(107,397)	(19,727)	**(127,124)**	–	**(127,124)**
Segment profit / (loss) 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**
Capital expenditure	28,909	95,117	87,136	12,411	**223,573**	**(2,966)**	**220,607**	26,921	14,429	**41,350**	**–**	**41,350**

Segment assets

EUR'000

	Group							Parent Company				
	Generation and trade	**Distri–bution**	**Lease of trans–mission system***	**Corporate functions**	**TOTAL segments**	**Adjust–ments and eliminations**	**TOTAL Group**	**Generation and trade**	**Corporate functions**	**TOTAL segments**	**Adjust–ments and eliminations**	**TOTAL Parent Company**
As of 31 December 2019	1,308,375	1,697,813	664,323	87,966	**3,758,477**	106,464	**3,864,941**	1,197,434	168,915	**1,366,349**	1,770,609	**3,136,958**
As of 31 December 2018	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**

* In the financial statements operating segment of lease of transmission system assets is classified as discontinued operation (Note 17).

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

	Group		Parent Company	
	2019	**2018**	**2019**	**2018**
EBITDA	**280,967**	**321,582**	**112,651**	**160,927**
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	(167,917)	(225,820)	(67,543)	(127,124)
Segment profit before tax	**113,050**	**95,762**	**45,108**	**33,803**
Finance income	1,187	1,157	12,995	11,446
Finance costs	(9,498)	(8,406)	(11,734)	(10,135)
Dividends received from subsidiaries	–	–	54,858	177,646
Profit before tax	**104,739**	**88,513**	**101,227**	**212,760**

Reconciliation of assets

EUR'000

	Group		Parent Company	
	2019	**2018**	**2019**	**2018**
Segment operating assets	**3,758,477**	**3,664,661**	**1,366,349**	**1,374,258**
Connection usage rights	(39,739)	(39,744)	–	–
Non–current financial investments	39	40	831,350	830,542
Loans to subsidiaries	–	–	794,256	765,815
Other financial investments	16,885	16,935	16,885	16,935
Derivative financial instruments	6,717	15,853	6,717	15,853
Prepayment for income and other taxes	140	11,619	140	10,152
Cash and cash equivalents	122,422	129,455	121,261	127,554
TOTAL assets	**3,864,941**	**3,798,819**	**3,136,958**	**3,141,109**

4. REVENUE

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	IFRS 15	443,498	425,718	332,486	312,994
Distribution system services	IFRS 15	299,333	303,439	–	–
Heat sales	IFRS 15	68,235	78,580	56,854	66,263
Other revenue	IFRS 15	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	IFRS 16 / IAS 17	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**	**437,539**	**435,199**

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 2019	Group 2018	Parent Company 2019	Parent Company 2018
Mandatory procurement PSO fees	88,082	99,337	90,605	101,852
Distribution system services	11,181	10,572	198,092	208,300
Transmission system services	1,557	1,569	1,596	1,613
TOTAL revenue recognised applying agent accounting principle	**100,820**	**111,478**	**290,293**	**311,765**

5. RAW MATERIALS AND CONSUMABLES USED

EUR'000

	Group 2019	Group 2018	Parent Company 2019	Parent Company 2018
Electricity				
Purchased electricity	168,699	196,660	56,701	78,747
Loss on fair value changes on electricity forwards and futures (Note 14 c, II)	2,326	417	2,326	417
Electricity transmission services costs	71,552	71,368	1,015	1,015
	242,577	**268,445**	**60,042**	**80,179**
Energy resources costs	205,905	197,485	199,027	190,139
Gains on fair value changes on natural gas forwards (Note 14 c, III)	(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**

6. FINANCE INCOME AND COSTS

EUR'000

	Group		Parent Company	
	2019	2018	2019	2018
Finance income:				
Interest income on bank accounts and deposits	8	36	8	36
Interest income on loans to subsidiaries	–	–	11,811	10,289
Interest income from other financial investments	1,076	1,076	1,076	1,076
Net gain on issued debt securities (bonds)	44	44	44	44
Net gain on currency exchange rate fluctuations	55	–	54	–
Income on financing component	4	1	2	1
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**

7. INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

a) Intangible assets

EUR'000

	Group		Parent Company	
	2019	2018	2019	2018
Net book amount at the beginning of the year	**19,079**	**13,413**	**22,813**	**17,461**
Additions	27,955	20,518	27,843	20,352
Transfers	–	(80)	–	(551)
Disposals	(21,319)	(11,066)	(21,767)	(11,066)
Amortisation charge	(3,128)	(3,706)	(2,778)	(3,383)
Closing net book amount at the end of the year	**22,587**	**19,079**	**26,111**	**22,813**

b) Property, plant and equipment

EUR'000

	Group		Parent Company	
	2019	2018	2019	2018
Net book amount at the beginning of the year	**3,297,093**	**3,308,985**	**1,133,886**	**1,231,454**
Additions	226,986	217,389	45,941	38,300
Invested in share capital	92	489	92	489
Reclassified to investment properties	(281)	(44)	(1,939)	(2,374)
Disposals	(6,242)	(7,612)	(6,976)	(14,010)
Impairment charge	19,770	(33,441)	19,763	(33,254)
Reclassified property, plant and equipment to discontinued operation	(601,175)	–	–	–
Depreciation	(183,299)	(188,673)	(81,766)	(86,719)
Closing net book amount at the end of the year	**2,752,944**	**3,297,093**	**1,109,001**	**1,133,886**

8. LEASES

EUR'000

	Group	Parent Company
	2019	2019
Right–of–use assets		
Net book amount at the beginning of the year	–	–
Initial recognition value as of 1 January 2019	8,147	3,870
Recognised changes in lease agreements	(302)	3
Excluded right–of–use assets of discontinued operation	(1,099)	–
Depreciation recognised in the Statement of Profit or Loss	(1,224)	(397)
Closing net book amount at the end of the year	**5,522**	**3,476**
Lease liabilities		
Net book amount at the beginning of the year	–	–
Initial recognition value as of 1 January 2019	8,147	3,870
Recognised changes in lease agreements	(294)	3
Excluded lease liabilities of discontinued operation	(1,107)	–
Decrease of lease liabilities	(1,277)	(428)
Recognised interest liabilities (Note 6)	96	57
Closing net book amount at the end of the year	**5,565**	**3,502**
incl.:		
– *current lease liabilities*	4,349	3,126
– *non–current lease liabilities*	1,216	376

9. INVENTORIES

EUR'000

	Group		Parent Company	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Raw materials	15,114	13,257	761	872
Natural gas	80,907	49,757	80,907	49,757
Goods for sale	1,728	1,608	421	413
Other inventories	8,156	8,292	8,065	8,070
Prepayments for inventories	163	198	40	33
Allowance for raw materials and other inventories	(1,287)	(1,137)	(674)	(736)
TOTAL inventories	**104,781**	**71,975**	**89,520**	**58,409**

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**

10. NON–CURRENT FINANCIAL INVESTMENTS

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

Name of the company	Country of incorporation	Business activity held	31/12/2019 Interest held, %	31/12/2019 EUR'000	31/12/2018 Interest held, %	31/12/2018 EUR'000
Investments in subsidiaries:						
Latvijas elektriskie tīkli AS	Latvia	Lease of transmission system assets	100 %	186,432	100 %	185,624
Sadales tīkls AS	Latvia	Electricity distribution	100 %	641,150	100 %	641,150
Enerģijas publiskais tirgotājs AS	Latvia	Administration of mandatory electricity procurement process	100 %	40	100 %	40
Elektrum Eesti, OÜ	Estonia	Electricity and natural gas trade	100 %	35	100 %	35
Elektrum Lietuva, UAB	Lithuania	Electricity and natural gas trade	100 %	98	100 %	98
Liepājas enerģija SIA	Latvia	Thermal energy generation and trade, electricity generation	51 %	3,556	51 %	3,556
TOTAL				**831,311**		**830,503**
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 Company owns 46.30 % of the shares of the closed pension fund Pirmais Slēgtais Pensiju Fonds AS. However, the Parent Company is only a nominal shareholder as all risks and benefits arising from the Parent Company's activities will accrue to the employees of the Parent Company who are members of the pension plan. Therefore, investment in Pirmais Slēgtais Pensiju Fonds AS is valued at cost.

The Group's non–current financial investments

Name of the company	Country of incorporation	Business activity held	31/12/2019 Interest held, %	31/12/2019 EUR'000	31/12/2018 Interest held, %	31/12/2018 EUR'000
Other non–current financial investments (Group):						
Pirmais Slēgtais Pensiju Fonds AS	Latvia	Management of pension plans	48.15 %	36	48.15 %	37
Rīgas siltums AS	Latvia	Thermal energy generation and trade, electricity generation	0.0051 %	3	0.0051 %	3
TOTAL				**39**		**40**

The Group owns 48.15 % of the shares of the closed pension fund Pirmais Slēgtais Pensiju Fonds AS (Latvenergo AS – 46.30 %). However, the Group and the Parent Company are only a nominal shareholder as all risks and benefits arising from associate's activities will accrue to the employees who are members of the pension plan.

11. RECEIVABLES FROM CONTRACTS WITH CUSTOMERS AND OTHER RECEIVABLES

a) Receivables from contracts with customers, net

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)	4,085	7,051	10,156	7,915
Receivables with lifetime ECL assessment by simplified approach (portfolio model)	107,592	110,904	74,070	73,110
TOTAL receivables from contracts with customers	**111,677**	**117,955**	**84,226**	**81,025**

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	138,926	138,308	107,722	102,154
– Heating customers	9,210	14,715	7,127	11,955
– Other receivables from contracts with customers (portfolio model)	6,580	5,675	2,784	3,331
– Other receivables from contracts with customers (counterparty model)	4,091	7,060	2,325	3,203
– Subsidiaries (Note 16 b)	–	–	7,839	4,719
	158 807	**165 758**	**127,797**	**125,362**
Provisions for impaired receivables from contracts with customers:				
– Electricity, natural gas trade and related services customers	(44,108)	(44,953)	(43,187)	(43,968)
– Heating customers	(325)	(342)	(315)	(334)
– Other receivables from contracts with customers (portfolio model)	(2,691)	(2,499)	(61)	(28)
– Other receivables from contracts with customers (counterparty model)	(6)	(9)	(3)	(4)
– Subsidiaries (Note 16 b)	–	–	(5)	(3)
	(47,130)	**(47,803)**	**(43,571)**	**(44,337)**
Receivables from contracts with customers, net:				
– Electricity, natural gas trade and related services customers	94,818	93,355	64,535	58,186
– Heating customers	8,885	14,373	6,812	11,621
– Other receivables from contracts with customers (portfolio model)	3,889	3,176	2,723	3,303
– Other receivables from contracts with customers (counterparty model)	4,085	7,051	2,322	3,199
– Subsidiaries (Note 16 b)	–	–	7,834	4,716
	111,677	**117,955**	**84,226**	**81,025**

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	1,262	1,368	656	1,428
At the end of the year	**47,130**	**47,803**	**43,571**	**44,337**

b) Other financial receivables

EUR'000

	Group		Parent Company	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Other non–current receivables	433	30,960	421	331
Loss allowances for expected credit loss	–	(40)	–	–
TOTAL non–current financial receivables	**433**	**30,920**	**421**	**331**
Current financial receivables:				
Unsettled revenue on mandatory procurement PSO fee recognised as assets*	74,938	74,497	–	–
Receivables for lease	–	7,646	–	49
Receivables for lease from subsidiaries (Note 16 b)	–	–	615	1,061
Other financial receivables from subsidiaries (Note 16 b)	–	–	8,424	6,745
Other accrued income from subsidiaries (Note 16 c)	–	–	1,864	4,358
Other accrued income	872	872	872	883
Other current financial receivables	2,646	4,146	2,053	2,930
Loss allowances for expected credit loss on subsidiaries receivables (Note 16 b)	–	–	(6)	(6)
Loss allowances for expected credit loss	(1,711)	(2,548)	(1,853)	(1,787)
TOTAL current financial receivables	**76,745**	**84,613**	**11,969**	**14,233**
TOTAL other financial receivables	**77,178**	**115,533**	**12,390**	**14,564**

* unsettled revenue on mandatory procurement PSO fee is recognised as assets in net amount, by applying agent principle, as difference between revenue from sale of electricity in Nord Pool power exchange by market price, received mandatory procurement PSO fees, received government grant for compensating the increase of mandatory procurement costs and costs of purchased electricity under the mandatory procurement from electricity generators who generate electricity in efficient cogeneration process or using renewable energy sources, as well as guaranteed fees for installed electrical capacity in cogeneration plants (over 4 MW)

c) Other non–financial receivables

EUR'000

	Group		Parent Company	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Current non–financial receivables:				
Pre–tax and overpaid taxes	69	108	58	105
Other current receivables	124	109	48	107
TOTAL current non–financial receivables	**193**	**217**	**106**	**212**

12. CASH AND CASH EQUIVALENTS

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 attributable to discontinued operation	300	–	–	–
TOTAL cash and cash equivalents	**122,722**	**129,455**	**121,261**	**127,554**

* Restricted cash and cash equivalents 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.

13. RESERVES

EUR'000

	Group						Parent Company			
	Non–current assets revaluation reserve	**Hedge reserve**	**Post–employment benefit plan revaluation reserve**	**Other reserves**	**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**	**795,893**	**(3,987)**	**(225)**	**791,681**
Disposal of non–current assets revaluation reserve	(10,229)	–	–	–	–	**(10,229)**	(6,549)	–	–	**(6,549)**
Gains / (losses) on re–measurement of defined post–employment benefit plan	–	–	436	–	–	**436**	–	–	(108)	**(108)**
Gains from fair value changes of derivative financial instruments	–	9,531	–	–	–	**9,531**	–	9,531	–	**9,531**
As of 31 December 2018	**1,120,169**	**5,544**	**(357)**	**110**	**–**	**1,125,466**	**789,344**	**5,544**	**(333)**	**794,555**
Non–current assets revaluation reserve related to discontinued operation	(29,171)	–	–	–	29,171	**–**	–	–	–	**–**
Post–employment benefit plan revaluation reserve related to discontinued operation	–	–	–	–	18	**18**	–	–	–	**–**
Disposal of non–current assets revaluation reserve	(7,226)	–	–	–	(255)	**(7,481)**	(3,474)	–	–	**(3,474)**
(Losses) / gains on re–measurement of defined post–employment benefit plan	–	–	(2,063)	–	2	**(2,061)**	–	–	(1,148)	**(1,148)**
Losses from fair value changes of derivative financial instruments	–	(11,771)	–	–	–	**(11,771)**	–	(11,771)	–	**(11,771)**
As of 31 December 2019	**1,083,772**	**(6,227)**	**(2,420)**	**110**	**28,936**	**1,104,171**	**785,870**	**(6,227)**	**(1,481)**	**778,162**

14. FINANCIAL ASSETS AND LIABILITIES

a) Other financial investments

As of 31 December 2019 the entire Group's and the Parent Company's other financial investments (till the adoption of IFRS 9 "Financial instruments" classified as held–to–maturity financial assets) were non–current 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.

All other financial investments are denominated in euros. The maximum exposure to credit risk at the reporting date is the carrying amount of other financial investments.

Carrying (amortised) 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**

b) 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	143,176	112,102	138,691	109,512
Issued debt securities (bonds)	34,969	–	34,969	–
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**

c) Derivative financial instruments

I) Interest rate swaps

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 Group's and the Parent Company's 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 13)	–	(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)**

II) Electricity forwards and futures

Latvenergo AS 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. For the contracts which are fully effective contracts fair value gains or losses are included in other comprehensive income (Note 13).

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 Statement of Profit or Loss (Note 5)	(105)	(2,221)	(440)	23	(105)	(2,221)	(440)	23
Included in Statement of Comprehensive Income (Note 13)	(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**	**–**

III) Natural gas forwards

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 5)	2,033	–	–	–	2,033	–	–	–
Included in Statement of Comprehensive Income (Note 13)	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)**

15. DEFERRED INCOME

EUR'000

	Group		Parent Company	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
I) Non–current deferred income				
a) from contracts with customers				
Deferred income from connection fees	142,453	143,494	–	–
	142,453	**143,494**	**–**	**–**
b) from lease				
Deferred income from connection fees	–	3,852	–	–
Deferred income on transmission system assets reconstruction	–	984	–	–
Other deferred income	1,260	403	1,260	403
	1,260	**5,239**	**1,260**	**403**
c) other				
Deferred income on grant for the installed electrical capacity of CHPPs	185,429	209,419	185,429	209,419
Deferred income on financing from European Union funds	7,889	57,851	256	18
Deferred income on financing receivable from European Union funds	–	30,617	–	–
Deferred income from plant and equipment received free of charge	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**
II) Current deferred income				
a) from contracts with customers				
Deferred income from connection fees	13,629	12,984	–	–
Deferred income from use of allowed effective electrical load (distribution system services)	72	287	–	–
	13,701	**13,271**	**–**	**–**
b) from lease				
Deferred income from connection fees	–	449	–	–
	–	**449**	**–**	**–**
c) other				
Deferred income on grant for the installed electrical capacity of CHPPs	23,990	23,990	23,990	23,990
Deferred income on financing from European Union funds	787	1,941	12	12
Other deferred income	143	58	92	20
	24,920	**25,989**	**24,094**	**24,022**
TOTAL current deferred income	**38,621**	**39,709**	**24,094**	**24,022**
TOTAL deferred income	**375,984**	**486,722**	**211,268**	**234,127**

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)	47,277	31,537	1,199	–
Received connection fees	14,697	14,726	–	–
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 discontinued operation	(132,507)	–	–	–
Credited to the Statement of Profit or Loss (in Note 4 as "Other revenue")	(16,215)	(15,823)	(68)	(312)
At the end of the year	**375,984**	**486,722**	**211,268**	**234,127**

16. RELATED PARTY TRANSACTIONS

The Parent Company and, indirectly, its subsidiaries are controlled by the Latvian state. Related parties of the Latvenergo Group and the Parent Company are Shareholder of the Parent Company who controls over the Parent Company in accepting operating business decisions, members of Latvenergo Group entities' management boards, members of the Supervisory board of the Parent Company, members of Supervisory body of the Parent 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 disclosures. 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
Income:				
– subsidiaries	–	–	72,866	78,698
– government related entities*	48,285	54,006	10,783	14,248
	48,285	**54,006**	**83,649**	**92,946**
Expenses:				
– subsidiaries	–	–	306,679	346,641
– government related entities*	77,466	76,363	6,241	5,422
	77,466	**76,363**	**312,920**	**352,063**
including gross expenses from transactions with subsidiaries recognised in net amount through profit or loss:				
– Sadales tīkls AS	–	–	*283,032*	*305,719*
	–	**–**	***283,032***	***305,719***

* Transmission system operator – Augstsprieguma tīkls AS

EUR'000

	Group		Parent Company	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
b) Balances at the end of the year arising from sales/purchases of goods and services:				
Receivables from related parties:				
– subsidiaries (Note 11 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 11 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**

* Transmission system operator – Augstsprieguma tīkls AS and Pirmais Slēgtais Pensiju Fonds AS

	Group 31/12/2019	Group 31/12/2018	Parent Company 31/12/2019	Parent Company 31/12/2018
c) Accrued income raised from transactions with related parties:				
– for goods sold/services provided for subsidiaries (Note 11 a, b)	–	–	1,842	2,859
– for interest received from subsidiaries (Note 11 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:				
– for purchased goods/received services from subsidiaries	–	–	1,335	5,657
– for purchased goods/received services from government related entities*	1,460	–	–	–
	1,460	**–**	**1,335**	**5,657**

* Transmission system operator – Augstsprieguma tīkls AS

In the year ending 31 December 2019 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, including salary, social insurance contributions and payments to pension plan and is amounted to EUR 2,728.0 thousand (2018: EUR 2,621.3 thousand).

In the year ending 31 December 2019 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), including salary, social insurance contributions and payments to pension plan and is amounted to EUR 955.7 thousand (2018: EUR 1,040.9 thousand).

Remuneration to the Latvenergo Group's and the Parent Company's management is included in the Statement of Profit or Loss position 'Personnel expenses'.

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**

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**

17. DISCONTINUED OPERATIONS

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 of discontinued operation and in the Statement of Profit or Loss – profit for the year 2019 and comparative figures for year 2018. 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, 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**

Assets, reserves and liabilities of discontinued operation: EUR'000

	Group	
	31/12/2019	**31/12/2018**
Assets	640,393	–
TOTAL ASSETS	**640,393**	**–**
EQUITY AND LIABILITIES		
Reserves	28,936	–
Liabilities	179,576	–
TOTAL EQUITY AND LIABILITIES	**208,512**	**–**

Net cash flows:

	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)**

18. EVENTS AFTER THE REPORTING YEAR

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”. 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.

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 Unaudited Condensed Annual Financial Statements for the year ending 31 December 2019.