2014 Annual Unaudited Condensed Consolidated Financial Statements

Latvenergo

Latvenergo Group is the most valuable company in Latvia and one of the most valuable companies in the Baltics. The asset value of Latvenergo Group exceeds EUR 3.5 billion.

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** Prepared in accordance with the International Financial Reporting Standards as adopted by the European Union*

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DISCLAIMER

The financial report includes forward-looking statements 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.

Summary

- Electricity price decrease in the Nordic countries does not foster price decrease in Latvia and Lithuania due to cross-border capacity shortage between Estonia and Latvia. In 2014, electricity price in Latvia and Lithuania increased by 2% compared to the respective period last year and was on average 39% higher than in Finland.

- Latvenergo Group has successfully maintained the leading electricity supplier position in the Baltics with 35% market share. Retail electricity supply increased by 9%, most significantly in neighbouring countries, where it supplied almost by a half more. Amount of customers outside Latvia also has increased significantly, reaching approximately 34 thousands at the end of 2014.

- Electricity market for household in Latvia is open since 1 January 2015. Until that, Latvenergo AS ensured electricity supply for households in Latvia according to the regulated tariff, which was lower than the market price. In 2014, lost revenues due to electricity supply at the regulated tariff was EUR 48.2 million.

- In 2014, water inflow in the Daugava River was uncommonly low – the lowest since 1976. As a result, electricity output at Daugava HPPs was 32% lower than the previous year providing an increase in purchased electricity to ensure supply for increasing amount of customers.

- According to the change in support mechanism for CHPPs with installed capacity above 4 MW, Riga CHPPs no longer receive compensation for natural gas and other variable costs. Riga CHPPs receive only capacity payments and the amount of this support has been decreased introducing the Subsidised Energy Tax as of 1 January 2014.

- Since mid-2014, Latvenergo Group supplies all of its generated electricity on Nord Pool Spot exchange, thus multiple times increasing electricity supply in the Latvian bidding area and ensuring greater liquidity.

- Compared to the previous year, in 2014, Latvenergo Group revenue decreased by 8% to EUR 1,010.8 million mainly due to change in mandatory procurement accounting principles as of 1 April 2014. While EBITDA of Latvenergo Group decreased by 3 % to EUR 240.3 million. The results of the Group were negatively impacted by uncommonly low water inflow in the Daugava River as well as by electricity supply at the regulated tariff for households in Latvia.

- In 2014, the total amount of investments was EUR 177.6 million, of which 74% were invested in network assets. In August 2014, the second stage of the Kurzeme Ring project has been completed – 330 kV electricity transmission line connection Grobiņa-Ventspils of the *Kurzeme Ring* project was commissioned. Construction of the final stage of the project has been included in the indicative funding allocation list of the European Commission.

- Enerģijas publiskais tirgotājs AS, a subsidiary of Latvenergo AS established in the beginning of 2014, has taken-over mandatory procurement administration functions from Latvenergo AS as of 1 April 2014.

- Ensuring the required funding for investment programme of following years in a timely manner, financing in the amount of EUR 250 million has been attracted in late 2014.

- In early 2015, the international rating agency Moody's Investors Service has raised Latvenergo AS credit rating to Baa2 with a stable outlook.

Latvenergo Group in Brief

Latvenergo Group is a pan-Baltic power supply utility operating in electricity and thermal energy generation and supply, electricity distribution services and transmission system asset management.

Latvenergo Group comprises the parent company Latvenergo AS and seven subsidiaries. In order to improve the transparency of administration of electricity mandatory procurement process, new subsidiary Enerģijas publiskais tirgotājs AS was established on 25 February 2014. The subsidiary has taken over the mandatory procurement administration functions from Latvenergo AS as of 1 April 2014. All shares of Latvenergo AS are owned by the State and they are held by the Ministry of Economics of the Republic of Latvia.

Latvenergo AS is a shareholder in an associated company – Pirmais Slēgtais Pensiju Fonds AS (46.3%; Latvenergo Group – 48.15%) along with a shareholding in Rīgas siltums AS (0.005%). According to the requirements of Directive 2009/72/EK of the European Parliament and of the Council of 13 July 2009 assets were sold in the end of 2013 and as a result participation in Nordic Energy Link AS (25%) was ended in late 2014.

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

	Country of operations	Type of operation	Participation share
Latvenergo AS	Latvia	Generation and supply of electricity and thermal energy	
Sadales tīkls AS	Latvia	Electricity distribution	100%
Latvijas elektriskie tīkli AS	Latvia	Transmission system asset management	100%
Enerģijas publiskais tirgotājs AS	Latvia	Administration of electricity mandatory procurement process	100%
Elektrum Eesti OÜ	Estonia	Electricity supply	100%
Elektrum Latvija SIA	Latvia	Electricity supply	100%
Elektrum Lietuva UAB	Lithuania	Electricity supply	100%
Liepājas enerģija SIA	Latvia	Thermal energy generation and supply in Liepaja, electricity generation	51%

The generation and supply segment comprises electricity and thermal energy generation operations, conducted by Latvenergo AS and Liepājas enerģija SIA, as well as electricity supply (incl. electricity wholesale) in the Baltics carried out by Latvenergo AS, Elektrum Eesti OÜ and Elektrum Lietuva UAB. Mandatory procurement is administrated by Enerģijas publiskais tirgotājs AS.

The distribution segment provides electricity distribution services in Latvia (approximately 99% of the territory). Services are provided by Sadales tīkls AS – the largest distribution system operator in Latvia (about 840 thousand customers). Distribution tariffs are approved by the Public Utilities Commission (PUC).

The management of transmission system assets segment is managed by Latvijas elektriskie tīkli AS – the company that owns the transmission system assets (330 kV and 110 kV transmission lines, substations and distribution points) and conducts their management and lease to the transmission system operator Augstsprieguma tīkls AS. The payments for the lease of transmission system assets are calculated in accordance with the methodology approved by the PUC.

Latvenergo Group Strategy represents a transparent and rational vision of pan-Baltic development during the opening of the Baltic electricity market and development of new electricity interconnections. Latvenergo Group has set the following strategic objectives to be reached until 2016:

- strengthening of the market position in the Baltics;
- diversification of electricity generation sources;
- balanced development of networks.

Key Performance Indicators

Operational Figures

		2014	2013	2012
Retail electricity supply	GWh	8,688	7,954	8,287
Electricity generation	GWh	3,625	4,854	5,077
Thermal energy supply	GWh	2,441	2,517	2,669
Number of employees		4,563	4,512	4,457
Moody's credit rating		Baa2 (stable)[1]	Baa3 (stable)	Baa3 (stable)

Financial Figures

		2014	2013	2012
Revenue	MEUR	1,010.8	1,099.9	1,063.7
EBITDA 1)	MEUR	240.3	248.7	244.1
Profit	MEUR	29.7	46.1	50.9
Assets	MEUR	3,502.0	3,575.4	3,517.8
Equity	MEUR	2,020.8	2,021.7	2,007.0
Net debt 2)	MEUR	706.2	689.3	604.5
Investments	MEUR	177.6	224.9	264.3

Financial Ratios

	2014	2013	2012
Net debt / EBITDA 3)	2.9	2.8	2.5
EBITDA margin 4)	24%	23%	23%
Capital ratio 5)	58%	57%	57%

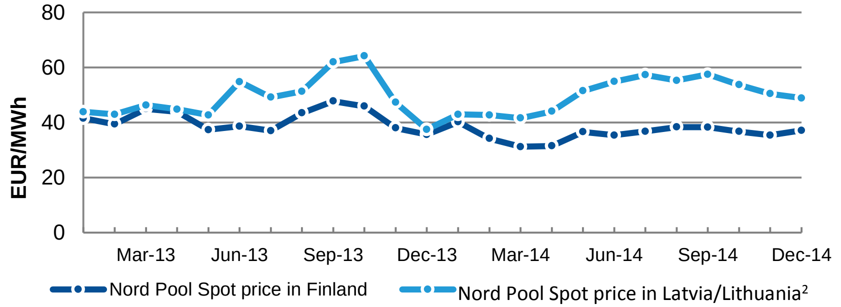
1) EBITDA: earnings before interest, corporate income tax, share of profit or loss of associates, depreciation and amortisation, and impairment of intangible and fixed assets
2) Net debt: borrowings at the end of the period minus cash and cash equivalents at the end of the period
3) Net debt / EBITDA: net debt to EBITDA ratio
4) EBITDA margin: EBITDA / revenue
5) Capital ratio: total equity / total assets

[1] Credit rating upgraded on 16 February 2015

Operating Environment

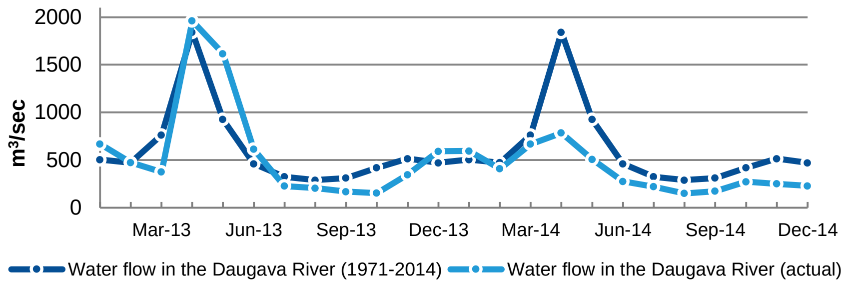
Due to cross-border transmission capacity constraints, decrease of Nord Pool Spot prices in the Nordic countries does not foster price decrease in Latvia

In 2014, the decline of electricity price in the Nordics and Estonia compared to the previous year was mainly determined by lower electricity consumption in the Nordics due to warmer weather conditions, higher water level in Nordic hydropower reservoirs and a decline in the global market coal price. In 2014, the average electricity spot price in Nord Pool Spot Finland and Estonia bidding areas was 13 % lower than in 2013 reaching 36.0 EUR/MWh and 37.6 EUR/MWh respectively. However, in the Latvia/Lithuania bidding are[2] the electricity price compared to the previous year increased by 2 % to 50.1 EUR/MWh.



The price difference between the bidding areas of Estonia and Finland decreased due to launch of power transmission interconnection *EstLink-2* in the beginning of 2014 thus the power of transmission interconnection capacity between these two countries increased substantially. While in the bidding area of Latvia/Lithuania the interconnection capacity shortage between power systems still determines higher price compared to the Nordic countries, because from the energy balance position Latvia and Lithuania are deficit region countries. Therefore, in the 2014, the average electricity price in the Latvia/Lithuania bidding area was 33% or 12.5 EUR/MWh higher than in the Estonia bidding area. Compared to 2013, electricity price increase in the

[2] Nord Pool Spot Latvia bidding area was opened on 3 June 2013. In 2014, electricity prices in the Latvia and Lithuania bidding areas were equal 99.9% hours



Latvia/Lithuania bidding area was substantially influenced by lower water inflow in the Daugava River and respectively lower electricity generation in the Daugava HPPs. The water inflow in the Daugava River was the lowest since 1976.

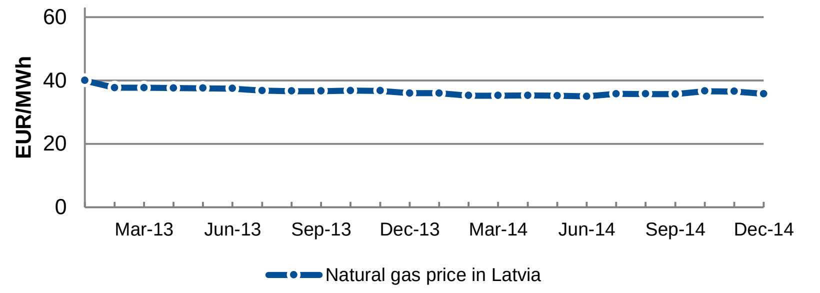
An opportunity to import higher volume of cheap electricity price from the Nordic countries due to commissioning of *EstLink-2*, lower water inflow in the Daugava River and warmer weather conditions determined the decline in the generation of electricity in the Baltics. In 2014, the generated electricity in the Baltics reached 18,602 GWh which is 12 % less than in 2013. While the import volume of electricity from the Nordic countries considerably increased in 2014 – it was 2.3 times higher than in 2013 amounting to 3,492 GWh.

Since mid-2014, Latvenergo Group supplies all of its generated electricity on Nord Pool Spot exchange, thus multiple times increasing electricity supply in the Latvian bidding area and ensuring greater liquidity.

Operating Environment

Still high natural gas price in Latvia – gradually start to decline

The natural gas price in Latvia is linked to the crude oil product price (to the 9-month average heavy fuel oil and diesel quotations index). Due to its change, in 2014, the average natural gas price (incl. the excise tax) in Latvia for the user group with consumption above 100,000 thousand nm^3 was 35.7 EUR/MWh, which is 4% lower than in the respective period last year (37.3 EUR/MWh). The average price of *Brent* oil in the last quarter of 2014 has decreased by 30% compared to the fourth quarter of 2013; therefore, the price of natural gas is expected to decrease in the following months. Overall the average price of Brent oil in 2014 compared to last year has decreased by 9 % amounting to 99.0 USD/bbl (in 2013: 108.6 Usd/bbl).



Economic growth in the Baltics decelerates

During 2014, the overall economic growth in the Baltics was mainly driven by increase in household consumption expenditure. However, the economic growth was slower than in the previous year. According to the European Commission forecasts, in 2014, the GDP growth rate in Latvia was 1.9 % (2013: 4.2%), in Lithuania – 3.0% (3.3%) and in Estonia 1.9% (1.6%). Slowdown of GDP growth rates in the Baltics was mainly determined by slower than expected growth in the EU and weakening economic situation in Russia. Moreover, economic growth was adversely affected by uncertainty in relation to geopolitical developments and the respective impact on the economy from the economic sanctions.

According to the *Eurostat*, in December 2014, the average annual inflation rate in Latvia was 0.3 %, in Estonia – 0.1 %, while in Lithuania – deflation of 0.1 %, which was fostered by reduction in price of raw materials.

On 1 January 2014, Latvia joined the European Economic and Monetary Union (EMU). Estonia joined the EMU on 1 January 2011 and Lithuania - 1 January 2015.

This year the economic growth in the Baltics was recognised also by credit rating agencies, including *Moody's*. In 2014, the agency raised the outlook of credit rating Baa1 for Lithuania from stable to positive and upgraded the credit rating of Latvia to Baa1. However, already in 13 February 2015, the credit rating of Latvia was raised to A3 with a stable outlook. The credit rating of Estonia remained unchanged – A1 with a stable outlook.

Operating Environment

Starting from 1 January 2015 the electricity market is open for household in Latvia

According to Electricity Market Law, the electricity market in Latvia is open since 1 January 2015. Until that Latvenergo AS provided electricity to households according to the regulated tariff, which was lower than the market price. In 2014, lost revenues due to electricity supply at the regulated tariff were EUR 48.2 million (2013: 44.8 million).

Likewise, according to the Electricity Market Law, in 2015, Latvenergo AS has to supply electricity to protected users (poor or low-income persons, large families), compensating them electricity price increase due to the market opening. In 2015, costs of electricity supply to protected users are estimated at EUR 10 million.

The variable electricity generation costs are not compensated for Riga CHPP

Since 16 August 2013, the support scheme for electricity generation in cogeneration plants with installed capacity above 4 MW has been changed. The compensation for natural gas and other variable electricity generation costs above the market price has been removed, while fixed capacity payments are retained at adjusted amount.

Operating modes of Riga CHPPs are adjusted in such way to avoid an adverse impact on Latvenergo Group results due to change in the support mechanism.

In order to limit the increase of the mandatory procurement public service obligation fee for electricity consumers in Latvia, a Subsidised Energy Tax (SET) has been introduced for a four-year period as of 1 January 2014, which applies to state support for generators of subsidised electricity. The SET applies both to income from electricity supplied under the mandatory procurement process as well as to mandatory procurement capacity payments for installed capacity at cogeneration plants. The tax is differentiated according to the type of energy sources used. For gas-fired cogeneration plants, a 15% applies to the received support amount. In 2014, Latvenergo AS has paid SET amounting to EUR 15.0 million (Latvenergo group – EUR 15.3 million).

The integration of the Baltics in the common electricity market

The electricity market in Baltic States is gradually opening and aligning to the Nordic electricity market, which includes the establishment of Nord Pool bidding areas in the Baltics and the construction of power transmission interconnections. In 2014, the interconnection between Estonia and Finland *EstLink-2* was constructed and the interconnection between Lithuania and Sweden is scheduled for completion in 2016, resulting in the determination of electricity price in Latvia/Lithuania by demand and supply in the Nordic countries. However, in order to ensure efficient operation of the abovementioned interconnections, development of the inner Baltic electricity infrastructure is needed, ensuring higher transmission capacity in the Baltics' transmission network. In order to strengthen the reliability of electricity transmission network in Kurzeme region, the project *Kurzemes loks* has been implemented.

A crucial project of the future electricity transmission infrastructure for the whole Baltics is the new electricity transmission interconnection between Estonia and Latvia. The construction of the new 330 kV interconnection is planned until the end of 2020 and the total cost of it is estimated at approximately EUR 100 million. The environmental impact assessment of the interconnection project is carried out and the project is included in the European Commission indicative funding allocation list of infrastructure projects assigning co-funding of 65 %.

Financial Results

In 2014, Latvenergo Group revenue decreased by 8% compared to the previous year and comprised EUR 1,010.8 million. Revenue declined mainly due to change in accounting principles as of 1 April 2014, because mandatory procurement PSO fee revenues are no longer included in revenue of the Group.

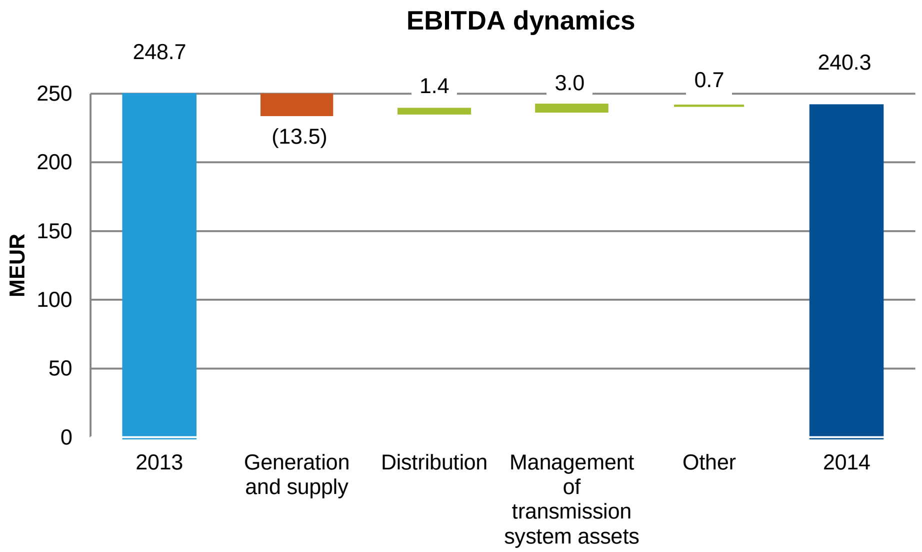
Latvenergo Group EBITDA decreased by 3 % to EUR 240.3 million, while Latvenergo Group profit was EUR 29.7 million in 2014.

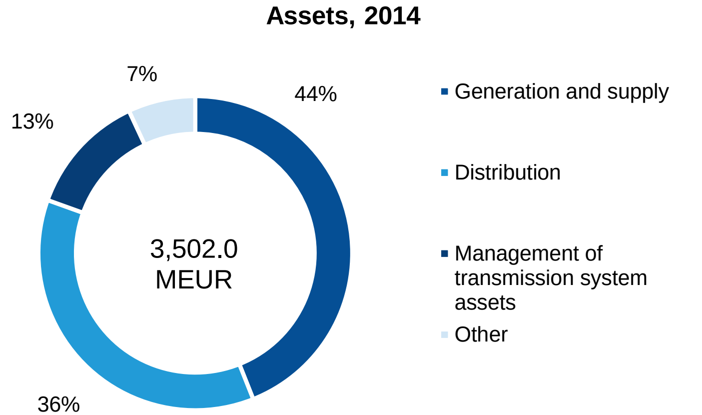
The results of the Group were negatively impacted by 32% lower output at Daugava HPPs due to uncommonly low water inflow in the Daugava River. In 2014, the water inflow in the Daugava River was the lowest since 1976.

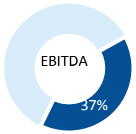
Financial figures		2014	2013	Δ	Δ, %
Revenue	MEUR	1,010.8	1,099.9	(89.1)	(8%)
EBITDA	MEUR	240.3	248.7	(8.4)	(3%)
Profit	MEUR	29.7	46.1	(16.4)	(36%)
Assets	MEUR	3,502.0	3,575.4	(73.4)	(2%)

Likewise, results of the Group were negatively affected by lost revenues due to electricity supply at the regulated tariff in Latvia estimated at EUR 48.2 million in 2014 (2013: EUR 44.8 million).

In 2014, EBITDA margin was 24 % (2013: 23 %).







Generation and Supply

Revenue
62%

EBITDA
37%

Assets
44%

Employees
22%

Segment weight in Latvenergo Group

The generation and supply is the largest operating segment of Latvenergo Group both by revenue and by assets. The major part or 86% of the segment revenue consists of revenues from electricity and related services, while 16% – from thermal energy supply.

> Latvenergo Group – the largest electricity supplier in the Baltics

Operational figures		2014	2013	Δ	Δ, %
Electricity supply	GWh	8,688	7,954	753	9%
Electricity generation	GWh	3,625	4,854	(1,229)	(25%)
Thermal energy generation	GWh	2,492	2,566	(75)	(3%)

Financial figures		2014	2013	Δ	Δ, %
Revenue	MEUR	677.5	773.7	(96.2)	(12%)
EBITDA	MEUR	90.0	103.5	(13.5)	(13%)
Assets	MEUR	1,540.3	1,497.1	43.3	3%
Investments	MEUR	33.5	53.4	(19.9)	(37%)

The results of generation and supply segment were impacted by the abovementioned factors that have impacted results of Latvenergo Group.

In 2014, investments have decreased due to completion of Riga 2nd combined heat and power plant (Riga TEC-2) second power unit reconstruction project in late 2013.

Supply

In 2014, Latvenergo Group has successfully maintained the leading electricity supplier position in the Baltics. Latvenergo Group has 35% market share in the Baltic electricity retail market which consumes a total of nearly 24.6 TWh. Despite a decline in the Baltic electricity consumption by approximately 1% due to warmer weather conditions, we have supplied 8,688 GWh of electricity to retail customers in the Baltics, which is 9% more than the previous year.

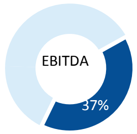
Most significantly electricity supply increased outside Latvia – in Lithuania and Estonia, where it was increased almost by a half compared to the previous year. Also, the number of customers in neighbouring countries has increased by more than one-fifth reaching approximately 34 thousands at the end of 2014.

> More than 1/3 of retail electricity supply in Lithuania and Estonia

The total electricity supply volume in Lithuania and Estonia reached 3,053 GWh, which is almost twice as much as the amount provided by competing electricity suppliers in Latvia.

Latvenergo Group electricity supply volume in Latvia was 5,635 GWh (market share – 80 %); in Lithuania – 1,739 GWh (18 %) and in Estonia – 1,314 GWh (17 %).

80% of Latvenergo Group retail electricity was supplied on the open electricity market in the Baltics, while 20% – at the regulated tariff in Latvia.



Generation and Supply

Operational figures		2014	2013	Δ	Δ, %
Retail electricity supply	GWh	8,688	7,954	735	9%
Electricity generation	GWh	3,625	4,854	(1,229)	(25%)
Daugava HPPs	GWh	1,925	2,852	(926)	(32%)
Riga CHPPs	GWh	1,648	1,957	(309)	(16%)
Small plants	GWh	52	46	6	13%
Thermal energy generation	GWh	2,492	2,566	(75)	(3%)
Riga CHPPs	GWh	2,236	2,305	(69)	(3%)
Liepaja plants and small plants	GWh	256	262	(6)	(2%)

Generation

In 2014, the total amount generated by the power plants of Latvenergo Group comprised 3,625 GWh of electricity and 2,492 GWh of thermal energy.

Electricity generation decreased by 25 % compared to 2013.

Electricity output at Daugava HPPs has decreased by 926 GWh or 32% compared to the previous year. The decrease of electricity generation was mainly determined by uncommonly low water inflow in the Daugava River – the lowest since 1976.

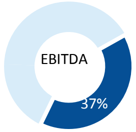
While electricity generation at Riga combined heat and power plants (Riga CHPPs) decreased 309 GWh or 16 % compared to the previous year. Reduction of electricity output at Riga CHPPs was mainly determined by change in support mechanism for large cogeneration plants, not providing compensation for natural gas and other electricity generation variable costs, thus Riga CHPPs operated in market conjuncture effectively planning operating modes and fuel consumption.

In 2014, the amount of thermal energy generation decreased by 3 % due to warmer weather conditions during the heating season.

Riga CHPPs is a guarantee of base load capacity in Latvia ensuring opportunity to stabilise electricity price in the region and limiting risk of electricity price increase.

Along with completion of Riga TEC-2 reconstruction in 2013, the installed electrical capacity at Riga CHPPs increased by 199 MW or 26%. The amount of received support has been decreased by introduction of Subsidised Energy Tax as of 1 January 2014. Although capacity payments received by Latvenergo AS have increased by EUR 7.4 million along with increase of installed capacity, in 2014, the received capacity payments per unit of installed capacity have decreased by approximately one-tenth compared to 2013.

In 2014, the weight of Latvenergo AS power plants in the eligible costs of mandatory procurement, excluding SET costs, was 39 %.



Generation and Supply

Mandatory Procurement

As of 1 April 2014, according to the Electricity Market Law, the public trader functions are performed by Enerģijas publiskais tirgotājs AS (until 1 April 2014 – by Latvenergo AS). Public trader functions comprise obligation to purchase electricity from generators, who have a granted right to supply the generated electricity for the mandatory procurement under electricity purchase tariffs set by legislation, and to pay guaranteed fee for electrical capacity installed at cogeneration power plants.

> Mandatory procurement does not affect the results of Latvenergo Group

		2014	2013	Δ	Δ, %
Mandatory procurement PSO fee income (net)[4]	MEUR	182.5	164.9	17.6	11%
State grant	MEUR	29.3	0.0	29.3	–
Mandatory procurement expenditures[3]:	MEUR	(245.7)	(209.9)	(35.8)	(17%)
Cogeneration after SET	MEUR	(136.7)	(135.9)	(0.8)	(1%)
Renewable energy resources SET	MEUR	(78.8)	(74.0)	(4.8)	(6%)
SET	MEUR	(30.3)	0.0	(30.3)	–
Change in liabilities of accrued compensable mandatory procurement PSO fee	MEUR	(29.1)	45.0	(74.1)	(165%)
Unsettled revenue on mandatory procurement PSO fee recognised as assets	**MEUR**	**63.1**	**0.0**	**63.1**	**–**

Mandatory procurement expenditures[3] are covered through a mandatory procurement public service obligation fee (PSO) charged to the end users in Latvia. The mandatory procurement public service obligation fee is determined on the basis of the actual costs in the preceding year and approved by the Public Utilities Commission (PUC). Changes enter into force on 1 April of the following year. As of 1 April 2014, the mandatory procurement PSO fee is 26.8 EUR/MWh (as of 1 April 2013: 26.9 EUR/MWh), mandatory procurement PSO fee income[4] is EUR 182.5 million respectively.

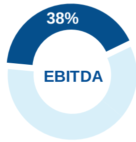
To limit the increase of mandatory procurement PSO fee, in 2014, a grant of EUR 29.3 million has been received under the State Budget programme "Electricity user support". Revenues from Subsidised Energy Tax (SET), which was introduced on 1 April 2014, are used as a funding for the abovementioned State Budget programme.

In 2014, mandatory procurement expenditures was EUR 245.7 million, of which EUR 30,3 million comprised SET payments from generators, thus the total support after SET received by generators under the mandatory procurement was EUR 215.4 million, which is by EUR 5.5 million more than in 2013.

Considering the fact that the amount of mandatory procurement PSO fee is determined on the basis of actual costs in the preceding year, the Electricity Market Law obliges Enerģijas publiskais tirgotājs AS to compensate the difference between mandatory procurement costs above the market price and mandatory procurement income received for the period from 1 January 2013 to 1 April 2014 to the former public trader (Latvenergo AS). Along with entrance into operation of Enerģijas publiskais tirgotājs AS, the accounting principles have been changed recognising lost mandatory procurement revenues in the assets (under receivables). In 2014, the lost revenues comprised EUR 63.1 million. Change in accounting ensures that mandatory procurement does not affect Latvenergo Group profit, while it has a diminishing impact on Latvenergo Group revenue compared to 2013.

[3] Mandatory procurement expenditures – costs of electricity purchased within the mandatory procurement and guaranteed fee for electrical capacity installed at power plants minus revenues from sale of purchased electricity on the Nord Pool Spot exchange

[4] Mandatory procurement PSO fee income – PSO fee income subtracting mandatory procurement administrative costs



Distribution

Revenue
27%
EBITDA
38%
Assets
37%
Employees
56%
Segment weight in Latvenergo Group

The distribution segment is the second largest segment of Latvenergo Group by revenue. In 2014, the revenue and EBITDA of the segment have increased by 2% compared to 2013 and reached EUR 297.4 million and EUR 92.4 million respectively.

Investments in distribution assets reached EUR 100 million

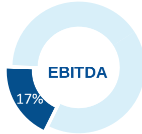
Results of the segment were positively impacted by 2% higher revenues from distribution services as well as by 15 GWh lower distribution losses.

In 2014, the amount of cleared electricity rights-of-way, poles replaced and wires adjusted was significantly increased.

Operational figures		2014	2013	Δ	Δ, %
Electricity distributed	GWh	6,421	6,447	(26)	0%
Distribution losses	GWh	346	361	(15)	(4%)
Financial figures		**2014**	**2013**	**Δ**	**Δ, %**
Revenue	MEUR	297.4	292.5	4.9	2%
EBITDA	MEUR	92.4	91.0	1.4	2%
Assets	MEUR	1,278.4	1,252.0	26.4	2%
Investments	MEUR	99.8	88.6	11.2	13%

Investments in distribution assets were increased by 13% and comprised EUR 100 million in 2014.

Large-scale investments in modernisation of the network are scheduled also during the following years thus ensuring high quality of network services and improved technical parameters.



Management of Transmission System Assets

Segment weight in Latvenergo Group

Revenue **6%**

EBITDA **17%**

Assets **13%**

Employees **10%**

Transmission segment revenue growth facilitates improvement of profitability ratios

Financial figures		2014	2013	Δ	Δ, %
Revenue	MEUR	60.7	58.3	2.4	4%
EBITDA	MEUR	40.7	37.7	3.0	8%
Total assets	MEUR	440.0	431.2	8.8	2%
Investments	MEUR	31.8	68.9	(37.1)	(54%)

Revenue of the transmission system asset management segment represents 6% of Latvenergo Group revenue. In 2014, revenue of the segment increased by 4% reaching EUR 60.7 million, while EBITDA increased by 8% reaching EUR 40.7 million.

The increase in revenue and EBITDA was determined by a gradual inclusion of the value of regulatory asset revaluation reserve into the lease.

Due to investments, in 2014, the value of transmission system assets has increased by 2% compared to 2013 reaching EUR 440.0 million.

In 2014, the return on transmission system assets[5] was 3.8% (2013: 3.4%). It is expected that profitability ratios will continue to improve.

As of 1 January 2015, the transmission system operator Augstsprieguma tīkls AS took over transmission system asset construction and maintenance functions from Latvijas elektriskie tīkli AS that implies transfer of 430 employees to Augstsprieguma tīkls AS. Though Latvijas elektriskie tīkli AS will continue to conduct transmission system asset management functions – financing and lease of the transmission system assets to Augstsprieguma tīkls AS.

Due to restructuring, the number of employees at Latvijas elektriskie tīkli AS decreased to 13 in the beginning of 2015. Also, the governance of the company has been restructured – the Management Board of Latvijas elektriskie tīkli AS further on will comprise one member (at the end of 2014: 5 members). These changes have no adverse impact on financial profits of the segment nor Latvenergo Group.

[5] Return on segment assets – operating profit of the segment / average segment assets ((assets at the beginning of the year + assets at the end of the year) /2)

Investments

In 2014, the total amount of investments was EUR 177.6 million, which is 21% lower than the previous year. Decrease of investments was mainly due to completion of the Riga TEC-2 second power unit reconstruction project in late 2013 and lower investments in the final stage of project *Kurzeme Ring* transmission line second stage construction.

> Second stage of Kurzeme Ring project is completed

We have invested a significant amount in modernisation of the network to improve the quality of network services, technical parameters and safety. In 2014, the amount invested in the network represents 74% of the total investments. Likewise, we continuously invest in environmentally friendly and environmental development projects – in 2014, almost EUR 10 million were invested in Daugava HPPs hydropower unit reconstruction.

Investment projects:

<u>NORDBALT-02-330kV Kurzeme Ring</u>

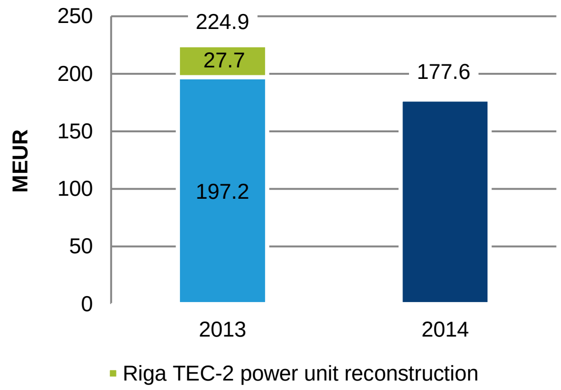
In August 2014, 330 kV electricity transmission line connection *Grobiņa-Ventspils* of the *Kurzeme Ring* project was commissioned thus completing the second stage of the *Kurzeme Ring* project. As a result of the project implementation safety in Kurzeme region and in Latvia as whole has significantly increased enabling future opportunity to use the Lithuania-Sweden marine cable NordBalt and access to the Nordic electricity market. The *Kurzeme Ring* project is scheduled for completion in 2019 and its total construction costs are estimated at approximately EUR 220 million, including EUR 95 million for implementation of the first and second stage of the project. Approximately half of the project construction costs are covered through funding provided by the European Commission under the European Energy Programme for Recovery in transport and energy network field. Environmental impact assessment has been performed for the final stage of the project *Ventpils-Tume-Rīga* and it has been included in the indicative funding allocation list of the European Commission assigning 45% co-funding.

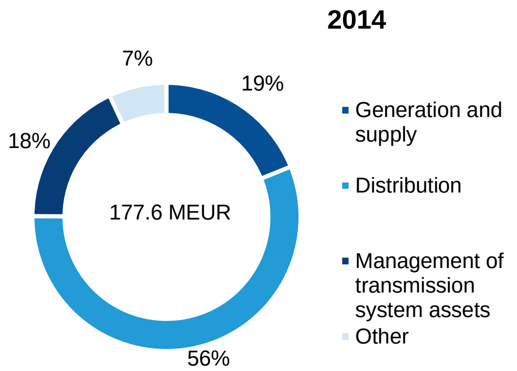
In 2014, EUR 11.4 million were invested in construction of the *Kurzeme Ring*.

<u>Daugava HPPs hydropower unit reconstruction programme</u>

Taking care for the environmentally safe business practices and effective use of water resources, Latvenergo Group pursues gradual reconstruction of 11 unreconstructed Daugava HPPs hydropower units. The programme is scheduled for completion until 2022, with the estimated total reconstruction costs exceeding EUR 200 million. The reconstruction programme is in its initial stage – the completed workload within the contract reached approximately EUR 20 million as at 31 December 2014. In late 2013, within the framework of reconstruction, a contract for replacement of two Plavinas HPP hydropower units and in the beginning of 2014 – for reconstruction of three hydropower units at Kegums hydropower plant. The reconstruction will provide for further 40-year operation of hydropower units.

In 2014, investments in Daugava HPPs hydropower unit reconstruction programme comprise EUR 9.9 million.

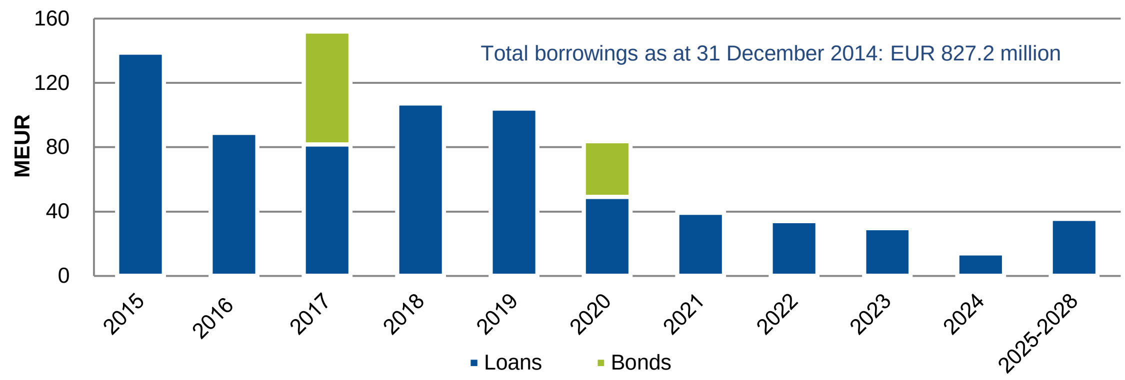




Funding and Liquidity

Latvenergo Group regularly sources borrowed capital to ensure the required funding for investment programme of following years. Timely attracted funding is also crucial in order to ensure loan refinancing risk management and debt repayment in due term. In late 2014, two activities were completed within the borrowed capital sourcing plan: procurement of bank loans was finalised in November attracting borrowed funds in the amount of EUR 150 million with maturity of 5 and 7 years and, in December 2014, a loan agreement for EUR 100 million was concluded with European Investment Bank.

Latvenergo Group debt repayment schedule



Funding of 250 million has been raised

As at 31 December 2014, the Group borrowings decreased to EUR 827.2 million (31 December 2013: EUR 944.7 million) due to debt repayment in the amount of EUR 139.7 million. We have diversified the borrowing sources by issuing bonds during the preceding years – the total amount of bonds issued reaches EUR 105 million.

All borrowings are denominated in the Euro currency. In 2014, the weighted average repayment period has remained at the level of 2013 – 4.4 years. Nearly all borrowings from financial institutions have a variable interest rate, comprising 3 to 6 month EURIBOR and margin rate. Taking into account the effect of interest rate swaps, as at 31 December 2014, 42% of the borrowings have a fixed interest rate with an average period of 2.2 years. In 2014, the effective weighted average interest rate (with interest rate swaps) has remained at the previous year level – 2.5%, ensuring sufficient debt service ratios (interest coverage ratio[6] – 10.7).

The net borrowings of Latvenergo Group have increased due to investments in the reconstruction of network assets and reached EUR 706.2 million (2013: EUR 689.3 million) as at 31 December 2014, while the net debt/EBITDA ratio was 2.9 (2013: 2.8).

Latvenergo Group maintains sufficient liquidity reserves and good liquidity ratios in order to implement the investment programme and fulfil its commitments according to the debt repayment schedule. As at 31 December 2014, the liquid assets (cash and short term deposits up to 3 months) of Latvenergo Group reached EUR 121.0 million (31 December 2013: EUR 255.4 million), while the current ratio[7] was 1.2 (2013: 1.6). In 2014, all the binding financial covenants set in Latvenergo Group loan agreements have been met.

In early 2015, the international rating agency Moody's Investors Service has raised Latvenergo AS credit rating to Baa2 with a stable outlook.

[6] Interest coverage ratio: (net cash flow from operating activities – changes in working capital + interest expense) / interest expense

[7] Current ratio: current assets / current liabilities

Statement of Management Responsibility

Based on the information available to the Management Board of Latvenergo AS, the *Latvenergo 2014 Annual Unaudited Condensed Consolidated Financial Statements*, including the Management Report, have been prepared in accordance with the International Financial Reporting Standards as adopted by the European Union and in all material aspects give a true and fair view of the assets, liabilities, financial position and profit or loss of Latvenergo Group.

The Latvenergo *2014 Annual Unaudited Condensed Consolidated Financial Statements* are approved by the Management Board of Latvenergo AS on 26 February 2014.

THE MANAGEMENT BOARD OF LATVENERGO AS:

Āris Žīgurs
Chairman of the Board

Zane Kotāne
Member of the Board

Uldis Bariss
Member of the Board

Māris Kuņickis
Member of the Board

Arnis Kurgs
Member of the Board

Unaudited Condensed Consolidated Financial Statements

Consolidated Income Statement

	Notes	2014	2013
		EUR'000	EUR'000
Revenue	5	1,010,757	1,099,893
Other income		5,273	4,050
Raw materials and consumables used	6	(617,891)	(701,453)
Personnel expenses		(97,983)	(95,074)
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment		(190,989)	(187,603)
Other operating expenses		(59,906)	(58,722)
Operating profit		**49,261**	**61,091**
Finance income		3,004	4,529
Finance costs		(20,380)	(17,840)
Share of profit / (loss) of associates		(357)	1,061
Profit before tax		**31,528**	**48,841**
Income tax	7	(1,782)	(2,692)
Profit for the year		**29,746**	**46,149**

Consolidated Statement of Comprehensive Income

	2014	2013
	EUR'000	EUR'000
Profit for the year	**29,746**	**46,149**
Other comprehensive (loss) / income to be reclassified to profit or loss in subsequent periods:		
- (loss) / income from change in hedge reserve	(6,495)	8,844
- (loss) / income on currency translation differences	(15)	14
Net other comprehensive (loss) / income to be reclassified to profit or loss in subsequent periods	**(6,510)**	**8,858**
Other comprehensive income / (loss) not to be reclassified to profit or loss in subsequent periods:		
- gains on revaluation of property, plant and equipment	14	97
- income / (loss) as a result of re-measurement on defined post-employment benefit plan	159	(307)
Net other comprehensive income / (loss) not to be reclassified to profit or loss in subsequent periods	**173**	**(210)**
TOTAL other comprehensive (loss) / income for the year	**(6,337)**	**8,648**
TOTAL comprehensive income for the year	**23,409**	**54,797**

Consolidated Statement of Financial Position

	Notes	31/12/2014	31/12/2013
		EUR'000	EUR'000
ASSETS			
Non–current assets			
Intangible assets and property, plant and equipment	8	3,079,327	3,097,905
Investment property		1,343	1,473
Investments in associates and other financial investments		41	41
Investments in held–to–maturity financial assets		28,528	28,588
Other non–current receivables		14	57
TOTAL non–current assets		**3,109,253**	**3,128,064**
Current assets			
Inventories	9	22,560	21,634
Trade receivables and other current receivables	10	249,155	161,560
Current financial investments		–	8,060
Derivative financial instruments		–	617
Cash and cash equivalents	11	121,011	255,423
TOTAL current assets		**392,727**	**447,294**
TOTAL ASSETS		**3,501,979**	**3,575,358**
EQUITY			
Share capital		1,288,446	1,288,011
Reserves		645,829	652,418
Retained earnings		79,950	74,832
Equity attributable to equity holders of the Parent Company		**2,014,225**	**2,015,261**
Non–controlling interests		6,531	6,453
TOTAL equity		**2,020,756**	**2,021,714**
LIABILITIES			
Non–current liabilities			
Borrowings	12	688,296	805,192
Deferred income tax liabilities		267,938	269,116
Provisions		15,588	15,597
Derivative financial instruments		11,698	6,238
Other liabilities and deferred income		177,073	170,152
TOTAL non–current liabilities		**1,160,593**	**1,266,295**
Current liabilities			
Trade and other payables		172,850	130,670
Borrowings	12	138,925	139,483
Derivative financial instruments		8,855	17,196
TOTAL current liabilities		**320,630**	**287,349**
TOTAL liabilities		**1,481,223**	**1,553,644**
TOTAL EQUITY AND LIABILITIES		**3,501,979**	**3,575,358**

Consolidated Statement of Changes in Equity

	Attributable to equity holders of the Parent Company				Non–controlling interests	TOTAL
	Share capital	Reserves	Retained earnings	Total		
	EUR'000	EUR'000	EUR'000	**EUR'000**	EUR'000	**EUR'000**
As at 31 December 2012	**1,287,137**	**644,113**	**70,803**	**2,002,053**	**4,922**	**2,006,975**
Increase in share capital	874	–	–	**874**	–	**874**
Dividends for 2012	–	–	(40,619)	**(40,619)**	(313)	**(40,932)**
TOTAL contributions by and distributions to equity holders of the Parent Company, recognised directly in equity	**874**	**–**	**(40,619)**	**(39,745)**	**(313)**	**(40,058)**
Profit for the year	–	–	44,305	**44,305**	1,844	**46,149**
Other comprehensive income	–	8,305	343	**8,648**	–	**8,648**
TOTAL comprehensive income	**–**	**8,305**	**44,648**	**52,953**	**1,844**	**54,797**
As at 31 December 2013	**1,288,011**	**652,418**	**74,832**	**2,015,261**	**6,453**	**2,021,714**
As at 31 December 2013	**1,288,011**	**652,418**	**74,832**	**2,015,261**	**6,453**	**2,021,714**
Increase in share capital	435	–	–	**435**	–	**435**
Dividends for 2013	**–**	–	(23,605)	**(23,605)**	(1,197)	**(24,802)**
TOTAL contributions by and distributions to equity holders of the Parent Company, recognised directly in equity	**435**	**–**	**(23,605)**	**(23,170)**	**(1,197)**	**(24,367)**
Profit for the year	–	–	28,471	**28,471**	1,275	**29,746**
Other comprehensive (loss) / income	–	(6,589)	252	**(6,337)**	–	**(6,337)**
TOTAL comprehensive (loss) / income	**–**	**(6,589)**	**28,723**	**22,134**	**1,275**	**23,409**
As at 31 December 2014	**1,288,446**	**645,829**	**79,950**	**2,014,225**	**6,531**	**2,020,756**

Consolidated Statement of Cash Flows

	Notes	2014	2013
		EUR'000	EUR'000
Cash flows from operating activities			
Profit before tax		31,528	48,841
Adjustments:			
- Amortisation, depreciation and impairment of non–current assets		193,459	190,671
- Net financial adjustments		9,503	20,530
- Other adjustments		199	217
Operating profit before working capital adjustments		**234,689**	**260,259**
Increase in current assets		(127,432)	(9,164)
Increase / (decrease) in trade and other payables		52,284	(64,800)
Cash generated from operating activities		**159,541**	**186,295**
Interest paid		(20,915)	(24,350)
Interest received		2,482	2,361
Income tax paid		(5,779)	(17,766)
Net cash flows from operating activities		**135,329**	**146,540**
Cash flows from investing activities			
Purchase of intangible assets and property, plant and equipment		(177,988)	(209,812)
Proceeds from sales of investments		5,779	–
Proceeds on financing from EU funds and other financing		2,161	10,138
Proceeds from redemption of held–to–maturity assets		60	60
Net cash flows used in investing activities		**(169,988)**	**(199,614)**
Cash flows from financing activities			
Proceeds from issued debt securities (bonds)	12	–	84,835
Proceeds from borrowings from financial institutions	12	22,600	117,300
Repayment of borrowings	12	(139,695)	(105,174)
Dividends paid to non–controlling interests		(1,197)	(313)
Dividends paid*		(12,649)	(30,644)
Dividends received from associates	13	1,924	–
Received government grant for mandatory procurement public service obligation costs compensation		29,264	–
Net cash flows used in financing activities		**(99,753)**	**66,004**
Net decrease in cash and cash equivalents		**(134,412)**	**12,930**
Cash and cash equivalents at the beginning of the year	11	255,423	242,493
Cash and cash equivalents at the end of the year	**11**	**121,011**	**255,423**

* – dividends for 2013 in the amount of EUR 23,605 thousand are settled partly by corporate income tax overpayment in the amount of EUR 10,956 thousand (dividends for 2012 – EUR 40,619 thousand are settled partly by corporate income tax overpayment in the amount of EUR 9,975 thousand).

Notes to the Unaudited Condensed Consolidated Financial Statements

1. Corporate information

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

Public limited company Latvenergo is power supply entity engaged in electricity and thermal energy generation, as well as supply of electricity. Latvenergo AS is one of the largest corporate entities in the Baltics.

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

- Sadales tīkls AS (since 18. 09. 2006) with 100% interest held;
- Elektrum Eesti OÜ (since 27. 06. 2007) and its subsidiary Elektrum Latvija SIA (since 18. 09. 2012) with 100% interest held;
- Elektrum Lietuva UAB (since 07. 01. 2008) with 100% interest held;
- Latvijas elektriskie tīkli AS (since 10. 02. 2011) with 100 % interest held;
- Enerģijas publiskais tirgotājs AS (since 25. 02. 2014) with 100 % interest held;
- Liepājas enerģija SIA (since 06. 07. 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 associated company Pirmais Slēgtais Pensiju Fonds AS that manages a defined-contribution corporate pension plan in Latvia.

On 26th September 2013 Shareholder's Meeting of Latvenergo AS decided to terminate Latvenergo AS participation in Nordic Energy Link AS. According to the Directive 2009/72/EC of the European Parliament and of the Council of 13th July 2009 concerning common rules for the internal market in electricity and repealing Directive 2003/54/EC, Latvenergo AS, as electricity generator and supplier, needs to perform activities so that after 31st December 2013 it would not be owner of the electricity transmission infrastructure. On 12th February 2014 the Cabinet of Ministers of the Republic of Latvia adopted decision No. 67 „On Latvenergo AS termination of partnership in Nordic Energy Link AS" and on 19th March 2014 at the Nordic Energy Link AS Shareholders' meeting was approved decision to liquidate Nordic Energy Link AS. In December 2014, Latvenergo AS terminated its partnership as a shareholder of Nordic Energy Link AS with 25 % interest held.

Latvenergo Consolidated Annual Report 2013 has been approved on 12th May 2014 by the Latvenergo AS Shareholders' meeting (see on Latvenergo AS web page section "Investors" – http://www.latvenergo.lv/eng/investors/reports/).

The Unaudited Condensed Consolidated Financial Statements for year 2014 include the financial information in respect of the Parent Company and its all subsidiaries for year ending 31st December 2014 and comparative information for year ending 31st December 2013.

The Unaudited Condensed Consolidated Financial Statements for year 2014 were authorised by the Latvenergo AS Management Board on 26th February 2015.

2. Summary of most significant accounting policies

These Unaudited Condensed Consolidated Financial Statements had been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted for use in the European Union and accounting policies or principles applied to these financial statements were identical to those used in the Latvenergo Group Consolidated Financial Statements for the 2013 financial year. These policies have been consistently applied to all reporting periods presented, unless stated differently. Where it is necessary, comparatives are reclassified.

New or revised IFRS adopted and amendments to International Financial Reporting Interpretations Committee interpretations (IFRIC) that became mandatory for the Group from 1st January 2014 did not have any impact to the Group's accounting policies and Consolidated Financial Statements.

The Unaudited Condensed Consolidated Financial Statements are prepared under the historical cost convention, as modified by the revaluation of non-current assets, financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss disclosed in accounting policies presented in the Latvenergo Group Consolidated Financial Statements of 2013.

Accounting policies are supplemented, and since 1st April 2014 and as at 31st December 2014 mandatory procurement public service obligation revenue and costs have been recognised as unsettled difference or uncollected revenue on mandatory procurement public service obligation as assets in the Consolidated Statement of Financial position by applying agent accounting principle (see Note 10).

On 1st January 2014, Latvia has joined the Euro zone, converting the Latvian Lats (LVL) into the Euros (EUR) at fixed exchange rate EUR 1 = LVL 0.702804. As of this date, the Group balance account values were converted into the Euro currency and financial reports for 2014 and the following years are been prepared in Euro currency. All amounts shown in these Unaudited Condensed Consolidated Financial Statements are presented in thousands of EUR.

3. Financial risk management

3.1. Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value and cash flow interest rate risk), credit risk, pricing risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

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

a) Market risk

I) Foreign exchange risk

The introduction of Euro in Latvia at 1st January 2014 prevented the Euro currency risk. As at 31st December 2014 the Group had none of its borrowings and substantial liabilities denominated in any other foreign currency except Euro, therefore, there is no significant foreign currency exchange risk.

The Parent Company has certain investment in subsidiary, which are exposed to foreign currency risks. Currency exposure arising from the net assets of the Group's foreign operations in Lithuania is limited as subsidiary have insignificant amount of assets and Lithuanian lits (LTL) have fixed peg to Euro. On 1st January 2015, Lithuania has joined the Euro zone, converting the Lithuanian Lits into the Euros at fixed exchange rate EUR 1 = LTL 3.4528.

The Group's Financial Risk Management policy approved by the Parent Company's Management has set up principles how to manage the Group's foreign currencies exchange risk against functional currency. To manage the Group's foreign currencies exchange risk arising from the Group's future transactions and recognised assets and liabilities, the Group Treasury uses forward contracts. Foreign currencies exchange risk arises when future transactions or recognised assets or liabilities are denominated in a currency that is not the Group's functional currency (Euro).

II) Cash flow and fair value interest rate risk

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

The Group's cash flow interest rate risk mainly arises from long-term borrowings at variable rates. They expose the Group to a risk that finance costs might increase significantly when interest rates rise up. The Group's policy is to maintain at least 35% of its borrowings as fixed interest rates borrowings (taking into account the effect of interest rate swaps) with duration between two and four years.

The Group analyses its interest rate risk exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and hedging. Based on these scenarios, the Group calculates the impact on profit and loss as well as on cash flows of a defined interest rate shift. The Group's borrowings with floating rates do not impose fair value interest rate risk. Derivatives such as interest rate swaps are the only source of fair value interest rate risk.

III) Price risk

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

The most significant price risk is related to purchase of electricity. To hedge the risk related to changes in the price of electricity the Parent Company has purchased electricity swap contracts.

b) Credit risk

Credit risk is managed at the Group level. Credit risk arises from cash and cash equivalents, derivative financial instruments and short-term deposits with banks, outstanding receivables. Credit risk exposure in connection with trade receivables is limited due to broad range of the Group's customers. The Group has no significant concentration of credit risk with any single counterparty or group of counterparties having similar characteristics. Impairment loss has been deducted from gross accounts receivable.

Credit risk related to cash and short-term deposits with banks is managed by balancing the placement of financial assets in order to maintain the possibility to choose the best offers and to reduce probability to incur losses.

No credit limits were exceeded during the reporting year, and the Group entities' management does not expect any losses from non-performance by these counterparties.

c) Liquidity risk

The Group's policy of liquidity risk management is to maintain sufficient amount of cash and cash equivalents, the availability of long and short term funding through an adequate amount of committed credit facilities to meet commitments according to the Group's strategic plans as well as to compensate the fluctuations in the cash flows due to occurrence of variety of financial risks.

The Group entities' management is monitoring rolling forecasts of the Group's liquidity reserve, which comprises of undrawn borrowing facilities, and cash and cash equivalents.

3.2. Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern as well as to ensure necessary financing for investment program and to avoid breaches of covenants, which are linked to capital structure and are stipulated in the majority of loan agreements.

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

This ratio is calculated by dividing the equity by the sum of total assets and nominal value of issued and outstanding financial guarantees.

According to the Group's strategy and defined loan covenants as per loan agreements the capital ratio shall be maintained at least at 30 % level.

4. Operating segment information

Operating segments

For segment reporting purposes, the division into operating segments is based on the Group's internal management structure, which is the basis for the reporting system, performance assessment and the allocation of resources by the operating segment decision maker.

The Group divides its operations into three main operating segments – generation and supply, distribution system services and management of transmission system assets. In addition, Corporate Functions, that cover administration and other support services, are presented separately.

The generation and supply operating segment comprises the Group's electricity and heat generation operations, which are organised into the legal entities: Latvenergo AS and Liepājas enerģija SIA; electricity sales operations, including wholesale, which are conducted Pan–Baltic by Latvenergo AS, Elektrum Eesti OÜ and Elektrum Lietuva UAB, as well as management of the mandatory procurement process provided by Enerģijas publiskais tirgotājs AS.

The operations of the distribution system services operating segment relates 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) and Latvenergo AS – the owner of the distribution system real estate assets.

The operations of the management of transmission system assets operating segment is managed both by Latvijas elektriskie tīkli AS – the owner of transmission system assets (330 kV and 110 kV transmission lines, substations and distribution points), which provides construction and maintenance as well as the lease of assets to the transmission system operator Augstsprieguma tīkls AS, and Latvenergo AS – the owner of the transmission system real estate assets. The Republic of Latvia has applied the second unbundling model under EU Directive 2009/72/EC, which provides that the electricity transmission system assets shall remain with a vertically integrated utility, while the activities of the transmission system operator are independently managed.

The following table presents revenue, profit information and segment assets and liabilities of the Group's operating segments. Inter-segment revenue is eliminated on consolidation.

	Generation and supply	Distribution system services	Management of transmission system assets	Corporate functions	TOTAL segments	Adjustments and eliminations	Consolidated
Year ended 31st December 2014	EUR'000	EUR'000	EUR'000	EUR'000	**EUR'000**	EUR'000	**EUR'000**
Revenue							
External customers	652,778	295,314	57,795	4,870	**1,010,757**	–	**1,010,757**
Inter–segment	24,719	2,040	2,933	46,432	**76,124**	(76,124)	**–**
TOTAL revenue	**677,497**	**297,354**	**60,728**	**51,302**	**1,086,881**	**(76,124)**	**1,010,757**
Results							
Segment profit	**12,100**	**14,875**	**16,416**	**5,870**	**49,261**	**(17,733)**	**31,528**
Capital expenditure	33,542	99,830	31,836	12,399	**177,607**	**–**	**177,607**
Year ended 31st December 2013							
Revenue							
External customers	747,993	290,664	55,758	5,478	**1,099,893**	–	**1,099,893**
Inter–segment	25,677	1,836	2,536	45,160	**75,209**	(75,209)	**–**
TOTAL revenue	**773,670**	**292,500**	**58,294**	**50,638**	**1,175,102**	**(75,209)**	**1,099,893**
Results							
Segment profit	**23,294**	**19,074**	**14,032**	**4,691**	**61,091**	**(12,250)**	**48,841**
Capital expenditure	53,423	88,617	68,941	13,887	**224,868**	**–**	**224,868**

Segment assets

	Generation and supply	Distribution system services	Management of transmission system assets	Corporate functions	TOTAL segments	Adjustments and eliminations	Consolidated
	EUR'000	EUR'000	EUR'000	EUR'000	**EUR'000**	EUR'000	**EUR'000**
As at 31 December 2014	1,540,328	1,278,417	439,979	87,282	**3,346,006**	155,973	**3,501,979**
As at 31 December 2013	1,497,066	1,252,016	431,224	86,458	**3,266,764**	308,594	**3,575,358**

Adjustments and eliminations

Finance income and expenses, fair value gains and losses on financial assets are not allocated to individual segments as the underlying instruments are managed on a group basis.

Taxes and certain financial assets and liabilities 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

	2014	2013
	EUR'000	EUR'000
Segment profit	**49,261**	**61,091**
Finance income	3,004	4,529
Finance costs	(20,380)	(17,840)
Share of profit / (loss) of associates	(357)	1,061
Profit before income tax	**31,528**	**48,841**

Reconciliation of assets

	2014	2013
	EUR'000	EUR'000
Segment operating assets	**3,346,006**	**3,266,764**
Investments in associates and other financial investments	41	41
Investments in held–to–maturity financial assets	28,528	28,588
Current financial assets	–	617
Other assets and assets held for sale	6,393	23,925
Cash and cash equivalents	121,011	255,423
TOTAL assets	**3,501,979**	**3,575,358**

5. Revenue

	2014	2013
	EUR'000	EUR'000
Electricity and electricity services*	820,523	898,037
Heat sales	108,963	117,466
Lease and management of transmission system assets	57,161	55,095
Other revenue	24,110	29,295
TOTAL revenue	**1,010,757**	**1,099,893**

* – in period from 1st April 2014 through 31st December 2014 revenue of mandatory procurement public service obligation fees is recognised in the Consolidated Statement of Financial Position by applying agent accounting principle

6. Raw materials and consumables used

	2014	2013
	EUR'000	EUR'000
Electricity:		
Purchased electricity*	338,551	381,144
Fair value (income) / loss on electricity swaps	(7,800)	4,447
Electricity transmission services costs	73,824	74,173
	404,575	**459,764**
Fuel expense	178,033	212,967
Raw materials, spare parts and maintenance costs	35,283	38,295
Capitalised costs of raw materials and consumables used (fuel)	–	(9,573)
TOTAL raw materials and consumables used	**617,891**	**701,453**

* – in period from 1st April 2014 through 31st December 2014 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) are recognised in the Consolidated Statement of Financial Position by applying agent accounting principle

7. Income tax

	2014	2013
	EUR'000	EUR'000
Current tax	2,947	726
Deferred tax	(1,165)	1,966
TOTAL income tax	**1,782**	**2,692**

8. Intangible assets and property, plant and equipment

	Intangible assets	Land, buildings and facilities	Technology equipment and machinery	Other property, plant and equipment	Assets under construction	TOTAL
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	**EUR'000**
As at 31st December 2014						
Cost or valuation	41,483	4,458,341	2,091,623	158,262	61,037	**6,810,746**
Accumulated amortisation, depreciation and impairment	(28,800)	(2,445,607)	(1,134,781)	(116,184)	(6,047)	**(3,731,419)**
Net book amount	**12,683**	**2,012,734**	**956,842**	**42,078**	**54,990**	**3,079,327**
As at 31st December 2013						
Cost or valuation	33,144	4,331,639	2,046,253	153,752	118,868	**6,683,656**
Accumulated amortisation, depreciation and impairment	(25,819)	(2,383,239)	(1,057,602)	(112,443)	(6,648)	**(3,585,751)**
Net book amount	**7,325**	**1,948,400**	**988,651**	**41,309**	**112,220**	**3,097,905**

9. Inventories

	31/12/2014	31/12/2013
	EUR'000	EUR'000
Raw materials and spare parts	15,510	21,160
Other inventories (fuel)	8,437	4,733
Allowance for raw materials, spare parts, technological fuel	(1,387)	(4,259)
TOTAL inventories	**22,560**	**21,634**

10. Trade receivables and other current receivables

Trade receivables, net

	31/12/2014	31/12/2013
	EUR'000	EUR'000
Receivables:		
– Electricity customers	112,081	91,925
– Heating customers	20,509	17,580
– Other trade receivables	34,821	23,597
	167,411	**133,102**
Allowances for impairment of receivables:		
– Electricity customers	(41,080)	(40,643)
– Heating customers	(394)	(369)
– Other trade receivables	(2,530)	(2,482)
	(44,004)	**(43,494)**
Receivables, net:		
– Electricity customers	71,001	51,282
– Heating customers	20,115	17,211
– Other trade receivables	32,291	21,115
	123,407	**89,608**
Compensated accrued revenue on mandatory procurement public service obligation*	15,887	44,953
Unsettled revenue on mandatory procurement public service obligation fee recognised as assets	63,146	–
Other current receivables and accrued income	46,715	26,999
TOTAL trade receivables and other current receivables	**249,155**	**161,560**

* Accrued revenue on mandatory procurement public service obligation is calculated as difference between procurement expenditure above electricity market price and collected payments from electricity end users for mandatory procurement public service obligation fees for period from 1st January 2013 through 31st March 2014. According to the conditions included in the article No. 37 of transition terms of the Electricity Market Law of the Republic of Latvia, newly established subsidiary Enerģijas publiskais tirgotājs AS compensates uncollected difference for the period from 1st January 2013 until 31st March 2014 in the amount of EUR 64,823 thousand in 12 months period starting from overtake of public trader obligations as at 1st April 2014 (as at 31st December 2014 Enerģijas publiskais tirgotājs AS was compensated EUR 48,936 thousand from this uncollected difference).

Movements in allowances for impairment of trade receivables are as follows

	2014	2013
	EUR'000	EUR'000
At the beginning of the year	**43,494**	**29,036**
Receivables written off during the year as uncollectible	(934)	(1,409)
Allowance for impaired receivables	1,444	15,867
At the end of the year	**44,004**	**43,494**

11. Cash and cash equivalents

	31/12/2014	31/12/2013
	EUR'000	EUR'000
Cash at bank	38,141	88,823
Short–term bank deposits	52,000	166,600
Restricted cash and cash equivalents*	30,870	–
TOTAL cash and cash equivalents	**121,011**	**255,423**

* restricted cash and cash equivalents consist of government grant for compensation of the increase of mandatory procurement public service obligation costs in the amount of EUR 29,264 thousand and of the financial security for participating in NASDAQ OMX Commodities exchange in the amount of EUR 1,606 thousand.

12. Borrowings

	31/12/2014	31/12/2013
	EUR'000	EUR'000
Non–current borrowings from financial institutions	583,494	700,390
Issued debt securities (bonds)	104,802	104,802
TOTAL non-current borrowings	**688,296**	**805,192**
Current portion of non–current borrowings from financial institutions	136,809	137,008
Accrued interest on non–current borrowings	1,422	1,780
Accrued coupon interest on issued debt securities (bonds)	694	695
TOTAL current borrowings	**138,925**	**139,483**
TOTAL borrowings	**827,221**	**944,675**

Movement in borrowings:

	2014	2013
	EUR'000	EUR'000
At the beginning of the year	**944,675**	**846,961**
Borrowings received	22,600	117,300
Borrowings repaid	(139,695)	(105,174)
Change in accrued interest on borrowings	(359)	753
Issued debt securities (bonds)	–	84,835
At the end of the year	**827,221**	**944,675**

13. Related party transactions

The Parent Company and, indirectly, the other Group entities are controlled by the Latvian state. Related parties of the Group are associates, Shareholder of the Parent Company who could control or who has significant influence over the Group's entities in accepting operating business decisions, key management personnel of the Group's entities including members of Supervisory body – Audit committee and close family members of any above–mentioned persons, as well as entities over which those persons have control or significant influence.

The following transactions were carried out with related parties

	2014	2013
	EUR'000	EUR'000
a) Sales of goods and services:		
– Sales of goods to associates (electricity)	–	1,344
– Sales of services to associates	–	–
TOTAL sales	**–**	**1,344**
b) Purchases of goods and services:		
– Purchases of goods from associates (electricity)	–	1,268
– Purchases of services from associates	–	2,779
TOTAL purchases	**–**	**4,047**
c) Finance income:		
– Dividends received from associates	1,924	–
– Income on redemption of non-current financial investments in associates	284	–
TOTAL finance income	**2,208**	**–**

Balances at the end of the year arising from sales / purchases of goods or services:

	31/12/2014	31/12/2013
	EUR'000	EUR'000
a) Trade receivables from related parties:		
– Associates	–	130
TOTAL receivables	**–**	**130**
b) Trade payables to related parties:		
– Associates	354	161
TOTAL payables	**354**	**161**

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

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

Remuneration to the management for year 2014 includes remuneration to the members of the Management Boards and Supervisory body of the Group entities, including salary, social insurance payments and payments to pension plan and is amounted to EUR 1,803.1 thousand (2013: EUR 1,598.2 thousand) and is included in the Consolidated Income Statement position 'Personnel expenses'.

14. Events after the reporting period

In accordance with Directive 2009/72/EC of the European Parliament and of the Council, dated 13th July 2009, concerning common rules for the internal market of electricity and the Electricity Market Law, Latvijas elektriskie tīkli AS as at 1st January 2015 transfers to Augstsprieguma tīkls AS functions of the reconstruction or renewal, operation and routine maintenance of the existing transmission network system as well as development of the transmission system and construction of new networks.

According to the international credit rating agency Moody's Investors Service report published on 16th February 2015, the credit rating of Latvenergo AS has been upgraded to Baa2 (stable).

There have been no other significant events subsequent to the end of the reporting year that might have a material effect on the Unaudited Condensed Consolidated Financial Statements for the year ended 31st December 2014.

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