Latvenergo 75

Sustainability and Annual Report 2014

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1.1

Decisive Leaders on the Baltic Market

The 75th anniversary year for Latvenergo Group has passed, and we should say it was very eventful, so I am proud to look back at our achievements during the period.

The European Union energy industry last year accentuated the need for balanced development. What does it mean? It means these three aspects – supply reliability, the environment, and accessibility – must be in equilibrium, because, as soon as we assign too much importance to one of them, we lose our balance. If we, for instance, push too hard for *green* energy, we jeopardise reliability, and electricity becomes more expensive. If we want our electricity to be very cheap, we undermine the sustainability of the entire supply system. New complex, market-based mechanisms need to be created, shaping a market model where the energy market, capacity balancing mechanisms, market integration of renewable energy generators, and the emissions trading scheme are all mutually harmonious. Therefore, the keywords for the future of the energy sector are balanced development.

Although complete liberalisation of the electricity market in Latvia took place on 1 January 2015 after an initial postponement, a lot of our activities in 2014 were targeted at including households into the electricity market. Here, we should mention the development of *Elektrum* products for households, a large-scale customer awareness campaign in spring and autumn, and development of a customer service system tailored to the household market.

In 2014, Enerģijas publiskais tirgotājs AS entered into operation, taking over the duties of public trader and conducting electricity mandatory procurement. This was a necessary step for ensuring transparency of the mandatory procurement process and separating the duties of a public trader from the core activity of Latvenergo AS, which is electricity generation and supply.

One of the greatest challenges in this regard is inclusion of the Baltics into the Nordic electricity system, and this work has continued in 2014. Early in the year, the Estonia–Finland interconnection *Estlink-2* was commissioned. It triples the capacity of the Estonia–Finland interconnection and strengthens the integration of the electricity market within the Baltic region. As for Latvia, the *Grobiņa–Ventspils* transmission line of the *Kurzeme Ring* project was commissioned. This is a major step towards integrating Latvia into the European electricity market and a significant contribution to energy supply reliability in Kurzeme region and the entire country. In the future, the *Kurzeme Ring* will to avail of the Sweden–Lithuania *NordBalt* interconnection, allowing further integration of the Baltics into the Nordic electricity market.

From 2014, Latvenergo Group has been offering all of the electricity it generates on the Nord Pool Spot exchange. These changes mean that electricity supply and turnover have increased multiple times within the Latvia bidding area, ensuring higher market liquidity and transparency.

One of the most important achievements for Latvenergo Group in 2014 was its ability to retain the position of the largest electricity trader in the Baltics. During this period, Latvenergo Group has successfully progressed towards its strategic goal of strengthening the Baltic market position. In 2014, Latvenergo Group was the leading electricity supplier with a 35 percent share of the Baltic market. The overall electricity consumption of the Baltic region was 24.6 TWh. I will add here that, despite stiff competition, the amount of electricity we supplied has increased 9 percent comparing to previous year, reaching 8,688 GWh. This is despite the fact that overall electricity consumption in the Baltics during this period actually went down by one percent.

Significantly, 64 percent of the Group retail electricity supply was green energy generated from renewable energy resources. The amount generated by hydropower plants in 2014 was lower than expected due to unusually low water flow in the Daugava, whereas combined heat and power plant output was affected by change in support mechanism for large combined heat and power plants.

We have completed the reconstruction of two major Riga CHPPs and are halfway towards reconstructing the Daugava HPPs – out of 23 hydropower units at our three largest plants, 12 have been reconstructed. The remaining hydropower units will be replaced by 2022, and all Daugava HPPs will be able to function without considerable further investment for at least 40 years.

2014 was the first year of implementing the *Sadales tīkls AS Development Plan 2014–2023*. A very strong emphasis in the investment programme is made on developing smart technologies, gradually replacing overhead lines with underground cables, and automating distribution networks. It is also important to note that, for five years in a row, we have decreased electricity distribution losses, reaching the historically lowest percentage so far observed in Latvia and the lowest in the Baltics.

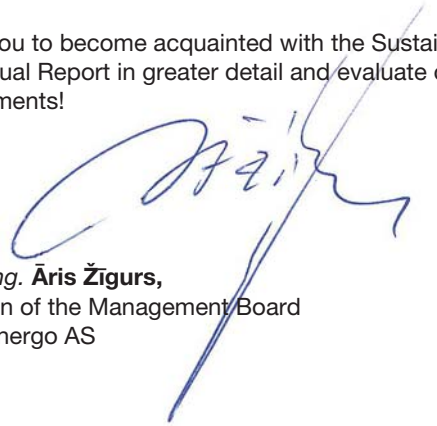
Latvenergo Group regularly attracts borrowed funding in the form of bank loans, but the procurement in 2014 has attracted unprecedented attention in the banking sector. Not only the activity of banks in general but also the financial terms they have included in their offers indicate that banks perceive Latvenergo Group as a stable partner – this is a testament to the trust that banks have in Latvenergo Group performance and its potential to thrive in an uncertain market environment.

The Law on the Management of Public Persons' Capital Shares and Capital companies, which stipulates how the state and municipal companies should be managed, has been adopted. To improve management of state capital, major state public and private capital companies will be establishing Supervisory Boards from 2016. Latvenergo Group already fulfils the information disclosure requirements specified in the law by publishing its quarterly interim financial reports and also disclosing information on its website, as specified in the NASDAQ OMX Riga AS Corporate Governance Principles.

In 2014, Latvenergo Group launched a new cycle of cooperation with stakeholders. Through internal and external discussions, consultations and seminars, Latvenergo Group identifies stakeholders and its influence on them, so that it could approach responsibly the issues relevant to stakeholders. Identification and grouping of stakeholders were carried out in accordance with the AA 1000 Stakeholder Engagement Standard, which is an example of best practice for involving stakeholders in strategic and operational activities. This is the sixth year that the Latvenergo Group Sustainability Report is prepared in accordance with the Global Reporting Initiative (GRI) guidelines, continually improving the scope of disclosures. In 2014, we took preliminary actions to prepare for Latvenergo Group Sustainability Report conversion to the latest GRI G4 guidelines.

In 2014, Latvenergo Group has received a series of awards affirming its good corporate governance and the appreciation of the general public. In 2014, Latvenergo was recognised the most valuable company in Latvia, received the Platinum category in the Sustainability Index of Latvia, has remained an industry leader in the Latvian Corporate Reputation TOP for three consecutive years, and received a number of other awards and recognition.

I invite you to become acquainted with the Sustainability and Annual Report in greater detail and evaluate our achievements!



Dr. sc. ing. **Āris Žīgurs,**
Chairman of the Management Board
of Latvenergo AS

Latvenergo Group Development

The history of Latvenergo Group began in 1939, with the launch of the first hydropower unit at then most advanced hydropower plant in the Europe – the Kegums HPP – and the establishment of State Electric Company Kegums. Each historic achievement is followed by another on the way to developing a unified and sustainable energy system. Continually developing over the 75 years, today we can be proud of our modern, efficient and *green* energy generation facilities, high-quality power supply and customer service, and leadership on the Baltic electricity market.

1939 – On 22 December, State Electric Company *Kegums* is established

1955 – Riga TEC-1 commences electricity generation

1960 – Development of the 330 kV electricity network begins

1965 – The Plavinas HPP is launched

1974 – Riga HPP is launched

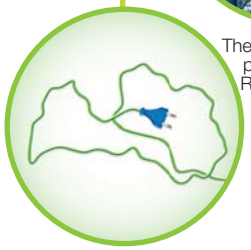
1975 – The Riga TEC-2 is launched

1979 – Kegums HPP-2 enters into operation

1995 – By putting Ainazi wind power plant in operation, Latvenergo becomes the first company in the Baltics to use wind power for electricity generation

2005 – Opening of the reconstructed Riga TEC-1 generation facility

2007 – Latvia opens the electricity market to legal entities



2009 – Upon opening of electricity market to legal entities in Lithuania and Estonia, Latvenergo Group increases supply volume in the Baltics

2010 – The overhauled 1st power unit of Riga TEC-2 is unveiled

2013 – The 2nd power unit of Riga TEC-2 is commissioned, becoming a state-of-art and the most efficient combined heat and power plant in the Baltics

2014 – The new *Grobiņa–Ventspils* 330 kV electricity transmission line, part of the *Kurzeme Ring* national infrastructure project, is switched on at the *Ventspils* substation

2015 – As of 1 January, the electricity market in Latvia is fully open, now also including households

Latvenergo Group Profile

Prepared in accordance with GRI (Global Reporting Initiative) Guidelines 3.1 Application Level B+

1.1 Report Overview

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Reporting period	2014 (1 January – 31 December)
Reporting frequency	Annually, since 2009, in accordance with the Global Reporting Initiative (GRI) guidelines
Date of publishing	15 April 2015
Global Reporting Initiative	Prepared in accordance with GRI Guidelines G3.1, level B+ (see GRI Report Qualification Conditions)
Report Framework	The report discloses information about Latvenergo Group (see the Section 1.2 “Group Profile”).
Principles for defining report content	Latvenergo Group (hereinafter also referred to as the Group) performs a study in four stages in order to determine the scope of information disclosed in the report: ▸ disclosure of information in the report is revised to account for changes in operations of the Group and feedback from stakeholders; ▸ identification of key performance indicators; ▸ evaluation of identified indicators in the context of sustainable development of Latvenergo Group, and assessment of conformity to the needs and expectations of stakeholders; ▸ analysis, verification and improvement of the selected performance indicators in cooperation with managers responsible for the relevant areas. In 2014, considering the opinions of internal and external stakeholders, the report was supplemented with 6 indicators previously undisclosed – SO7, SO8, EU21, EU24, EU25 and LA5 (see Table of GRI Indicators on page 76), while 4 indicators* of lesser significance were excluded – EN30, LA9, PR6 and PR7 . In 2014 activities were commenced to prepare the Latvenergo Group Sustainability Report in accordance with the new GRI G4 guidelines. In late 2014, a survey of Latvenergo Group executive officers and managers was conducted regarding significant aspects to the operations and sustainable development of Latvenergo Group. Involvement of stakeholders in determining significant aspects was also expanded in 2014. The results of the survey have already been partly incorporated into the 2014 report. Detailed information about involvement of stakeholders in defining the content of the report is available on page 20. The report fully discloses information about the profile of Latvenergo Group (labelled 1.1 – 4.17) and 47 performance indicators, including 14 indicators specific to the energy industry (labelled EU), which have been disclosed in accordance with the Electric Utilities Sector Supplement.
Data measurement methods	The information included in the report has been obtained from internal information systems, where data processing and quality are fully controlled by the Group. The reliability of this information is ensured by dedicated internal control systems. To achieve a comparative evaluation of the development of the Group across all of its operating segments, the data have been reflected across several consecutive years. The means of collecting data included in the report have been specified. Three data collection methods have been used: ▸ measurement – the data were measured precisely; ▸ estimate – the data were estimated approximately on the basis of assumptions; ▸ calculation – the data were obtained using calculations. The methods for measuring data included in this report have not been significantly altered compared to earlier reports.
Independent Auditors’ Confirmation Report	The auditor’s report on the Sustainability Report 2014 has been provided by Ernst & Young Baltic SIA.
Report format	PDF version available from: Latvenergo Group website: http://www.latvenergo.lv (in Latvian and English), GRI Sustainability Disclosure Database: http://database.globalreporting.org/ (in English)
Contact us	E-mail address for suggestions and questions regarding the Sustainability Report: sustainability@latvenergo.lv

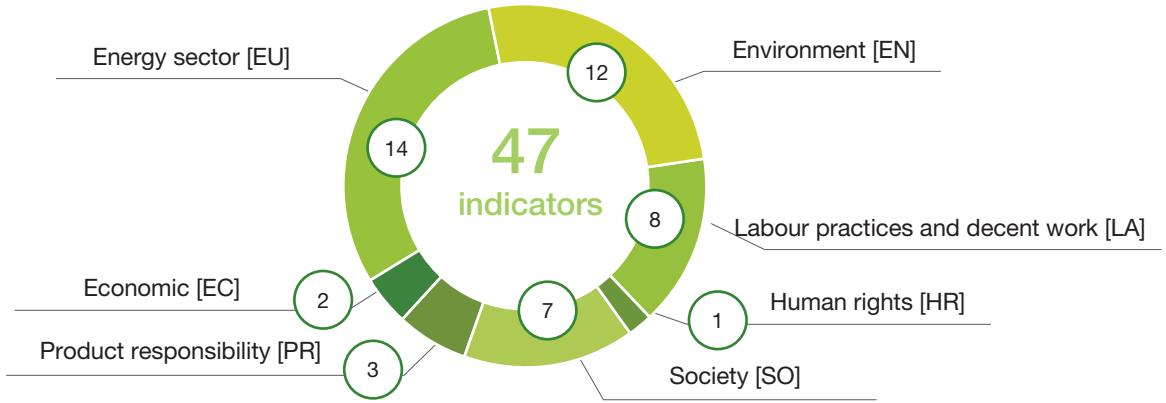
[1] Expenditures on environmental protection, topics covered with trade unions and compliance of marketing communications with legislation

GRI report application level criteria

Report application level	C	C+	B	B+	A	A+
Profile Disclosures	Report on: 1.1 2.1 - 2.10 3.1 - 3.8, 3.10 -3.12 4.1 - 4.4, 4.14 - 4.15	Report Externally Assured	Report on all criteria listed for Level C plus: 1.2 3.9, 3.13 4.5 - 4.13, 4.16 - 4.17***	**Report Externally Assured**	Same as requirement for Level B	Report Externally Assured
Management Approach	Not Required		Management Approach Disclosures for each indicator Category		Management Approach Disclosures for each indicator Category	
Performance Indicators & Sector Supplement Performance Indicators	Report fully on a minimum of any 10 Performance Indicators, including at least one from each of: social, economic and environment.*		Report fully on a minimum of any 20 Performance Indicators, at least one from each of: economic, environment, human rights, labour, society and product responsibility.**		Respond on each core and Sector Supplement indicator with due regard to the materiality Principle by either: a) reporting on the indicator or b) explaining the reason for its omission.	

* Performance Indicators may be selected from any finalised Sector Supplement, but 7 of the 10 must be from the original GRI Guidelines
** Performance Indicators may be selected from any finalised Sector Supplement, but 14 of the 20 must be from the original GRI Guidelines
*** GRI Profile Disclosures 4.2, 4.3, 4.9 and 4.10 are not applicable to Latvenergo Group

GRI Performance and Sector Supplement indicators disclosed in the report



1.2 Group Profile

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Latvenergo Group is the largest power supply utility in the Baltics, which operates in electricity and thermal energy generation and supply, provision of electricity distribution service and management of transmission system assets.

Latvenergo Group is the leading power supply utility in the Baltics

Latvenergo Group comprises the parent company Latvenergo AS and seven subsidiaries as at the end of 2014. All shares of Latvenergo AS are owned by the Republic of Latvia and held by the Ministry of Economics of the Republic of Latvia. To improve transparency of administration of electricity mandatory procurement process, a new Latvenergo AS subsidiary – Enerģijas publiskais tirgotājs AS – was established on 25 February 2014. The subsidiary has taken over the mandatory procurement administration functions from Latvenergo AS on 1 April 2014. Latvenergo AS is a shareholder in an associated company Pirmais Slēgtais Pensiju Fonds AS, along with a financial investment in Rīgas siltums AS (0.005%). According to the requirements of Directive 2009/72/EC of the European Parliament and of the Council of 13 July 2009 transmission assets of Nordic Energy Link AS owned by Latvenergo AS were sold to Estonian and Swedish transmission operators in late 2013. In 2014, the company was liquidated and Latvenergo AS participation (25%) in this company has been terminated.

More information about operating segments and customers of Latvenergo Group is disclosed in the Section 1.8 “Description of Operating Segments”.

Latvenergo AS shareholding in subsidiaries and associated companies

	Type of operation	Participation share
Latvenergo AS	Generation and supply of electricity and thermal energy	-
Sadales tīkls AS	Electricity distribution	100%
Latvijas elektriskie tīkli AS	Transmission system asset management	100%
Enerģijas publiskais tirgotājs AS	Administration of electricity mandatory procurement process	100%
Elektrum Eesti OÜ	Electricity supply	100%
Elektrum Latvija SIA (subsidiary of Elektrum Eesti OÜ)	Electricity supply	100%
Elektrum Lietuva UAB	Electricity supply	100%
Liepājas enerģija SIA	Electricity and thermal energy generation and supply	51%
Pirmais Slēgtais Pensiju Fonds AS	Pension plan management	46.3%*

* Latvenergo Group shareholding – 48.15%

Latvenergo Group campany contacts

	Registered office	Website
Latvenergo AS	Pulkveža Brieža iela 12, Riga, Latvia, LV-1230	http://www.latvenergo.lv/
Sadales tīkls AS	Šmerļa iela 1, Riga, Latvia, LV-1160	http://www.sadalestikls.lv/
Latvijas elektriskie tīkli AS	Dārzciema iela 86, Riga, Latvia, LV-1073	http://www.let.latvenergo.lv/
Enerģijas publiskais tirgotājs AS	Pulkveža Brieža iela 12, Riga, Latvia, LV-1230	http://www.eptirgotajs.lv/
Elektrum Eesti OÜ	Liivalaia 45, 10145 Tallinn, Estonia	http://www.elektrum.ee/
Elektrum Latvija SIA	Pulkveža Brieža iela 12, Riga, Latvia, LV-1010	-
Elektrum Lietuva UAB	Gedimino Prospektas 18, Vilnius LT-01103, Lithuania	http://www.elektrum.lt/
Liepājas enerģija SIA	Ludviķa iela 15, Liepaja, Latvia, LV-3401	http://www.liepajasenergija.lv/

2014

General Facts
100% shares are state-owned
Vertically integrated power supply utility
4,563 employees

Financial Performance		
Revenue	MEUR	1,010.8
Profit	MEUR	29.8
Assets	MEUR	3,487
Investments	MEUR	177.6
Credit rating	*Moody's*	Baa2 (stable)*

Sales figures		
Retail electricity supply	GWh	8,688
Market share in the Baltics	%	35
Retail customers	thousands	876
Thermal energy supply	GWh	2,442

Technical Parameters		
Installed electrical capacity	MW_{el}	2,569
Installed thermal capacity	MW_{el}	1,844
Distribution		
line length	km	94,609
transformer capacity	MVA	5,869
Transmission		
line length	km	5,273
transformer capacity	MVA	8,900

* Credit rating upgraded on 16 February 2015

Vision

Latvenergo Group as one of the leading and primary customer-chosen providers of quality power supply services and innovative solutions in the Baltic States

Mission

To ensure high quality, safe and environmentally friendly energy generation and supply in order to meet customer needs, promoting an increase in the long-term value and sustainable growth of the Group

Values

RESPONSIBILITY
We are reliable – we take personal responsibility for each task to be performed

EFFICIENCY
We act professionally and achieve the goals we set by using resources rationally

OPENNESS
We are responsive and sincere, we promote the exchange of experience, welcome new ideas and change

1.3 Group Strategy

1.2

Accomplishments indicate focused achievment of strategic goals

Latvenergo Group strategy for period until 2016 was developed and approved in late 2012, taking into account challenges expected during this period:

- complete opening of the electricity market in the Baltics;
- reduced electricity generation capacities in the region;
- necessity of significant improvements in the distribution infrastructure and quality of service;
- construction of transmission interconnections and continued integration of the Baltics into the Nordic market.

After evaluating challenges in the external environment and the strong position of Latvenergo Group, strengthening of which will require focused effort, three strategic goals were identified:

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

At the end of 2014, midpoint of the strategy's implementation was reached, allowing to look back at the achievements made towards each of these strategic goals.

Strengthening of the market position in the Baltics
Strengthening of the position of the Group in the Baltic market is aimed at making it a fully-fledged and equally positioned electricity retail participant in all three Baltic States, retaining an economically substantial market share and increasing the number of customers, focusing on small and medium sized enterprises and households. The target is particularly challenging as during the strategy implementation period the Baltic electricity market is transforming.

Full transition of wholesale to transactions on the Nord Pool Spot exchange was completed: trading within the Lithuanian bidding area had started in June 2012; opening of the Latvian bidding area followed in June 2013, and Latvenergo Group trades all of its generated electricity on the exchange since June 2014. The launch of the Estlink-2 interconnection between Finland and Estonia significantly impacted the wholesale segment in the beginning of 2014, levelling out prices and further integrating the Baltics into the Nordic electricity market.

In retail, the past few years were marked by complete opening of the market – on 1 January 2013 in Estonia and on 1 January 2015 in Latvia.

In this challenging environment, Latvenergo Group has managed to strengthen its position as the largest electricity supplier in the Baltics by wisely seizing opportunities and scaling up its trade activities outside Latvia. In 2014, the Group supplied 8.7 TWh of electricity in retail, supplying more than one-third of the Baltic electricity retail market.

In the next few years, expected challenges include complete opening of the electricity market in the Baltics and commissioning of the Sweden-Lithuania interconnection in 2016, which will increase the integration of the Baltic market into the Nordic market.

Diversification of electricity generation sources
Diversification of electricity generation sources is achieved by restoring the existing capacities and investing in new facilities, with a focus on economically justified investments in low-emission sources.

During the strategy implementation period, the most ambitious energy project of the past few decades in the Baltics – reconstruction of Riga TEC-2 – was completed. The programme to overhaul the Daugava HPP cascade continues with great success, and it is scheduled for completion in 2022, improving its efficiency, safety and competitiveness. Now when more than half of the generating units of the Daugava HPP cascade are reconstructed and the second power unit of Riga TEC-2 is commissioned, Latvenergo Group has an access to a balanced portfolio of efficient, environmentally friendly generating capacities – 976 MW at gas combined cycle cogeneration plants and 1,536 MW at hydropower plants – allowing the Group to operate successfully in both base and peak regimes, flexibly adjusting to electricity market processes.

Latvenergo Group has also implemented a series of smaller-scale generation projects: construction of a bio-cogeneration plant in Liepaja, reconstruction of the Riga TEC-2 back-up fuel farm, transitioning from fuel oil to less environmentally harmful diesel, thereby mitigating environmental impact and increasing supply reliability.

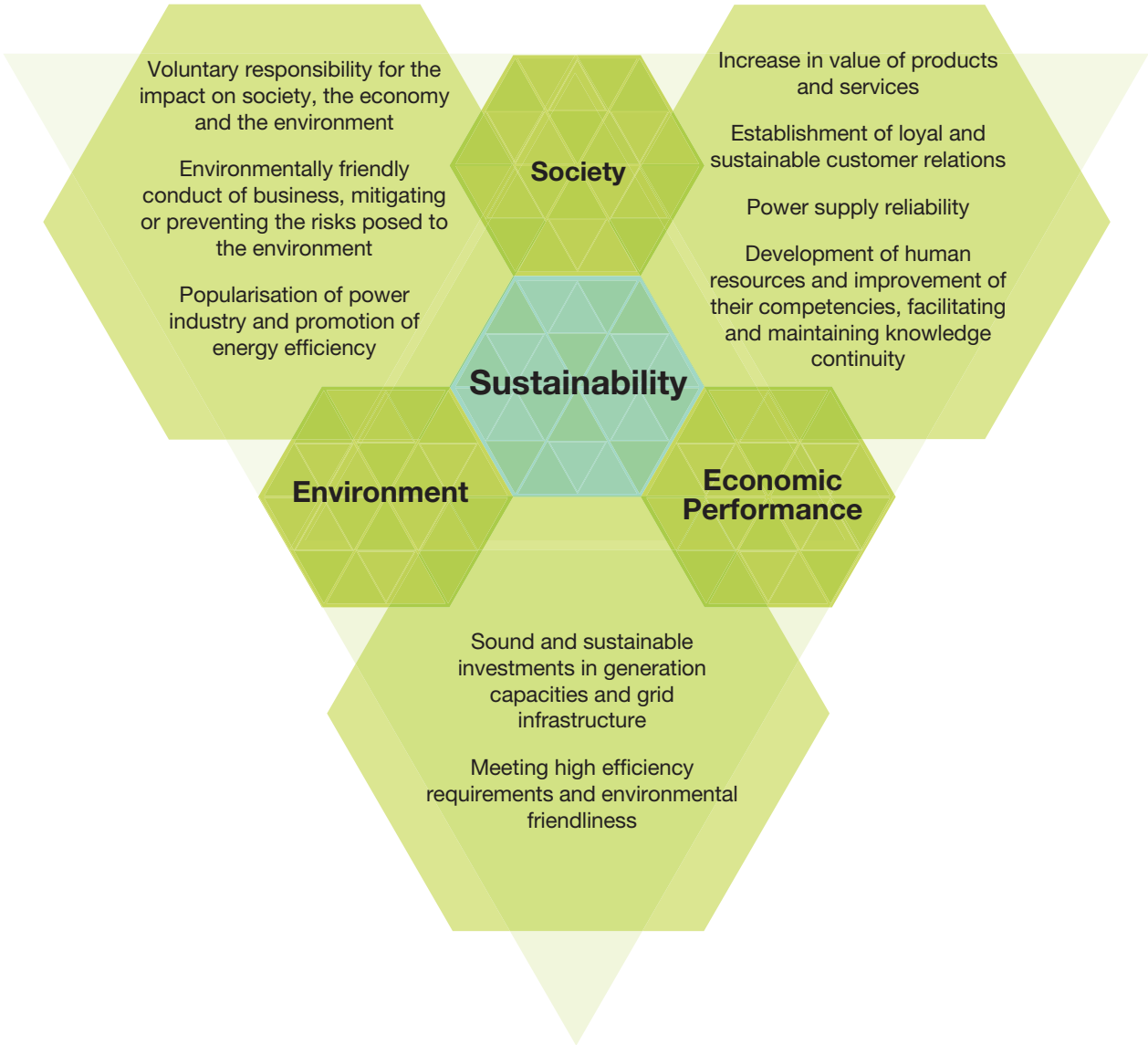
Balanced development of networks
Initiating implementation of the strategy, the greatest challenge to electricity distribution was the accelerated aging of the electricity distribution infrastructure with poor electricity availability and quality indicators – the result of prolonged lack of investments in this field.

Considering the extent of the distribution infrastructure and its complicated structure, improvement of quality indicators while maintaining distribution service tariffs at levels that are affordable to consumers is a long-term endeavour. *The Sadales tīkls AS Development Plan 2014-2023* was drafted in 2013, specifying investment priorities for the coming decade, including replacement of overhead lines with cables, network automation, and development of smart technologies. Coherent implementation of the Development Plan in the coming years will be a major challenge in the electricity distribution segment.

As for the development of transmission system assets, the most important project for the strategy implementation period is the *Kurzeme Ring*, which will allow using the NordBalt marine cable between Lithuania and Sweden, giving access to the Nordic electricity market. An important stage of this project was concluded in 2014: the new *Grobiņa–Ventspils* 330 kV electricity transmission line was commissioned. In 2014, investments in the *Kurzeme Ring* project amounted to EUR 11.4 million. The final stage of the project, the line connection *Ventspils–Tume–Riga*, has been included in the indicative funding allocation list of infrastructure objects of the European Commission assigning 45% co-funding.

By implementing the strategy, Latvenergo Group achieves increase in value and makes a major contribution in satisfaction of public necessities, at the same time applying sustainability principles.

Three Pillars of Sustainability



1.4 Group Governance

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Group Governance Principles

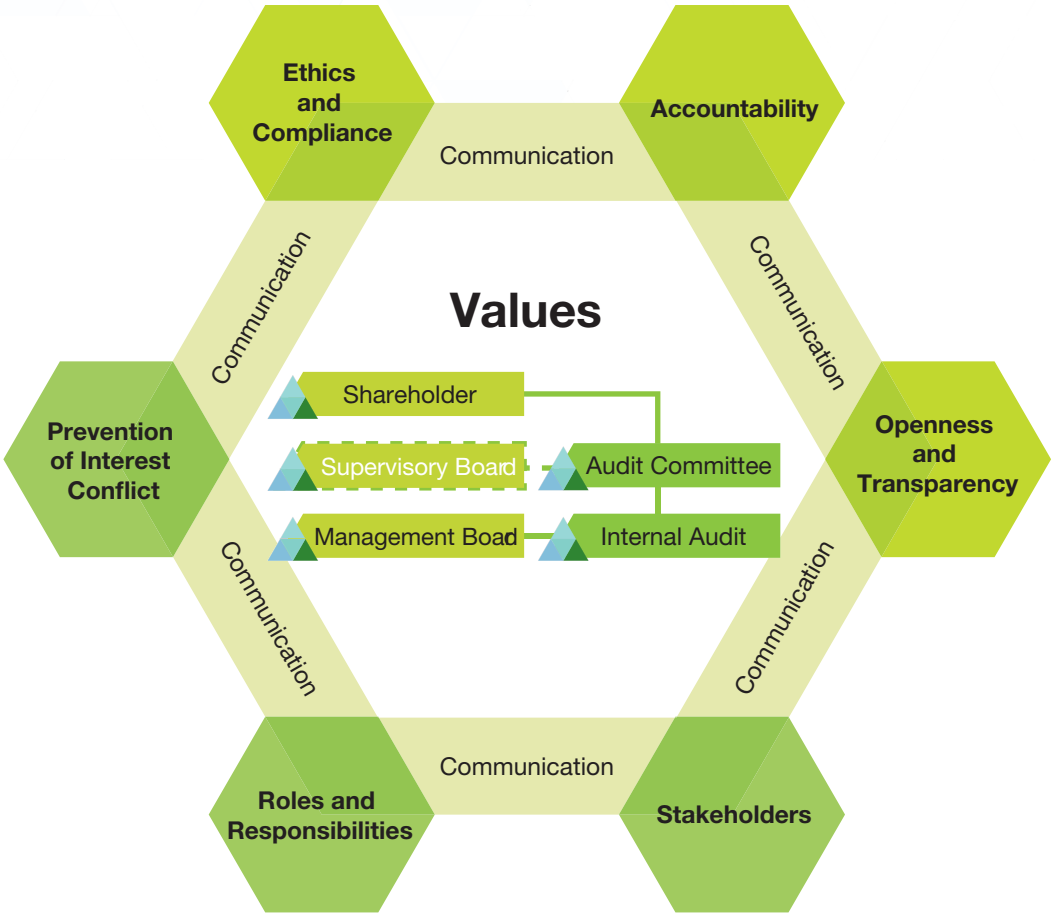
Latvenergo Group corporate governance principles define the elements of its operation that concern the executive and supervisory institutions of the Group companies. These elements are reflected in the Latvenergo Group Corporate Governance Model and are essential conditions for successfully achieving the goals specified in the strategy and increasing the value of the company. Significant role in maintenance of Latvenergo Group corporate governance system elements is assigned to the values of the Group and active communication – both internal and in cooperation with stakeholders. The Latvenergo Group governance model is based on good governance practices, legislative regulation, and corporate governance guidelines.

> We apply good corporate governance practices

Ethics and Compliance

Latvenergo Group supports fair business practices, applies fair competition rules and does not engage in transactions that restrict competition, are corruptive or discriminatory. Latvenergo Group regularly conducts workshops and informative activities on appliance of ethical and compliance standards, makes improvements to internal normative documents and takes other measures in order to keep employees informed about Latvenergo Group ethical requirements and aware of the consequences of their actions, so that they would avoid corrupt or fraudulent activities and receipt or provision of illegal gifts and services.

Corporate Governance Model



Contractual partners of Latvenergo Group are also encouraged to follow similar ethical principles, and upon conclusion of agreements are asked to certify that the cooperation will be based on fair business cooperation principles. The ethical guidelines of Latvenergo Group for cooperation with contractual partners are published on the http://www.latvenergo.lv website, under Tenders and offers/Procurement procedures.

Roles, Responsibilities and Accountability
The roles, responsibilities and accountability of governance and supervisory bodies are defined mainly in external laws and regulations and in the internal documents of the Group, among which company Articles of Association and Rules of governance and supervisory bodies are the most important.

Openness and Transparency
Transparency of Latvenergo Group financial and operational performance is ensured by publishing annual reports of the Group, which since 2002 have been prepared in accordance with the International Financial Reporting Standards (IFRS) approved in the European Union.

Since initiation of the bond emission programme and inclusion of issued bonds in NASDAQ OMX Riga exchange in early 2013, Latvenergo Group has been publishing quarterly interim financial reports in accordance with the Financial Instrument Market Law requirements on disclosure of information for issuers of bonds. The Latvenergo AS corporate governance report has been published for three years in accordance with NASDAQ OMX Riga AS corporate governance principles, while providing additional information in a Sustainability Report – the only audited sustainability report in Latvia, prepared in accordance with GRI guidelines since 2009.

Prevention of Conflict of Interest
In accordance with the Law on Prevention of Conflict of Interest in Activities of Public Officials, the members of the management board of a state capital company have the status of state officials. The law restricts the activities of management board members outside their office duties and obliges them to submit an annual state official's declaration, specifying income received, positions held, transactions concluded, participation in business, and other information.

The Group governance and supervisory bodies ensure that principles for prevention of conflict of interest are applied during fulfilment of duties. The goal of management is to promote awareness of conflict of interest situations by ensuring explanatory activities, training and control.

To identify circumstances that may cause a conflict of interest and to take the necessary measures to prevent such situations, Latvenergo Group uses annual Conflict of Interest Declarations, which are evaluated and monitored.

Stakeholders
Cooperation and communication with stakeholders is an important element of the Latvenergo Group corporate governance system. Latvenergo Group is aware of its impact on stakeholders and vice versa and handles issues significant to its stakeholders with a sense of responsibility. More information about Latvenergo Group cooperation with stakeholders is reflected in the Section 1.5 "Stakeholder Engagement".

Shareholder

All shares of Latvenergo AS are owned by the state and held by the Ministry of Economics of the Republic of Latvia. The interests of shareholder are represented at the Shareholders' Meeting by the State Secretary of the Ministry of Economics or his authorised representative. Shareholders' Meetings are convened, observing the requirements and terms stipulated in the Law on State and Municipality Capital Shares and Capital Companies of the Republic of Latvia.

According to the Energy Law, Latvenergo AS is defined as a national economy object of state importance, and its shares may not be privatised or alienated.
The key duties of the Latvenergo AS Shareholders' Meeting are:

- constant supervision of the Management Board activities;
- appointment and revocation of members of the Management Board and the Audit Committee and approval of their remuneration;
- monitoring of the compliance of the company operations with legislation, its Articles of Association and the decisions of the Shareholders' Meeting;
- approval of the Annual Report of the company and appointment of the auditor;
- decision-making on the company profits for the preceding year.

15 Shareholders' Meetings took place in 2014. The most important decisions passed in 2014 concerned approval of the Annual Report 2013, appointment of the auditor, and amendments to the Articles of Association of Latvenergo AS. All members of the Management Board, the Audit Committee and the auditor participated in the approvement of the Annual Report 2013 during the General Shareholders' Meeting.

Supervisory Board

In 2009, the Supervisory Boards of all state capital companies in Latvia, including Latvenergo AS, were abolished in accordance with the Law on State and Municipality Capital Shares and Capital Companies of the Republic of Latvia, relegating capital company supervision functions to the Shareholders' Meeting.

The Supervisory Board has been retained as a supervisory body at fully-owned Latvenergo AS subsidiaries Elektrum Lietuva UAB and Elektrum Eesti OÜ, which operate outside the territory of Latvia and thus is not subject to the legislation of the Republic of Latvia. Supervisory functions at these subsidiaries are ensured by three Supervisory Board members, who simultaneously act as members of the Management Board at Latvenergo AS. Supervisory functions in Liepājas enerģija SIA, where the equity share of Latvenergo is 51%, are are carried out by a Supervisory Board of six individuals, three of whom are representatives of Latvenergo AS. The activity of the Management Boards of Sadales tīkls AS, Latvijas elektriskie tīkli AS and Enerģijas publiskais tirgotājs AS is supervised by a Shareholders' Meeting, whose interests are represented by the Management Board of Latvenergo AS.

Management Board of Latvenergo AS

Māris Kuņickis | Uldis Bariss | Āris Žīgurs | Zane Kotāne | Arnis Kurgs

	Experience	Education
Āris Žīgurs (49) **Chairman of the Management Board** Date appointed: 16.11.2012 Expiration of the term: 15.11.2015	▸ 2013 – present: Latvenergo AS, Chief Executive Officer ▸ 2010 – present: Latvenergo AS, Chairman of the Management Board ▸ 2010 – present: EURELECTRIC, Member of the Board of Directors ▸ 2011 – present: Latvian National Committee of the World Energy Council, Vice-president ▸ 1996 – 2010: Rīgas Siltums AS, President and Chairman of the Management Board	▸ Baltic Institute of Corporate Governance, Executive education, Chairman Certificate (2013) ▸ Baltic Institute of Corporate Governance, Executive education, Chairman Certificate (2010) ▸ Riga Technical University (RTU), Doctor of Sciences in Engineering, energy sector (2009) ▸ RTU Riga Business School, Master in Business Administration (2004) ▸ Latvian University of Agriculture, Faculty of Engineering, engineer – mechanic (1988)
Zane Kotāne (37) **Member of the Management Board** Date appointed: 16.11.2012 Expiration of the term: 15.11.2015	▸ 2013 – present: Latvenergo AS, Chief Financial Officer ▸ 2011 – present: Latvenergo AS, Member of the Management Board ▸ 2010 – 2011: Air Baltic Corporation AS, Head of the Unit for Business Analysis and Reporting at the Commercial Department ▸ 2005 – 2010: International investment group, Chief Financial Officer, investment finance consultant ▸ 2003 – 2005: Ernst & Young Hungary, Project manager at the Risk Management Division	▸ RTU Riga Business School, Master in Business Administration (2014) ▸ Baltic Institute of Corporate Governance, Executive education, Board Member Certificate (2011) ▸ Stockholm School of Economics in Riga, Bachelor in Economics and Business (1997)
Arnis Kurgs (47) **Member of the Management Board** Date appointed: 16.11.2012 Expiration of the term: 15.11.2015	▸ 2013 – present: Latvenergo AS, Chief Administrative Officer ▸ 2006 – present: Latvenergo AS, Member of the Management Board ▸ 1995 – 2006: Latvenergo AS, Head of the Legal Services Unit , Deputy Head of the Legal Unit, Legal Counsel ▸ 1993 – 1995: Saeima (the Parliament of the Republic of Latvia) Deputy Assistant, Consultant	▸ Baltic Institute of Corporate Governance, Executive education, Board Member Certificate (2010) ▸ School of Business Administration Turība, Professional Master in Law ▸ University of Latvia, Master in Law (1993) ▸ Malta Technical School, qualification of construction technician (1986)
Uldis Bariss (49) **Member of the Management Board** Date appointed: 16.11.2012 Expiration of the term: 15.11.2015	▸ 2013 – present: Latvenergo AS, Chief Commercial Officer ▸ 2005 – present: Latvenergo AS, Member of the Management Board ▸ 2005: Latvenergo AS, Project Director of Distribution Network Restructuring ▸ 2002 – 2004: Latvenergo AS, Economics Department Director ▸ 1996 – 2002: Lattelekom SIA, Head of Financial Planning and Control Division, Head of Management Accounting Sector	▸ Baltic Institute of Corporate Governance, Executive education, Board Member Certificate (2010) ▸ Stockholm School of Economics in Riga, Executive Master in Business Administration (2008) ▸ University of Latvia, Master in Economics (2004) ▸ International Chartered Accountant qualification (Association of Chartered Certified Accountants (ACCA)) (2000)
Māris Kuņickis (35) **Member of the Management Board** Date appointed: 16.11.2012 Expiration of the term: 15.11.2015	▸ 2013 – present: Latvenergo AS, Chief Operating Officer ▸ 2012 – present: EURELECTRIC, Deputy Member of the Board of Directors ▸ 2011 – present: Latvian Association of Power Engineers and Energy Constructors, Member of the Board ▸ 2010 – present: Latvenergo AS, Member of the Management Board ▸ 2006 – 2010: Rīgas gaisma SIA, Director, Executive Officer	▸ Baltic Institute of Corporate Governance, Executive education, Board Member Certificate (2013) ▸ RTU, Doctor's degree, Faculty of Power and Electrical Engineering ▸ University of Latvia, Master's degree, Faculty of Physics and Mathematics (2005) ▸ RTU Engineer's degree, Faculty of Power Stations, Networks and Systems (2002)

Audit Committee

	Experience	Education
	**Torben Pedersen** (65) **Chairman of the Audit Committee** Date appointed: 05.12.2012 Expiration of the term: 04.12.2015	▸ 2011 – present: Danish Chamber of Commerce in Lithuania, Member of the Management Board ▸ 2001 – 2011: Deloitte, Partner ▸ 1994 – 2001: Arthur Andersen,Partner	▸ Aarhus School of Business, Master in Economics and Audit (1974) ▸ Chartered Accountant qualification (Denmark)
	**Inita Hāne** (36) **Member of the Audit Committee** Date appointed: 05.12.2012 Expiration of the term: 04.12.2015	▸ 2014 – present: 4finance AS, Chief Audit Executive ▸ 2012 – 2014: Prime Holding SIA, Chief Financial Officer ▸ 2001 – 2012: PriceWaterhouseCoopers SIA, Senior Manager	▸ BA School of Business and Finance, Master in Finance (2013) ▸ Certified Internal Auditor (CIA) certificate (2009) ▸ International Chartered Accountant qualification (Association of Chartered Certified Accountants (ACCA)) (2007) ▸ Vidzeme University, Bachelor in Public Relations (2001)
	**Svens Dinsdorfs** (38) **Member of the Audit Committee** Date appointed: 05.12.2012 Expiration of the term: 04.12.2015	▸ 2015 – present: Elko Grupa AS, Director, Member of the Management Board ▸ 2006 – 2014: Elko Grupa AS, Finance Director, Member of the Management Board ▸ 2004 – 2006: Sirowa Riga AS, Finance Director ▸ 1998 – 2004: Air Baltic Corporation AS, Vice President in Strategic Development, Business Control Director	▸ Stockholm School of Economics, Master in Finance and Economics (2003) ▸ Stockholm School of Economics in Riga, Bachelor in Economics and Business Administration (1998)

Management Board

The Management Board of Latvenergo AS is in charge of the Group operations. After evaluating the required competencies, experience and planned sphere of responsibilities, the Shareholders' Meeting appoints five members of the Management Board for a term of three years.

The Management Board operates in accordance with the Articles of Association and the Rules of the Management Board approved by the Shareholders' Meeting. The key duties of the Management Board of Latvenergo AS are:

- management and representation of the company;
- accounting for the business activities of the company as well as for the accounting compliance with the law;
- management of the property of the company.

Management Board meetings are conducted in order to promptly manage the Group activities and pass decisions. 59 Management Board meetings were convened in 2014. The Management Board is entitled to pass decisions if at least three members of the Management Board are present, including the Chairman of the Management Board or his substitute.

Attendance of Management Board meetings:
Āris Žīgurs, Chairman of the Management Board – 53,
Zane Kotāne, Member of the Management Board – 25,
Arnis Kurgs, Member of the Management Board – 53,
Uldis Bariss, Member of the Management Board – 54,
Māris Kuņickis, Member of the Management Board – 53.

The Management Board is accountable to the Shareholder and Members of the Management Board are jointly liable for appliance of all binding laws and regulations, execution of decisions made at the Shareholders' Meetings, and the financial operation of the Group. All members of the Management Board are independent in their activities and do not have shareholding in the capital of contractual partners or associated companies. In addition, the Management Board of Latvenergo AS performs the functions of the Shareholder in the wholly-owned subsidiaries of Latvenergo AS.

Audit Committee

An independent Audit Committee operates in Latvenergo AS and it is accountable on its operation and performance to the Shareholders' Meeting of Latvenergo AS. Having evaluated the necessary competencies and professional experience, the Shareholders' Meeting elected three members of the Audit Committee. All members of the Audit Committee are independent specialists who are not involved in the operational activities of the Group, and they are authorised for a three-year term.

11 meetings of the Audit Committee were convened in 2014. In addition to the regular duties of the Audit Committee – supervision of the financial reporting process, internal control and risk management system efficiency as well as monitoring of the work of the internal audit and the external auditor – in 2014, the Audit Committee of Latvenergo AS approved the Internal Audit Assessment report, discussed matters related to the IT security environment at generation facilities, selection of the Head of Compliance and Internal Audit, and supervised appointment of external auditor for the 2015–2017 Annual Reports.

Internal Audit

The Internal Audit is an independent unit engaged in internal control of Latvenergo AS and all of its fully-owned subsidiaries. Its activities are monitored and its operational plan is approved by the Audit Committee. Complete independence and guaranteed access to all kinds of information are provided in order to ensure operation of the Internal Audit.

Based on the results of the assessment of audit system controls for audits performed in 2013 and 2014, the Internal Audit has prepared a general statement on the operational efficiency of the internal control environment at Latvenergo Group, in accordance with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors. The statement reflects positively on the operations of the Group, confirming that control activities introduced are sufficient for ensuring the achievement of specified goals and management of material risks. The Internal Audit has also identified and provided instructions for management regarding improvement of operation of the internal control environment.

Management Board Remuneration Policy

The applicable legislation of the Republic of Latvia – the Law on State and Municipality Capital Shares and Capital Companies, which was replaced by the Law on Management of Public Persons' Shares and Capital Companies as of 1 January 2015, and the Regulations of the Cabinet of Ministers issued on the basis of the law – specify uniform regulation of remuneration for members of the management boards at state-owned companies, including the right of management board members to receive compensation for performing additional duties at the company.

The monthly salary of the Chairman of the Management Board and CEO is linked to the average monthly salary of employees in Latvia during the preceding year as published in the Official Statistical Bulletin by the Central Statistical Bureau of the Republic of Latvia, multiplied by a ratio specified according to the capital company reference criteria (turnover, assets, number of employees). In 2014, the ratio applied for the Latvenergo AS Chairman of the Management Board-CEO does not exceed 10. The total remuneration for a Member of the Management Board-Chief Officer may not exceed 90% of the total remuneration of the total remuneration of the Chairman of the Management Board-CEO.

Once per year, following approval of the Annual Report, the Shareholders' Meeting may, decide on paying bonuses to Members of the Management Board for successful performance and fulfilment of goals set for the capital company. The amount of a bonus may not exceed one monthly salary of the Member of the Management Board. Members of the Management Board who are recalled of their position prior the expiration of the term may be entitled to severance payment that may not exceed two monthly salaries. The severance payment is not paid if the Member of the Management Board is discharged due to misuse of

power, neglect of duty, inadequate performance or if harm has been done to company.

Members of the Management Board are subject to the material benefits specified in the Latvenergo AS Collective Bargaining Agreement, including a monthly contribution to the Pension Fund equal to 5% of the monthly salary. The remuneration policy does not provide the option to pay the remuneration in the form of shares or share options. In 2014, the total remuneration paid to the Latvenergo AS Chairman of the Management Board-CEO Ā. Žīgurs – EUR 121,081; to the Member of the Management Board-CFO Z. Kotāne – EUR 54,242; to the Member of the Management Board-COO M. Kuņickis – EUR 109,348; to the Member of the Management Board-CAO A. Kurgs – EUR 108 331; to the Member of the Management Board-CCO U. Bariss – EUR 108,782.

Dividend Policy

The distribution of Latvenergo AS dividends is regulated by the Republic of Latvia Law on the Management of Public Persons' Capital Shares and Capital Companies (until 31.12.2014: Law on State and Municipality Capital Shares and Capital Companies) and by the Regulations of the Cabinet of Ministers of the Republic of Latvia No. 1471 of 15 December 2009 on the Procedure how to Determine and Transfer to the State Budget the Share of the Profit Payable for the Use of State Capital issued on its basis. In accordance with the aforementioned law and regulation, Latvenergo AS dividends for 2014 are payable at 90% of the net profit remaining at the disposal of Latvenergo AS, while For 2015, the law provides payment of 70%.

New Regulation to improve Corporate Governance

In October 2014, the Saeima (the Parliament of the Republic of Latvia) passed the Law on the Management of Public Persons' Capital Shares and Capital companies, effective from 1 January 2015 and replacing the former Law on State and Municipality Capital Shares and Capital Companies. The new regulation specifies the procedure for establishment, operation, liquidation and management of capital shares in state-owned and municipal companies, as well as specifies requirements for definition of goals, assessment of performance, disclosure of information and obliges state-owned companies to create medium-term strategies. Latvenergo Group already fulfils the information disclosure requirements specified by the law by publishing its quarterly interim financial reports and ensuring publishing of information on its website as specified in the Nasdaq OMX Riga AS corporate governance principles. Latvenergo Group is also implementing its current medium-term strategy until 2016.

In addition to other requirements, the new law stipulates:

- reinstatement of the Supervisory Board as a supervisory body as of 2016 in a large state-owned companies. In 2014, Latvenergo AS, Sadales tīkls AS and Latvijas elektriskie tīkli AS also qualifies in this category. The number of Supervisory Board members

will be determined by the Cabinet of Ministers of the Republic of Latvia. As the new regulation takes effect, no restrictions will apply that might prohibit Latvenergo Group from fulfilling all the principles of corporate governance specified by NASDAQ OMX Riga AS;

- differentiation of dividend payments in the following years according to the medium-term strategy of the company, the goals specified therein, and achievement of these goals;
- change in regulations of the management board operations, specifying a 5-year term for management board members. A new procedure for determining salary and bonuses for management board members has also been specified, providing a bonus payment up to two monthly salaries to a management board member for successful performance and accomplishment of goals. A member of the board discharged prior to the expiration of the term is entitled a severance payment in the amount up to three monthly salaries.

Changes in Governance of Subsidiaries

To improve transparency of electricity mandatory procurement administration, according to ammendments in legislation, Enerģijas publiskais tirgotājs AS, a subsidiary of Latvenergo AS, was established in early 2014, which took over the mandatory procurement administration functions from Latvenergo AS on 1 April 2014. Enerģijas publiskais tirgotājs AS is managed by three Members of the Management Board, who were selected based on their prior experience and competency within their scope of responsibility.

In accordance with the regulatory framework, as of 1 January 2015, Augstsprieguma tīkls AS took over most of the functions formerly implemented by Latvijas elektriskie tīkli AS, while Latvijas elektriskie tīkli AS continues to carry out transmission system asset management functions – financing and lease of transmission assets to Augstsprieguma tīkls AS.

Restructuring, comprised amendments to the Articles of Association of Latvijas elektriskie tīkli AS and change in the composition of the Management Board. The number of Members of the Management Board was decreased from former five to one as of 1 February 2015.

To strengthen the position of Elektrum Lietuva UAB in the electricity market of Lithuania and to focus activities on the planned opening of the Lithuanian electricity market for household customer segment, a new Member of the Management Board was elected as of 1 December 2014 after being selected in a competitive recruitment procedure. In order to strengthen the competences and knowledge transfer of the Management Boards of both retail subsidiaries on 28 February 2015 the retail director of the Group was elected in the Management Board of both retail subsidiaries. The Management Board of Elektrum Lietuva UAB comprise of three members and the Management Board of Elektrum Eesti OU comprises of two members.

1.5 Stakeholder Engagement

4.12 Latvenergo Group is the largest power supply utility in the Baltics. Its range of socially and economically essential services and the scale of its activity sets Latvenergo Group interaction with a wide range of stakeholders and the implied responsibilities.

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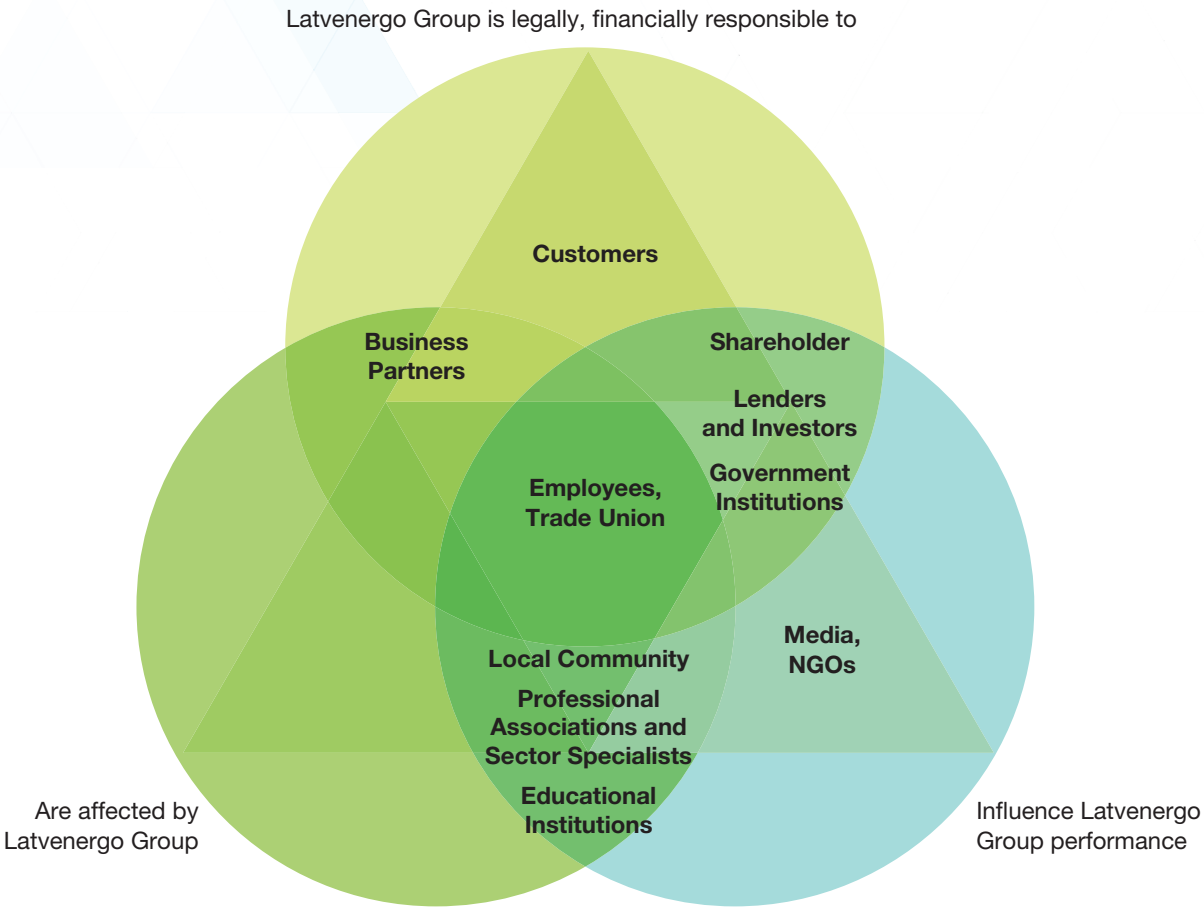
Comprehensive cooperation with stakeholders

Latvenergo Group identifies its stakeholders through internal and external discussions, consultations and seminars, and they are grouped by mutual impact and responsibilities of the Group towards them in the Stakeholder map. Identification and grouping were carried out taking into account the voluntary AA 1000 Stakeholder Engagement Standard that sets the pattern of the best practice for quality stakeholder engagement, both at a strategic and operational level.

Cooperation of Latvenergo Group with stakeholders is carried out on several levels:

- consult – identification of current issues;
- negotiate – collective discussions;
- involve – exchange of opinion while acting independently;
- collaborate – joint decision-making and operation.



In 2014, Latvenergo Group initiated a new cycle of stakeholder engagement in accordance with the AA 1000 standard. As a result of management opinion poll, cooperation aspects and priority subgroups of stakeholders were identified for all aspects of sustainability. Subsequent cooperation stages include:

- defining topics important to priority stakeholders;
- evaluating the situation, developing and implementing an activity plan;
- stakeholder feedback.

Stakeholder	Representatives	Material issues	Engagement methods	Level of engagement
Business partners	Construction companies and equipment suppliers, service providers, energy resource suppliers, energy generators and suppliers, etc.	Clear and transparent criteria for tenders that ensure fair competition for all suppliers; Electricity transmission and distribution; Mandatory procurement of electricity and Subsidised Energy Tax; Development of electricity interconnections.	The Group regularly surveys its current and potential business partners, defining areas for improvement. The Group maintains and regularly updates its Register of Qualified Tenderers and invites suppliers to submit applications for inclusion into its qualification system. A corporate reputation survey was conducted in the Baltics in 2014.	Involve
Customers	Current and potential customers (households and legal entities)	Electricity products, tariffs, pricing of related services; Quality of services provided; Customer satisfaction with service and information; Settlement options and services; Distribution services; Reducing the frequency and duration of unscheduled power outages.	The Group prepares and regularly sends Electricity Market Overview to corporate customers. In 2014, prior to the complete opening of the electricity market, the Group sent each household in Latvia a product offer tailored to its consumption patterns. Latvenergo Group conducts annual customer satisfaction surveys and undertakes activities to increase customer satisfaction.	Involve
Employees, trade union	Existing and potential employees, trade union *Enerģija*	Collective Bargaining Agreement; Occupational safety and health; Rights and responsibilities of the employer and employees; Productivity and motivation; Competencies of employees; Remuneration and employee welfare.	Latvenergo Group conducts annual employee survey and quarterly assessment of employee performance. During annual development interviews employees and their managers discuss achievement of annual objectives and further activities for improving competencies. In 2014, representatives of the Group had 17 meetings with the trade union on mutually important issues. On 17 April 2014, Collective Bargaining Agreement until 31 December 2016 was signed.	Negotiate and involve
Government institutions	Ministry of Economics of the Republic of Latvia , the Public Utilities Commission (PUC), the Competition Council, et al.	Development of Latvian and EU energy policies and regulatory provisions; Compliance with laws and regulations; Improvement of the regulatory environment; Energy tariffs and their components.	Latvenergo Group experts assist in developing the energy industry policy documents and legislative acts. Information about items drafted in 2014 is available in the Section 2.3 “Society”. Latvenergo Group regularly submits information on its operations and financial results to PUC. In 2014, the PUC accepts the projects of common interest, which provides construction of new power interconnection between Estonia and Latvia and passed a decision on division of costs between Latvia and Estonia. Enerģijas publiskais tirgotājs AS, a subsidiary of the Group established in 2014, submitted a calculation of the mandatory procurement public service obligation fee to the PUC for approval. Latvenergo Group cooperates with the Competition Council within the regulatory framework.	Consult and involve
Institutions of education and science	Institutions of higher, secondary and vocational education, academic institutions, Ministry of Education and Science of the Republic of Latvia.	Educational programmes satisfying job market demands; Content of educational materials for children and youth; Electrical safety.	Educational Centre of Sadales tīkls AS provides practical training and workshops to students from different educational institutions. In cooperation with the Latvia University of Agriculture and the Riga Technical University, theoretical and practical training of specialists continues, with experts of the Group participating in study programmes as guest lecturers and guiding student visits at energy generation facilities and other sites. The Group annually organises graduation paper and scholarship competitions for students. In cooperation with the Latvian Academy of Sciences, it awards scientists for their contributions to the energy industry.	Collaborate

Stakeholder	Representatives	Material issues	Engagement methods	Level of engagement
Lenders and investors	Banks, international financial institutions, European Commission, bondholders	Latvenergo Group financial results; Significant events; Compliance with the terms of agreements.	On the Latvenergo Group website, investors are provided with up-to-date information about financial results and performance indicators, including quarterly publication of interim financial reports. In 2014, procurement of a bank loan was concluded, attracting EUR 150 million of borrowed funds, and a EUR 100 million loan agreement was concluded with the European Investment Bank.	Consult and collaborate
Local community	Residents of Latvia, local governments, residents living near the Group facilities	Latvenergo Group corporate social responsibility (CSR) activities; Environmental protection; Modernisation of generation facilities and electricity network infrastructure projects; Provision of Latvenergo Group services and problem solving; Mandatory procurement public service obligation fee.	The Group communicates with Latvian society and involves it in resolving current issues. In 2014, the Group has conducted 4 public discussions regarding the Latvia–Estonia third interconnection. The society opinion were also surveyed as part of the Corporate Reputation Study 2014.	Consult, involve and negotiate
Media, non-governmental organisations (NGOs)	Journalists, NGOs	Latvenergo Group operations and corporate governance; Current issues of energy sector policies in Latvia and the EU; Mandatory procurement process and mandatory procurement public service obligation fee; Latvenergo Group CSR activities.	Latvenergo Group cooperates with national and regional media. In 2014, approximately 100 press releases were issued, and a number of media events and press conferences were held, including ones devoted to *Elektrum* products for households. On its own website and in the social media, the Group regularly provides up-to-date information about its activities and answers questions from the media. The media were also one of the groups of respondents for the Corporate Reputation Study 2014. Latvenergo Group also provides information related to its core business to non-governmental organizations, whose activities are focused on development of society and protection of individuals' rights.	Consult and involve
Professional Associations and Sector Specialists	See below "Associations, organisations and unions"	Latvenergo Group operations and corporate governance; Current issues of energy sector policies in Latvia and the EU; Mandatory procurement process and mandatory procurement public service obligation fee; Latvenergo Group CSR activities. Policies and regulatory environment of energy sector in the EU and Latvia; Development trends and innovations in the energy sector; Technologies; Use of renewable energy sources.	In 2014, the Group meets with industry specialists to discuss development of the energy industry and related sectors and the regulatory environment at the energy forum organised by the LETA news agency, at the Latvian Transatlantic organisation (LATO) Riga conference as well as in other conferences, seminars and workgroups.	Consult and involve
Shareholder	Ministry of Economics of the Republic of Latvia	Latvenergo Group strategy, governance, investments and performance.	Information about the number of Shareholders' Meetings and major decisions passed in 2014 is available in the Section 1.4 "Group Governance".	Collaborate

Associations, Organisations and Unions

Membership in national associations and professional organisations as well as international organisations and unions provides Latvenergo Group with up-to-date information on current developments in energy and related industries, as well as representation of its interests during drafting of national and international policy documents, standards and legislative acts.

National associations and professional organisations

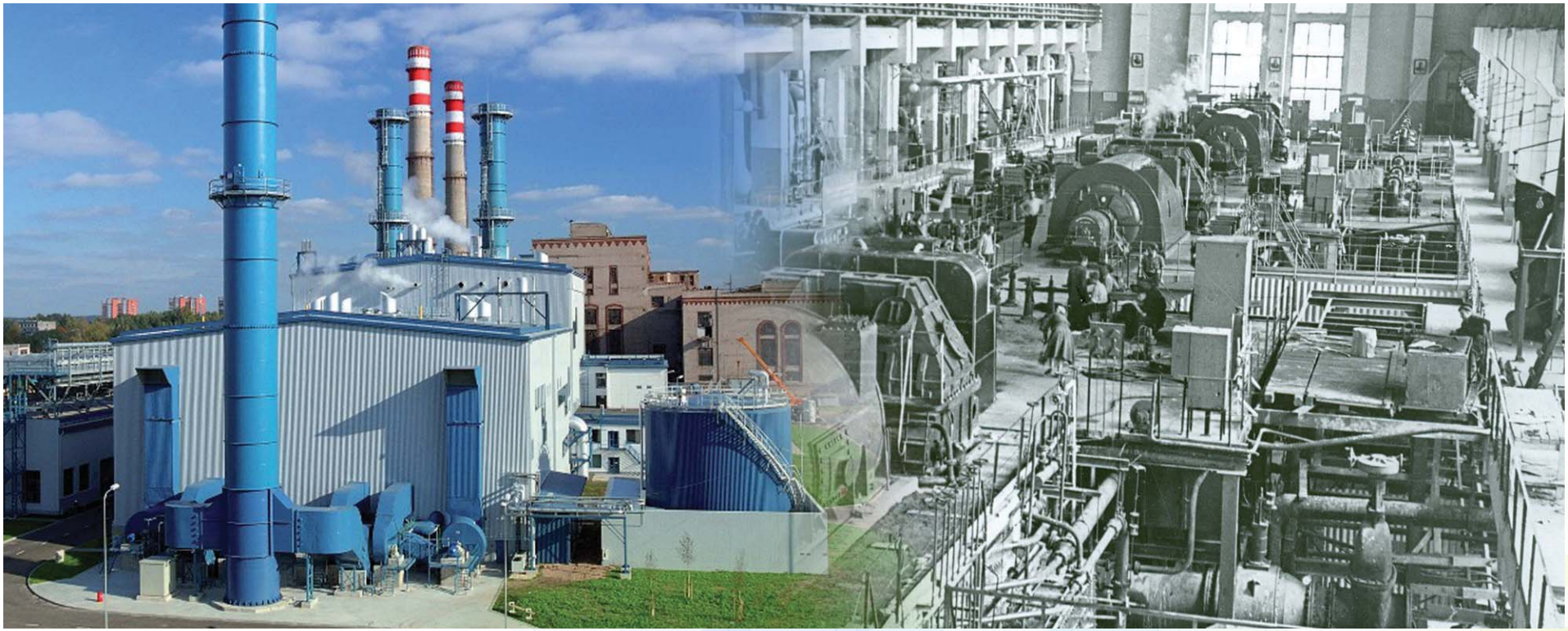
Association, professional organisation	Reason for participation
Latvian Association of Power Engineers and Energy Constructors (LAPEEC)	Participation in the LAPEEC allows the Group to get involved in evaluation and development of electrical power engineering and energy construction regulations and standards, organisation of personnel certification and training programmes, conducting of scientific research and scientific and technical events related to the electrical power engineering, also cooperating with educational institutions with electricity power engineering direction including accreditation of study programmes.
Latvian Association of Large Dams	Membership in the association ensures exchange of information about technical, economic and environmental aspects of dams and hydroengineering structures, innovations, and safety issues. The association is represented at the International Commission on Large Dams.
Latvian Association of Heat Supply Companies (LAHC)	The LAHC provides Latvenergo Group with current information about the industry's development trends and represents the interests of Group at state and local government institutions on topics of district heating, cogeneration, and generation of electricity from renewable energy sources.
Latvian Chamber of Commerce and Industry (LCCI)	The LCCI represents the interests of its members, including Latvenergo Group, during drafting of general policy documents and legislation regarding commerce and the energy industry at state and local government institutions.
Employers' Confederation of Latvia (ECL)	The Employers' Confederation of Latvia ensures representation of employers' interests during drafting of policy documents and legislation regarding labour law and labour protection, and fosters economic, educational and social policy environment that promotes business development. Latvenergo Group participates in the ECL Platform for Energy and the Environment, cooperates in developing labour protection requirements, labour law and corporate social responsibility projects. Representatives of Latvenergo Group regularly participate in ECL competitions, conferences and workshops.
Institute for Corporate Sustainability and Responsibility, Latvian Advisory Council	Participation in the advisory council improves understanding of corporate sustainability and responsibility issues, providing reliable measurements of sustainability and know-how in applying international practice. Latvenergo Group annually takes part in the Latvian Sustainability Index conducted by the Institute for Corporate Sustainability and Responsibility, which is based on an internationally recognised methodology for evaluating corporate sustainability and responsibility.
World Energy Council, Latvian National Committee (WEC LNC)	Latvenergo Group representatives actively participate in WEC LNC work, particularly on topics related to state electricity policy and strategy. Participation in the WEC LNC provides the opportunity to receive current information about the research, extraction, transport, transformation and efficient use of energy resources both on national and international scale.

International organisations and unions

International organisation, union	Reason for participation
Baltic Development Forum (BDF)	At the BDF, decision-makers and experts from the Baltic Sea Region countries discuss the development strategy of the region, ways to foster competitiveness and matters related to cooperation. Latvenergo Group cooperates and exchanges information with institutions and companies of the Baltic Sea region, as well as participates in a dialogue on establishing a common EU energy market and partnership with Russia. In June 2014, representatives of Group took part in the BDF 16th annual summit and the 5th European Union Strategy Forum for the Baltic Sea Region in Turku, discussing current events in the energy sector and the reliability of energy supply within the region.
Baltic Institute of Corporate Governance (BICG)	At the BICG, Latvenergo Group management gains deeper insights into the best governance practices and communicates the readiness of the Group to implement these practices. In March 2014, representatives of the Group took part in the BICG annual report meeting and conference in Vilnius.
Union of the Electricity Industry (EURELECTRIC)	EURELECTRIC represents the interests of the EU electricity industry in order to enhance its competitiveness on an international scale. Participation of Latvenergo Group representatives in the union is ensured on the basis of a representation agreement by the Latvian Association of Power Engineers and Energy Constructors, a member of EURELECTRIC. Participation in EURELECTRIC gives Latvenergo Group access to the latest issues within the energy industry and participation in development of EU policy documents, legislation, EURELECTRIC research and positions. Further information about participation of Latvenergo Group specialists in drafting various EURELECTRIC positions in 2014 is available in the Section 2.3 “Society”.
Organization for Economic Cooperation and Development (OECD), Business and Industry Advisory Committee (BIAC)	Representation on the BIAC allows Latvenergo Group to participate in discussions and decision-making on matters of international importance that concern business development. The BIAC is involved in shaping OECD policies and provides members with current information about the business development initiatives of the OECD. Negotiations of accession of Latvia to OECD continued in 2014. Gains from accession of Latvia to the OECD will include a better investment climate and possible upgrading of the credit rating of the state. The OECD provides best practice and standards of good governance, including the Guidelines for Multinational Enterprises and Guidelines on Corporate Governance of State-Owned Enterprises.
Technical association for power and heat generation *VGB PowerTech e.V.*	Representation in the association ensures information to Latvenergo Group about the best practise in exploitation and development, as well it helps to reach goals of the efficiency in energy generation by making comparative analysis of efficiency measurements.

Commitments to External Initiatives

In addition to the provisions of the applicable legislation Latvenergo Group implements and observes certified integrated management system by international requirements of the following external standards: LVS EN ISO 14001:2004/Cor 1:2009 “Environmental management systems – Requirements with guidance for use”, LVS EN ISO 9001:2009 “Quality management systems – Requirements”, LVS ISO 10006:2003 “Quality management systems - Guidelines for quality management in projects”, LVS OHSAS 18001:2007 “Occupational Health and Safety”. Compliance with the requirements of the standards is audited and certified by the certification company Det Norske Veritas Latvia SIA. Also, in its business activities Latvenergo Group in collaboration with stakeholders voluntarily integrated activities to improve social welfare and environment, observing principles of social responsibility in compliance with the ISO 26000 voluntary standard and stakeholder engagement in compliance with AA 1000 standard.



1.6 Group Management

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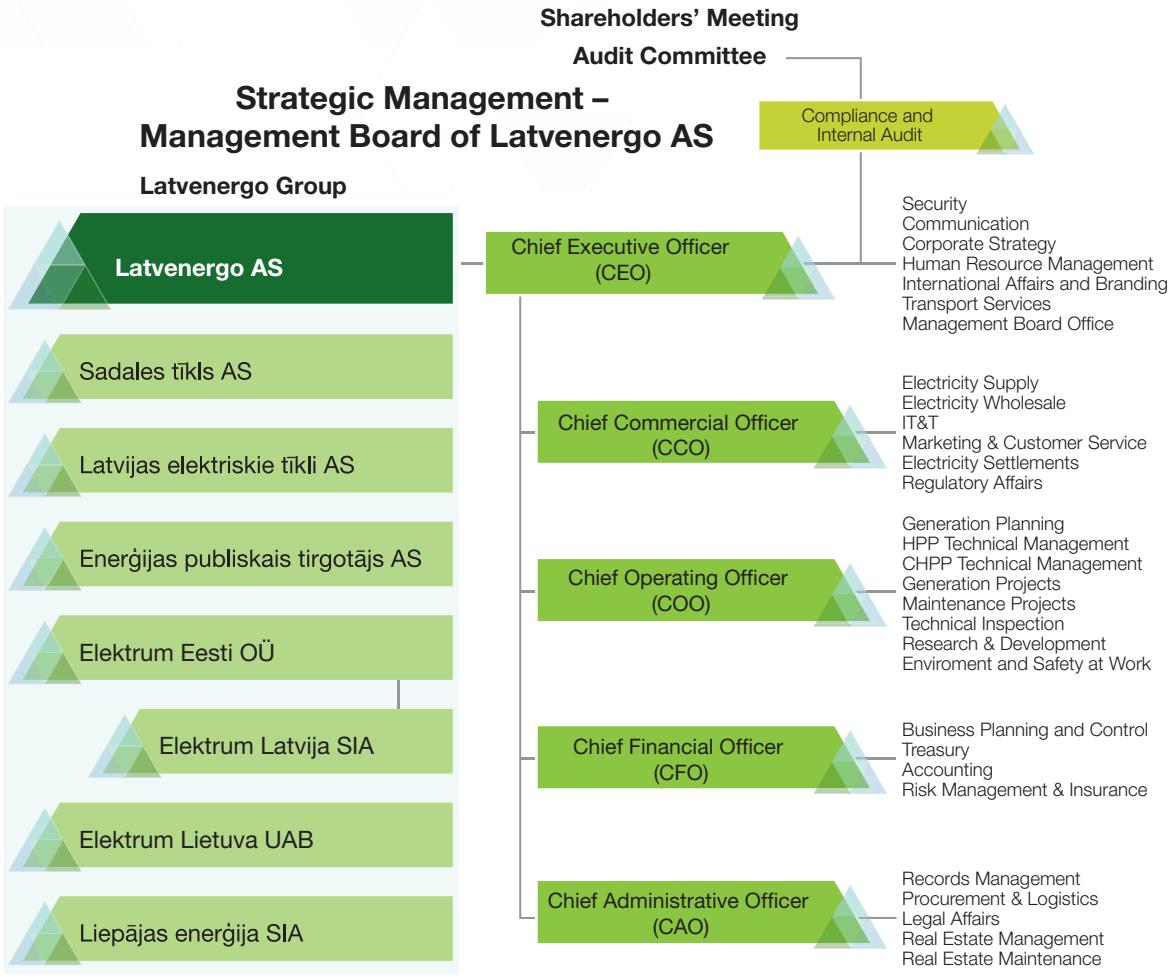
The management model of Latvenergo Group is based on best practices of corporate governance, separating strategic and operational management and defining joint and individual accountability.

The strategic management of Latvenergo Group is ensured by the Management Board, whose main duties are to define the strategic direction of the Group, its development plans, goals and policies. The Chief Officers ensure the operational management of Latvenergo AS, including the achievement of specified goals, implementation of the strategy and developed policies, and other everyday duties delegated by the Management Board.

The areas of accountability of the Chief Officers are clearly defined and subordinated functions and supervision of administrative decisions within the framework of these functions are separated. Accordingly, Chief Officers are individually accountable to the CEO for the operational activity of the subordinated functions, ensuring cooperation of their division with the functions of other divisions, and adoption of resolutions according to the strategy of the Group. The CEO is accountable to the Management Board for the operational activity of subordinated functions. Considering the previous experience and knowledge about the Group operations, these duties are performed by the Members of the Management Board of Latvenergo AS:

- Āris Žīgurs – Chief Executive Officer (CEO)
- Uldis Bariss – Chief Commercial Officer (CCO)
- Māris Kuņickis – Chief Operating Officer (COO)
- Zane Kotāne – Chief Financial Officer (CFO)
- Arnis Kurgs – Chief Administrative Officer (CAO)

Latvenergo Group Organisational Structure



COSO cube

To ensure successful monitoring and efficiency of Latvenergo Group operations, the Group management has introduced and continually improves its integrated internal control system in accordance with the principles developed by COSO (Committee of Sponsoring Organizations of the Treadway Commission). The system consists of five key elements, the implementation of which leads to achieving the goals of internal control: efficiency of the Group operations, credibility of information disclosed in reports and icompliance with applicable legislation and other regulations. By mutually integrating these principles, the management is able to monitor the operations of the Group, while focusing on further development and achievement of set goals.

Control Environment

Key elements of the control environment are the Group vision, mission, values, development strategy, organisational structure, delegation of duties, management philosophy and operational style.

The purpose of the vision, mission and strategy is to create a common understanding of development goals at Latvenergo Group. The strategy guides the organisational structure, which Latvenergo Group implements on a functional basis, encouraging specialisation and development of competencies within a company or business function, ensuring prompt and responsible decision-making and optimal use of resources. A detailed description of the vision, mission and values of the Group is disclosed in the Section 1.2 “Group Profile”.

Risk Assessment

Latvenergo Group operations are characterised by a responsible, proactive attitude towards risks by implementation and improvement of the risk management system. Risk management is aimed at ensuring implementation of the development strategy and achievement of the goals of the Group, while minimising the impact of adverse events.

Risks that are identified within the risk management process and affect the operations of Latvenergo Group are subdivided into five material types of risk based on their key characteristics:

- **strategic risks** – include major uncertainties that arise from the business operations of the Group and that may have a negative impact on implementing the strategic goals. Risks included in the strategic risk type are directly controlled by Latvenergo Group;
- **legal environment risks** – results from changes in the regulatory environment of the Group that may negatively impact the operations of the Group or ability to achieve the goals of the Group. Legal environment risks are not directly controlled by Latvenergo Group;
- **safety risks** – include risk factors, which occurrence, may cause financial losses to the Group assets or disrupt the operations of the Group by increasing the degree of threat. Safety risks not always are directly controlled by Latvenergo Group;
- **external risks** – include factors independent from the operations of the Group that stem from changes in supply and resource markets that can affect the operations of the Group and they are not directly controlled by the Group;
- **operational risks** – include contingencies and uncertainties that may appear from operational processes of the Group. These risks are directly controlled by Latvenergo Group.

Latvenergo Group is aware of the increased complexity and unpredictability of risks caused by environmental changes and connection with processes in other sectors, countries, and geopolitical regions. Therefore, risk management is constantly improved and its elements are integrated into a unified system.

Control Measures and Activities

To ensure the compliance of the operations of Latvenergo Group with vision, mission, values, development strategy and applicable external legislation, the management has devised and continually improves control measures in the form of workgroups, reports, and internal documents (including the Code of Ethics, Risk Management Policy, Fraud and Corruption Risk Management Policy, and Corporate Social Responsibility Policy). The management promotes continual improvement of internal control documents, adapting them to changes in laws and regulations, development of the industry, and commercial processes.

Similarly, to ensure the fulfilment of the goals set in long-term strategy of Latvenergo Group, the goals of the Group are developed and their achievement is monitored, while the annual Goals of the Group are cascaded down to individual targets for employees.

Information and Communication

Internal information and control systems of Latvenergo Group provide verified, accurate and reliable information for communication both internally and to external stakeholders.

Latvenergo Group management pays a particular attention to ensuring employee awareness, regularly communicating long-term and short-term plans. Core channels of information exchange and communication are intranet, employee newsletter *Latvenergo Vēstis* (Latvenergo News), internal record-keeping systems, electronic communication (e-mail), internal databases, employee forums, workshops, etc. To ensure feedback, the Group relies on internal opinion surveys, employee development interviews, and evaluation of competencies. Workgroups are established, delegating representatives with different skills, know-hows and

competencies to ensure exchange of employee opinions and knowledge, raise employee motivation, and encourage their involvement in decision-making.

Monitoring

Through constant improvement of the Group governance system the monitoring of management performance is carried out by an external auditor, the Audit Committee of Latvenergo AS, and Internal Audit. All of these institutions are independent in their operations.

Supervisory bodies

Institution	Objective	Monitoring scope and tasks	Reporting
Auditor	To express opinion on the compliance of the Group financial reports with the International Financial Reporting Standards	▸ audit of financial reports ▸ evaluation reasonableness of accounting principles and major management accounting estimates.	Once a year, after the finalization of the consolidated financial statements, the Auditor reports to the Shareholders' Meeting
Audit Committee	To oversee the preparation process of the Group financial reports and the operation of internal control systems, thus stimulating transparency in the company	▸ supervision of the preparation of financial reports ▸ supervision of operations of the internal controls and risk management systems ▸ monitoring of activities of the Internal Audit and external auditor and implementation of the Fraud Risk Management Plan.	At least once a year, the Audit Committee reports on its activities and performance of tasks to the Shareholders' Meeting
Internal Audit	To evaluate and assist governance bodies and organisational units in improvement of the efficiency of risk management, internal controls and corporate governance processes	▸ evaluation of the efficiency of internal controls, risk management and corporate governance processes, preparation of recommendations for improvement and supervision of its implementation	Every quarter the Internal Audit Director reports to the Audit Committee about the audits performed and the status of implementation of audit recommendations

Awards

Awards and recognitions received in 2014 affirm the quality of services provided by Latvenergo Group and its well-considered processes in energy generation and supply, occupational health and safety, environmental protection, customer service and cooperation with stakeholders.

Most valuable company in Latvia

For the sixth year in a row, Latvenergo AS has been acknowledged as the most valuable enterprise of Latvia on the Top 101 Most Valuable Companies of Latvia (Latvijas vērtīgāko uzņēmumu TOP 101) list compiled by Prudentia IBS and the NASDAQ OMX Riga exchange in cooperation with Lursoft IT SIA and Kapitāls magazine. According to the study, the value of Latvenergo AS in 2014 was EUR 1.3 billion – 15% higher than the previous year. The study praised the corporate governance of Latvenergo AS, its transparency and quality of information disclosed to the public (90 out of 100 points).

Likewise, in 2014, a list of Top 10 Most Valuable Companies in Baltics has been created, where Latvenergo AS is ranked fifth.

Platinum category in Latvian Sustainability Index

2014 was the second year in a row that Latvenergo AS received the Platinum (highest) category from the Sustainability Index of Latvia, which assesses the sustainability of companies based on international requirements in all aspects of corporate social responsibility. Latvenergo AS participates in the Index for five years and was awarded the Silver category in 2010 and 2011, Gold in 2012, and Platinum in 2013.

At the CSR Idea Market conference held during the Sustainability Week on 4 June 2014, Latvenergo AS received a Family-Friendly Company Certificate from the Ministry of Welfare of the Republic of Latvia for the third year in a row. It reflects care for the families of the company's employees and customers, promoting loyalty to the company and enhancing its reputation.

Corporate reputation leader in the electricity, gas and water supply sector

The Latvian Corporate Reputation TOP organised by Nords Porter Novelli SIA and the Dienas Bizness newspaper listed Latvenergo AS as the leader in the electricity, gas and water supply sector for the third year in a row.

Latvenergo AS: TOP 500 most valuable company

At the ceremony honouring the largest, most profitable and most viable Latvian companies held in October 2014 by the *Dienas Bizness* newspaper, Lursoft IT SIA and the Investment and Development Agency of Latvia, Latvenergo AS received the TOP Most Valuable Company award as the most valuable Latvian company and the largest company in the energy industry of Latvia in 2013. TOP 500 is an annual periodical with 18 year history that has been evaluating companies in Latvia in various industries for their financial performance broken down by the industry and key financial performance indicators (profit, EBITDA, long-term investments, etc.).

Modern, efficient and environmentally friendly second power unit at Riga TEC-2

In June 2014, Latvenergo AS received a special award at the annual contest "For the best work in electrical construction, design and manufacture of electricity supply and electrical facilities in 2013", organised by the Association of Electrical and Power Engineers of Latvia, for managing design and construction works and subsequently commissioning the new, highly efficient and environmentally friendly second power unit at the Riga second combined heat and power plant (Riga TEC-2).

The Most Attractive Employer

In a survey published by the recruitment and executive search company WorkingDay Latvia in September 2014 and in April 2015, the Latvian energy supply company Latvenergo AS was recognized as the most attractive employer in Latvia in 2013 and in 2014.

In the Top Employer 2014 survey conducted by the online recruitment company CV-Online Latvia at the end of the year, Latvenergo Group was ranked as the most attractive employer in Latvia and the TOP employer in the industry sector for the third year in a row.

The main reasons reported by those willing to work at Latvenergo Group include the stability and visibility of the company, good image and reputation, motivating and competitive salaries, career development prospects, and modern and innovative business practice.

Excellent Employer's DNA 2014

In 2014, a project of Sadales tīkls AS "Establishment of the expert group", within which employee self-formed groups improve their professional competencies and make suggestions for technical development of the company, has won the first place in the competition "Excellent Employer's DNA 2014" under nomination "Employee initiative and responsibility".

Acknowledgements for the electrical safety campaign for children and young people

In the communication and public relations contest Baltic PR Awards 2014 finals, Sadales tīkls AS received third place in the Corporate Sustainability and Responsibility category for its electrical safety campaign for children and youth titled "Don't Approach! In the game with electricity the looser will be YOU!". The campaign included visits to 210 educational institutions by 96 employees of Sadales tīkls AS during the school year, educating more than 15,000 children about electrical safety.

Sustainability report quality

Latvenergo Group received the 2014 Green Frog Award from Deloitte auditing company for a high-quality Sustainability Report. Sustainability Reports of companies from Central and Eastern Europe are reviewed and evaluated by an independent group of experts, grading them on such factors as the level of detail, clarity, comparability and consistency of disclosed data and extent of application of the latest sustainability reporting trends.

Namejs Prize 2014

The Latvian Chamber of Commerce in Lithuania and the Embassy of the Republic of Latvia in the Republic of Lithuania awarded the Namejs Prize 2014 in the nomination of the Largest Tax Contributor to the Lithuanian Budget to Elektrum Lietuva UAB, for paying more than LTL 38 million (EUR 11 million) in taxes in 2013.

1.7 Corporate Governance Report / Report of the Audit Committee

We implement corporate governance principles of NASDAQ OMX Riga AS

The Management Board of Latvenergo AS has evaluated the compliance of the company with *the Principles of Corporate Governance and Recommendations on their Implementation* approved by NASDAQ OMX Riga AS on 1 June 2010. These principles prescribe the requirements with respect to the Shareholders' Meeting, the Management Board and the Supervisory Board as well as disclosure of information, internal control and risk management and remuneration policy of governing bodies.

Upon evaluating both the governance system of the company and its compliance with the principles in 2014, the Management Board of Latvenergo AS confirms that the company in all key material aspects has complied with all the principles of corporate governance, apart from those relating to the restrictions under the Law on State and Municipality Capital Shares and Capital Companies (in force until 1 January 2015), which, along with other requirements, provides that no supervisory board is established for state capital companies.

As of 2015, Law on the Management of Public Persons' Capital Shares and Capital companies is applied to operations of the company, providing future opportunity to reinstate the Supervisory Board as a supervisory body thus no restrictions will apply that might prohibit fulfilling all the principles of corporate governance specified by Nasdaq OMX Riga AS.

Latvenergo AS Corporate Governance Report is publicly available on the Latvenergo website http://www.latvenergo.lv and the website of NASDAQ OMX Riga http://www.nasdaqomxbaltic.com. Detailed information on compliance with the corporate governance principles is presented in the Section 1.4 "Group Governance" and 1.6 "Group Management".

From overall 83 NASDAQ OMX Riga corporate governance principles, 61 are complied fully, 22 are not applicable to company operations.

Report of the Audit Committee

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

No restrictions have been imposed on our actions, and representatives of Latvenergo AS have ensured us with availability of the necessary information. We have informed the members of the Management Board of our opinions and related suggestions based on the work of the Audit Committee.

In 2014, the activities of the Audit Committee were focused on the following issues that have an impact on operations of the Group:

- leading recruitment of Head of internal audit and compliance department;
- supervision of the Fraud risk management plan execution;
- monitoring of internal audit and external auditor operations.

Having assessed the information and processes reviewed during the financial year 2014, nothing has come to our attention that make us to believe that internal controls of Latvenergo AS do not provide a reliable basis for the preparation of the 2014 Annual Report.

We submit the summary of our assessment to the Shareholders' Meeting of Latvenergo AS on the date of approval of Consolidated Annual Report 2014.

Torben Pedersen,
Chairman of the Audit Committee

Inita Hāne,
Member of the Audit Committee

Svens Dinsdorfs,
Member of the Audit Committee

1.8 Description of Operating Segments

EU1
EU2
EU3

The operation of Latvenergo Group is organised along three operating segments: generation and supply, distribution and management of transmission system assets.

The generation and supply segment includes generation of electricity and thermal energy, conducted by Latvenergo AS and Liepājas enerģija SIA, as well as electricity wholesale and retail in the Baltics carried out by Latvenergo AS and subsidiaries Elektrum Eesti OÜ and Elektrum Lietuva UAB. As of 1 April 2014, the functions of public trader are handled by subsidiary Enerģijas publiskais tirgotājs AS.

> Sustainable development in generation and supply, distribution and transmission system asset segments

The distribution segment provides electricity distribution services in Latvia. Services are provided by Sadales tīkls AS – the largest distribution system operator in Latvia.

The management of transmission system assets segment is ensured by Latvijas elektriskie tīkli AS – the owner and manager of transmission assets that leases them out to the transmission system operator – Augstsprieguma tīkls AS.

1.8.1 Generation and supply

> Decisive leader in the Baltic electricity market

Generation and supply is the largest operating segment for the Group in terms of both turnover and asset value. Activities within this segment include supply of generated and purchased electricity to retail customers in the Baltics as well as in wholesale – mostly on the Nord Pool Spot exchange – and production and supply of thermal energy for district heating purposes in Liepaja and Riga. Major part of generation and supply segment revenues are unregulated, while the tariff-regulated operational revenues comprise revenues from:

- supply of electricity to households until the full opening of electricity market in Latvia on 1 January 2015;
- generation of electricity (payment for installed capacity) and thermal energy at Riga combined heat and power plants;
- generation of electricity and thermal energy at Liepāja generation facilities and small plants.

Latvenergo Group is currently the largest electricity supplier in the Baltics. In 2014, the electricity market share of Latvenergo Group in the Baltics was 35%. The total amount of electricity supplied in retail and wholesale (including auxiliary consumption of electricity) in 2014 constituted 10,451 GWh, 83% of which were supplied to retail customers.

In 2014, 5,573 GWh or 64% of electricity supplied by Latvenergo Group in retail was *green energy* – electricity generated from renewable energy resources, i.e., hydropower, wind energy, biogas and biomass etc power. The green energy includes electricity generated at Latvenergo Group generation facilities and purchased from other producers on the Nord Pool Spot exchange or in bilateral transactions.

In 2014, Latvenergo Group power plants generated 3,625 GWh, which represents 35% of total electricity supply. 54% of electricity were generated from renewable energy resources. The rest of the electricity was purchased mostly on the Nord Pool Spot exchange, in bilateral transactions, and within the framework of mandatory procurement.

Since mid-2014, Latvenergo Group trades all of the generated electricity on the Nord Pool Spot exchange and at the same time procures electricity for supply of customer consumption, multiple times increasing electricity supply and turnover in the Latvian bidding area, thus ensuring greater liquidity and transparency on the market. The amount of electricity generated by Latvenergo Group facilities and supplied and purchased on the exchange for auxiliary consumption purposes was not included in the Latvenergo Group electricity balance. The generation capacity of Latvenergo Group also ensures electricity supply support services, such as provision of emergency back-up capacity and supply of regulating electricity to transmission system operators, as well as supply of balancing electricity.

Latvenergo Group electricity balance sheet 2014

Latvenergo Group electricity balance sheet (2010 – 2014)

	Unit	Method	2010	2011	2012	2013	2014
Retail electricity supply	GWh	m/c	7,620	8,980	8,287	7,954	**8,688**
Wholesale electricity supply*	GWh	m/c	1,414	2,283	1,886	1,588	**1,562**
Electricity for own use	GWh	m/c	174	173	177	215	**201**
TOTAL	GWh		9,208	11,436	10,350	9,757	**10,451**
Gross electricity generation	GWh	m/c	5,869	5,285	5,077	4,854	**3,625**
Electricity procured within the mandatory procurement process**	GWh	m/c	692	754	1,019	1,247	**1,235**
Purchased electricity**	GWh	m/c	2,647	5,397	4,254	3,656	**5,590**
TOTAL	GWh		9,208	11,436	10,350	9,757	**10,451**

* including ancillary electricity services and electricity wholesale operations to reduce the price risk
** excluding electricity generated by Latvenergo Group
m – measured, e – estimated, c – calculated

Generation

Latvenergo Group is the leading electricity and thermal energy generator in Latvia – its power plants provide approximately 70% of all electricity generated in the country, satisfying more than a half of the electricity demand in Latvia. Latvenergo Group also accounts for approximately 70% of the overall thermal energy output in Riga.

Effective and balanced generation portfolio

The total installed electrical capacity at Latvenergo Group generation facilities at the end of 2014 was 2,569 MW_{el}, about 85% of total installed capacity at power plants in Latvia. The total installed thermal energy capacity of generators operating at Latvenergo Group facilities is 1,844 MW_{th}.

Latvenergo Group has a balanced electricity generation portfolio, comprising hydropower plants and combined heat and power plants. Most of the electricity and thermal energy is generated by the three Daugava hydropower plants (HPPs) and two Riga combined heat and power plants (CHPPs). The Daugava HPPs generate environmentally friendly electricity from water – a renewable energy source – while the primary fuel for the highly efficient, state-of-the-art Riga CHPPs is natural gas – the friendliest type of fossil fuel. Electricity is also produced by generation facilities in Liepaja, Aiviekste HPP, Ainazi wind power plant (WPP), and Kegums boiler house.

Latvenergo Group facilities generated 3,625 GWh of electricity and 2,488 GWh of thermal energy in 2014.

Installed electrical capacity of generation facilities (2010 – 2014)

	Unit	Method	2010	2011	2012	2013	2014
Daugava HPPs	MW_{el}	e	1,536	1,536	1,536	1,536	**1,536**
Riga CHPPs*	MW_{el}	e	806	806	806	1,025	**1,025**
Liepaja plants	MW_{el}	e	4	4	6	6	**6**
Small plants	MW_{el}	e	1	1	1	2	**2**
TOTAL	MW_{el}		2,347	2,347	2,349	2,569	**2,569**

*installed capacity in condensation mode
m – measured, e – estimated, c – calculated

Installed thermal energy capacity of generation facilities (2010 – 2014)

	Unit	Method	2010	2011	2012	2013	2014
Riga CHPPs	MW_{th}	e	1,840	1,840	1,840	1,617	**1,617**
Liepaja plants	MW_{th}	e	431	198	208	236	**223**
Small plants	MW_{th}	e	4	4	4	4	**4**
TOTAL	MW_{th}		2,275	2,042	2,052	1,857	**1,844**

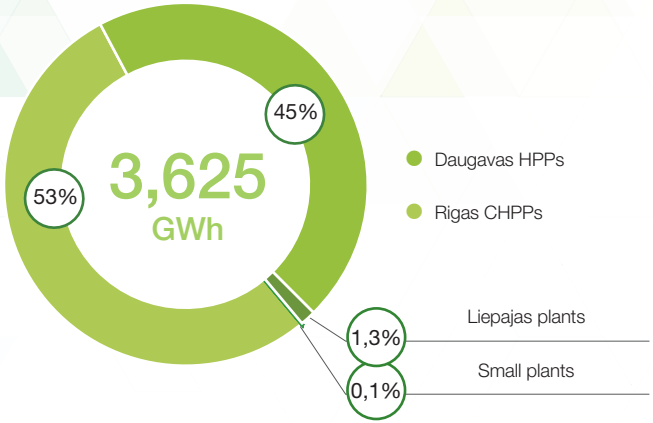
m – measured, e – estimated, c – calculated

Electricity generation (2010 – 2014)

	Unit	Method	2010	2011	2012	2013	2014
Daugava HPPs	GWh	m	3,445	2,823	3,627	2,852	**1,925**
Riga CHPPs	GWh	m	2,402	2,425	1,409	1,957	**1,648**
Liepaja plants	GWh	m	18	33	37	43	**48**
Small plants	GWh	m	4	4	4	3	**4**
TOTAL	GWh		5,869	5,285	5,077	4,854	**3,625**

m – measured, e – estimated, c – calculated

Electricity generation in 2014

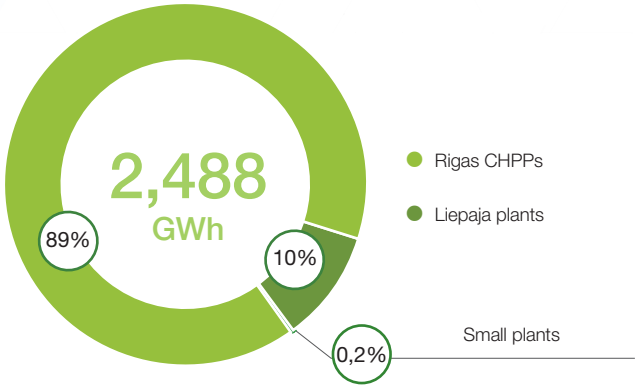


Thermal energy generation (2010 – 2014)

	Unit	Method	2010	2011	2012	2013	2014
Riga CHPPs	GWh	m	2,673	2,315	2,446	2,305	**2,236**
Liepaja plants	GWh	m	321	248	261	257	**248**
Small plants	GWh	m	6	5	5	5	**5**
TOTAL	GWh		3,000	2,568	2,712	2,566	**2,488**

m – measured, e – estimated, c – calculated

Thermal energy generation in 2014



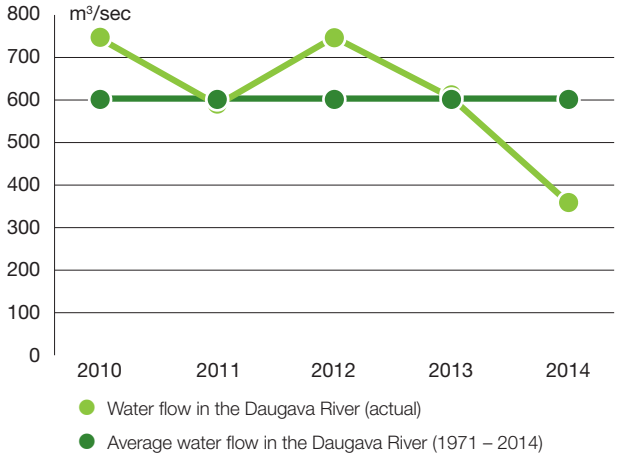
Daugava hydropower plants

Latvenergo Group generates the major part of its electricity at three Daugava HPPs – the largest hydropower plants in Latvia.

Although the capacity of the hydropower plants is great, their ability to produce electricity depends on water flow in the Daugava River. Therefore, outside the spring flooding season, the Daugava HPPs to accumulate water and generate electricity only during periods when demand and pricing are high. The Daugava HPPs operate at full capacity for one to two months each year, during the spring flooding season. Water inflow in the Daugava during the spring flooding may more than 10 times exceed the water inflow during low water periods, allowing Latvenergo Group to cover the entire customer demand.

In 2014, the Daugava HPPs in total generated 1,925 GWh of electricity, which constitutes 53% of the total electricity output at Latvenergo Group. The volume of electricity generated at the Daugava HPPs in 2014 was considerably below the long-term average output, which is explained by one of the historically lowest inflows in the Daugava River – the lowest since 1976. In 2014, to supply its retail customers, the volume of Latvenergo Group purchased electricity increased by more than a half compared to the previous year due to lower water inflow.

Water flow in the Daugava River (2010 – 2014)



Daugava HPPs construction chronology

2014 is a significant year for Latvenergo Group marking the 75-year anniversary of launching the first hydropower unit at the oldest Daugava hydropower plant – Kegums HPP. Kegums HPP was built over the period from 1936 to 1939 and restored from 1945 to 1947. The total capacity of Kegums HPP by now reaches 240 MW_{el}.

Plavinas HPP is the largest hydropower plant in the Baltics in terms of installed capacity. It was brought into operation in 1968 with ten hydropower units, totalling 825 MW_{el} at the time. From 1991 to 2010, nine out of ten Plavinas HPP hydropower units were reconstructed; total installed capacity by now reaches 894 MW_{el}. Along with the reconstruction of the hydropower units, the efficiency ratios of the plant has improved and the amount of electricity generated from renewable sources has increased.

Riga HPP was commissioned in 1974 with a total installed capacity of 402 MW_{el}. Plavinas HPP and Riga HPP can also operate in a synchronous compensator mode (regulating voltage in high-voltage electric networks), which allows the transmission system operator to ensure the required voltage quality.

Electricity generation at Daugava HPPs (2010 – 2014)

	Unit	Method	2010	2011	2012	2013	2014
Kegums HPP	GWh	m	621	532	702	532	**376**
Plavinas HPP	GWh	m	1,991	1,621	2,067	1,640	**1,089**
Riga HPP	GWh	m	833	670	858	679	**460**
TOTAL	GWh		3,445	2,823	3,627	2,852	**1,925**

m – measured, e – estimated, c – calculated

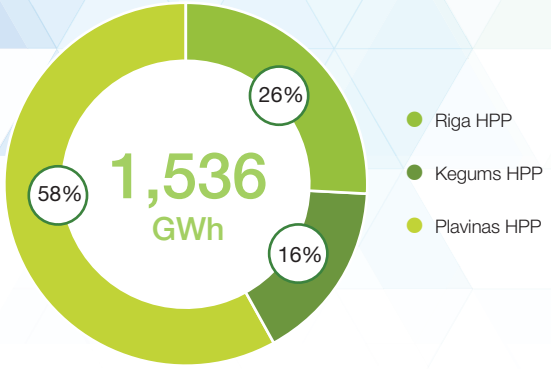
Investments

Caring for efficient use of water resources and environmentally friendly operation, Latvenergo Group proceeds with gradual overhaul of Daugava HPP hydropower units. The programme primarily aims to replace obsolete hydroturbines to ensure safe, efficient, sustainable and competitive operation of the Daugava HPPs within the power supply system. As a result of the reconstruction, hydropower turbine parameters, such as installed capacity and efficiency ratios, will be improved, increasing electricity output on annual basis.

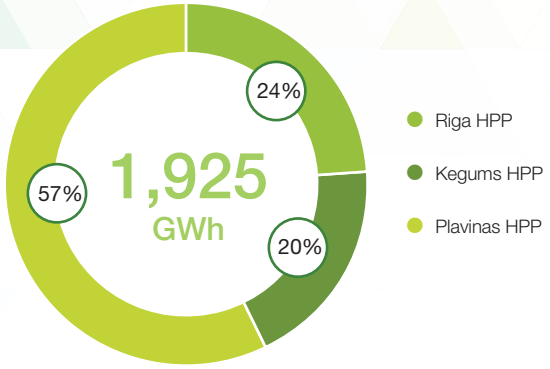
Out of the twenty-three Daugava HPP hydropower units, twelve are already overhauled. In late 2013, an agreement was concluded on replacement of two hydropower units at Plavinas HPP; in 2014, another agreement was concluded for reconstruction of three hydropower units at the Kegums HPP. The process of reconstruction of all 11 hydropower units that have not been verhauled yet is scheduled for completion in 2022, with total costs exceeding EUR 200 million.

In 2014, total investments in the Daugava HPP assets constituted EUR 20.4 million, including EUR 9.9 million invested in the Daugava HPP hydropower unit reconstruction programme and EUR 8.1 million in implementing several hydrostructure safety projects.

Installed electrical capacity of generation facilities at Daugava HPPs in 2014



Electricity generation at Daugava HPPs in 2014



Investments in Daugavas HPPs (2010 – 2014)

	Unit	Method	2010	2011	2012	2013	2014
Investments	MEUR	c	6.0	8.8	17.2	9.0	**20.4**

m – measured, e – estimated, c – calculated

Riga combined heat and power plants

The upgraded Riga CHPPs owned by Latvenergo Group are mostly operated in the highly efficient cogeneration mode, simultaneously generating both electricity and thermal energy. This is a more energy efficient and environmentally friendly generation type compared to separate generation of electricity and thermal energy. Thermal energy generated by Riga CHPPs supplies demand on the right bank of the Daugava River in Riga.

Riga CHPPs are the guarantee of the electricity base-load capacity and almost fully can cover entire Latvian electricity consumption in circumstances where due to some factors electricity import from foreign countries is limited. In such cases, the plants can operate as stable base-load capacity facilities that will promptly substitute shortage of cross-border supply. Riga CHPPs operate efficiently and flexibly, operational modes are adjusted to market conditions, stabilizing electricity prices within the region and limiting the risk of electricity price increased during the electricity deficit periods within the region.

The Riga CHPPs use natural gas as the primary fuel: this is the environmentally friendliest type of fossil fuel available for power generation. In order to ensure reliability of thermal energy supply in emergency cases when the supply of natural gas is interrupted, a back-up fuel is also stored at the Riga CHPPs. In 2014, the Riga second combined heat and power plant (Riga TEC-2) water boiler fuel farm was reconstructed, transitioning back-up fuel from fuel oil to diesel.

The amount of electricity generated by Riga CHPPs in 2014 was 1,648 GWh or 45% of the total electricity output by Latvenergo Group. Thermal energy output at Riga CHPPs reached 2,236 GWh or 90% of the total thermal energy generated by Latvenergo Group.

In 2014, Riga CHPPs generated 16% less electricity than in the previous year. In 2014, Latvenergo Group has successfully operated in the new regulatory environment that took effect in late 2013, stipulating that combined heat and power plants with an installed capacity above 4 MW are no longer compensated for electricity generated by power plants, natural gas, and other variable generation costs above market price. Therefore, under unfavourable market conditions the generation at power plants is reduced purchasing cheaper electricity on the market. Similarly, reduced generation at Riga CHPPs was due to lower demand for thermal energy. Generation of thermal energy is mainly dependent on the demand, which in turn depends on the air temperature and the duration of the heating season. Thermal energy generated by Riga CHPPs is supplied to Riga heat supply company at regulated tariffs.

Electricity generation at Riga CHPPs (2010 – 2014)

	Unit	Method	2010	2011	2012	2013	2014
Riga TEC-1	GWh	m	669	655	328	406	**487**
Riga TEC-2	GWh	m	1,733	1,770	1,081	1,550	**1,161**
TOTAL	GWh		2,402	2 425	1,409	1,957	**1,648**

m – measured, e – estimated, c – calculated

Thermal energy generation at Riga CHPPs (2010 – 2014)

	Unit	Method	2010	2011	2012	2013	2014
Riga TEC-1	GWh	m	909	788	976	772	**945**
Riga TEC-2	GWh	m	1,764	1,527	1,470	1,533	**1,291**
TOTAL	GWh		2,673	2,315	2,446	2,305	**2,236**

m – measured, e – estimated, c – calculated

Riga CHPP construction chronology

The Riga 1st combined heat and power plant (Riga TEC-1) was built from 1954 to 1958 and fully reconstructed in 2005. The electrical capacity installed at Riga TEC-1 is 144 MW_{el}, while the thermal capacity is 493 MW_{th}.

Riga TEC-2 is the largest combined heat and power plant in Latvia. It was launched in 1973. The reconstruction of the Riga TEC-2 was commenced in 2006. The construction of the first power unit was completed in 2008, and the second unit was commissioned at the end of 2013. Riga TEC-2 is currently a state-of-art and the most efficient combined heat and power plant in the Baltics. With the commissioning of the second power unit, the electrical capacity of Riga TEC-2 in cogeneration mode reached 832 MW_{el}, and the total thermal energy capacity of the two power units – 544 MW_{th}. The total thermal energy capacity of Riga TEC-2, including water boilers, is 1,124 MW_{th}.

Since the reconstruction of the Riga TEC-2, the total installed electrical capacity of the Riga CHPPs in the combined heat and power mode is 976 MW_{el} (1,025 MW_{el} in the condensation mode).

Investments

In 2014, the total investment in the Riga CHPP assets was EUR 11.1 million. The most significant Riga CHPP investment project in 2014 was the reconstruction of the Riga TEC-2 water boiler fuel farm, successfully transitioning from fuel oil to diesel as the back-up fuel. Project expenses totalled EUR 7.8 million, with EUR 3.4 million invested in 2014. The key benefits of the reconstruction are lower airborne pollutant emission at Riga TEC-2 when it burns back-up fuel and lower resources consumption for the maintenance of the fuel farm.

Liepaja plants

Latvenergo AS holds 51% equity in Liepajas energija SIA. The company ensures generation, transmission, distribution and supply of thermal energy in the city of Liepaja, as well as generation of electricity in cogeneration mode.

In 2014, proceeding with reconstruction of heating networks and building new heat mains, four natural gas boiler houses were closed down at Liepaja facilities, switching their consumers to a biomass boiler house. The total installed thermal energy capacity of the Liepaja plants in 2014 was 223 MW_{th}, including 40 MW_{th} from a renewable resource wood chips. Installed electric capacity totals 6 MW_{el}. In 2014, Liepaja plants generated 248 GWh of thermal energy and 48 GWh of electricity.

In the past few years, co-financed by the EU Cohesion Fund, new generation capacities were created, increasing the share of biomass consumption within the fuel balance at Liepaja plants: instead of 0% in 2010 the share of biomass was increased to 59% in 2014.

Thermal energy losses have also been reduced considerably over the previous years due to the reconstruction of thermal energy transmission and distribution networks in Liepaja. Distribution losses were 21.5% in 2010 and they have decreased to 15.2% in 2014.

Investments in Riga CHPPs (2010 – 2014)

	Unit	Method	2010	2011	2012	2013	2014
Investments	MEUR	c	103.1	168.0	104.7	32.3	**11.1**

m – measured, e – estimated, c – calculated

Small plants

Generation facilities within the energy system of Latvenergo Group also include two small power plants – the Ainazi WPP with a capacity of 1.0 MW_{el}, and the Aiviekste HPP with a capacity of 0.8 MW_{el}. The Kegums boiler house generates only thermal energy, with an installed thermal capacity of 4 MW_{th}. The Kegums boiler house is fuelled by woodchips.

The total output at small plants reached 4 GWh of electricity and 5 GWh of thermal energy in 2014.

Electricity supply

In 2014, Latvenergo Group continued efforts to strengthen its market leadership, retaining its status as the electricity supply leader in the Baltics. Latvenergo Group has a 35% share in the Baltic electricity market, which consumes a total of nearly 24.6 TWh.

Compared to the previous year, the amount of electricity supplied by Latvenergo Group in the Baltics increased by 9% reaching 8,688 GWh, even though the overall electricity consumption in the Baltic States decreased by 1% due to warmer weather conditions. The greatest increase in electricity supply was achieved outside Latvia, where under increased competition the supply was increased almost by a half. The amount of electricity supplied outside Latvia represents more than 1/3 of the total retail electricity supply, reaching 3,053 GWh, which is 1,630 GWh more than the supply volume of competing electricity suppliers in Latvia.

Focused growth in the market affirms the competitiveness

Since 2007, the Baltics have been undergoing gradual liberalisation of the electricity market. In 2014, only households in Latvia and Lithuania still purchased electricity at a regulated tariff. As of 1 January 2015, the electricity market is also open to households in Latvia. Liberalisation of the Lithuanian market is expected to take place in the coming years. The majority, or 80%, of all electricity retail supply by Latvenergo Group in 2014 have been made on the open electricity market, while 20% were supplied at the regulated electricity tariff in Latvia.

Overall, Latvenergo Group supplied electricity to approximately 876.2 thousand customers in 2014, of which – approximately 841.8 thousand in Latvia, 4.6 thousand in Lithuania and 29.8 thousand in Estonia. Major part or more than 96% of the customers are in the household segment, less than 1% – in the industrial segment and approximately 3% are other customers (trade, state and governmental institutions etc.).

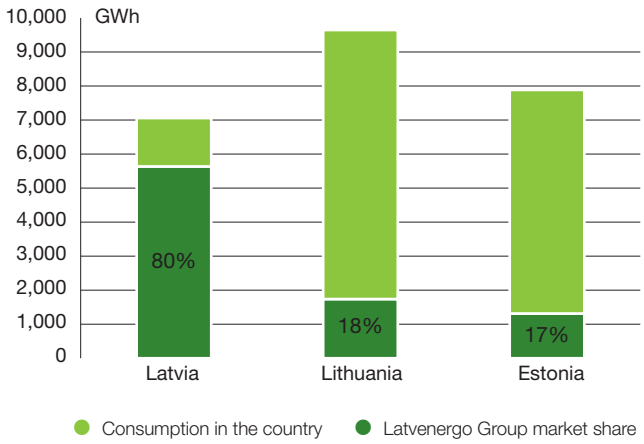
Development of electricity products

To increase customer satisfaction and loyalty as well as to attract new customers, Latvenergo Group has diversified its offers in 2014, developing and implementing new products and services for its customers throughout the Baltics.

In 2014, during preparation for the opening of the electricity market to households in Latvia as of 1 January 2015, a diverse range of *Elektrum* products was developed and introduced to household customers in Latvia. The products are available via the *e-latvenergo.lv* self-service portal, ensuring quick and easy conclusion of electricity trade agreements online. Customers are enabled to select the most suitable electricity product considering their consumption habits, various settlement options, and pricing (fixed or variable). Customer interest in a variable, exchange-linked price is growing throughout the Baltics, which is why *Elektrum* product offers are being adjusted to the market trends.

In 2014, Latvenergo Group continued to provide Energy Risk Insurance (ERI) to customers in Latvia and Lithuania through its partnership with insurance companies. Based on the preferences expressed by current customers, the ERI product was improved in Latvia: now the large customers can tailor the ERI terms and conditions to their needs.

Market share in the Baltics in 2014



Mandatory procurement

Mandatory procurement (MP) is a state-regulated support mechanism for electricity generators in Latvia in form of electricity procurement and guaranteed capacity payments for installed capacity. Mandatory procurement costs are financed through payments by electricity end-users and state budget grant.

In accordance with the Electricity Market Law, the right to sell electricity generated within the mandatory procurement or receive guaranteed payment for installed capacity at power plant is provided to generators who produce electricity in efficient cogeneration or from renewable energy resources. The Ministry of Economics of the Republic of Latvia is the institution that grants these rights to generators. Provisions for electricity generation, electricity MP pricing and the amount of guaranteed capacity payments are defined by regulations of the Cabinet of Ministers of the Republic of Latvia. The amount of MP support depends on the type of energy resource used (wind, water, biomass, biogas, natural gas), installed capacity, and the cost of natural gas for biomass, biogas and combined heat and power plants with capacity below 4 MW_{el}.

Mandatory procurement key indicators

	Unit	Method	2010	2011	2012	2013	2014
Generators/stations	number	m	235	272	335	368	**386**
Electricity purchased within the MP	GWh	m/c	2,842	2,844	2,263	2,610	**1,284**
MP net expenditures*	MEUR	c	110.2	114.1	189	209,9	**215.4**
MP paid-up capacity	MW	m	796	796	799	1,039	**1,062**

* MP net expenditures – costs of electricity procured within the MP process and guaranteed payments for installed capacity at power plants minus revenues from trade of procured electricity on Nord Pool Spot exchange, minus Subsidised Energy Tax
m – measured, e – estimated, c – calculated

Mandatory procurement PSO fee (2011 – 2015)

	Unit	Method	04/01/11	04/01/12	04/01/13	04/01/14	04/01/15
Mandatory procurement PSO fee	cents/kWh	c	1.670	1.750	2.690	2.679	**2.679**
Cogeneration	cents/kWh	c	1.340	1.340	1.890	1.737	**1.671**
Renewable energy sources	cents/kWh	c	0.330	0.410	0.800	0.942	**1.008**

m – measured, e – estimated, c – calculated

Establishment of Enerģijas publiskais tirgotājs AS increase transparancy of mandatory procurement

In accordance with the Electricity Market Law, as of 1 April 2014, the functions of public trader were transferred to a newly-established Latvenergo AS subsidiary Enerģijas publiskais tirgotājs AS. Until 1 April 2014, these functions were performed by Latvenergo AS.

MP net expenditures are compensated for the public trader through mandatory procurement public service obligation fee (PSO fee) paid by the end-users in Latvia.

The amount of the PSO fee is determined based on actual expenditures in the preceding year as approved by the Public Utilities Commission (PUC), and the changes take effect on 1 April of the following year.

One of the instruments designed to control the increase of the mandatory procurement PSO fee for electricity users in Latvia is the Subsidised Electricity Tax (SET) introduced on 1 January 2014 for a four-year period. The tax applies to state support for generators within MP, i.e. to income from electricity supplied within the mandatory procurement and guaranteed capacity payments for installed capacity at combined heat and power plants. The tax is differentiated by the type of energy source used. Income from the Subsidised Electricity Tax is diverted to the state budget grant for limiting mandatory procurement PSO fee increase. The relevant 2014 state budget target programme (see the Section 2.5 “Economic Performance”) is defined in the Law on the State Budget for 2014 and the Law on the Medium-Term Budget Framework for 2014, 2015, 2016.

Mandatory procurement key indicators

In 2014, 1,284 GWh of electricity was procured within the mandatory procurement process, including 598 GWh, or 47% generated in cogeneration and 685 GWh, or 53% generated using renewable energy resources. Compared to 2013, the amount of electricity procured has decreased approximately by a half, mostly due to change in the MP support mechanism, as a result of which electricity from plants with an installed capacity of over 4 MW_{el} is no longer procured within the MP process, and only guaranteed payments for installed electric capacity are retained. Capacity for which generators receive payments within the MP process reached 1,063 MW_{el} comprising 1,039 MW_{el} at cogeneration plants and 23 MWel at power plants fired by renewable energy resources.

As of 1 April 2015, the mandatory procurement PSO fee has not increased and the PUC has set it at EUR 2.679 cents per kWh. The main instrument for retaining the mandatory procurement PSO fee at the previous level is the planned targeted grant from the state budget for compensating the MP expenses. To maintain the total mandatory procurement PSO fee at 26.79 EUR/MWh, a state budget grant of EUR 29.3 million was granted in 2014; in 2015, a EUR 28.0 million grant is included in the state budget.

EU4

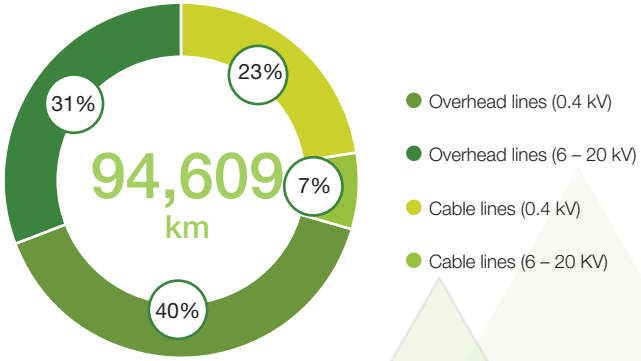
1.8.2 Distribution

Increasing service quality and investments in distribution segment

The distribution segment is the second largest within Latvenergo Group in terms of both turnover and asset value. Its operations involve provision of distribution services to approximately 840 thousand customers in Latvia at regulated tariffs. The distribution system service is provided by Sadales tīkls AS, the largest distribution system operator in Latvia. The distribution system operator ensures equal access to electricity distribution networks, which is one of the prerequisites for facilitating competition on the electricity market in Latvia.

The electricity distribution network ensures the flow of electricity from the transmission network and electricity generators connected to the distribution networks to electricity consumers. The total length of low-voltage and medium-voltage lines at the end of 2014 was 94,609 km. Along with significant investment in implementing the Cable Programme, the relative length of cable lines has been increasing steadily, reaching 30% of total line length in late 2014.

Length of electricity distribution lines in 2014



Distributed electricity and losses (2010 – 2014)

	Unit	Method	2010	2011	2012	2013	2014
Distributed electricity	GWh	m/c	6,380	6,199	6,468	6,447	**6,421**
Electricity distribution losses, technological and internal consumption	GWh	m/c	460	447	432	361	**346**
TOTAL	**GWh**		6,840	6,646	6,900	6,808	**6,767**
Electricity losses	%	m/c	6.4%	6.4%	5.9%	5.0%	**4.8%**

m – measured, e – estimated, c – calculated

Electricity received in distribution network (2010 – 2014)

	Unit	Method	2010	2011	2012	2013	2014
From transmission network	GWh	m/c	6,320	6,019	5,993	5,670	**5,470**
From small generators	GWh	m/c	520	627	907	1,139	**1,297**
TOTAL	**GWh**		6,840	6,646	6,900	6,808	**6,767**

m – measured, e – estimated, c – calculated

The number of distribution network transformers was 29,711, while the number of transformer substations was 26,764, with total installed capacity of 5,869 MVA.

In 2014, the amount of electricity distributed remained at the level of previous years, totalling 6,421 GWh. Electricity distribution losses, a significant performance measure of distribution segment, have been constantly reduced in a five-years in a row (see indicator EU12). The percentage of losses within the total electricity received by the network decreased to 4.8% in 2014, which is the historically lowest rate and the best in the Baltics. Total losses have decreased by 25% (114 GWh) during the 2010–2014 period.

The amount of electricity received by distribution networks from small electricity generators continues to increase, reaching 1,297 GWh in 2014 – 2.5 times as much as in 2010. Increased electricity input from small producers is explained mainly by commissioning of new electricity generation facilities. Cleaning of electricity transmission rights of way as well as implementation of long-term investment programme reduced the number of damages in the 0.4 – 20 kV power networks by 12% and decreased unplanned power outage duration per user by 20% compared to 2013.

Investments and maintenance

Each year maintenance and development of distribution networks include large-scale repairs and investments to establish reliable, high-quality energy supply, to reduce the duration of scheduled and unscheduled power supply outages due to damages, and to ensure adequate voltage quality. Cleaning of electricity transmission rights of way as well as implementation of long-term investment programme reduced the number of damages in the 0.4 – 20 kV power networks by 12% and decreased unplanned power outage duration per user by 20% compared to 2013.

For the past five years, the amount invested in distribution assets has been increasing annually. In 2014, investments were increased by 13% to nearly EUR 100 million. Investments in reconstruction and modernisation of distribution networks are made according to the *Sadales tīkls AS Development Plan 2014 – 2023.*

The medium-voltage electricity network Automation Programme and Cable Programme were continued in 2014. To ensure prompter recovery from electricity supply disruptions, the Automation Programme involves connection of remote circuit breakers and fault location detectors, facilitating faster receipt of information about electricity supply faults within electricity networks. The Cable Programme includes replacement of medium-voltage overhead lines with cable lines (mostly in forested areas), potentially reducing the number of electricity supply faults under unfavourable weather conditions. 207 km of medium-voltage cable lines were constructed in 2014. Restoration of medium- and low-voltage lines and reconstruction of transformer substations are also carried on – 8,510 new connections were built in 2014 and voltage quality was improved at 3,818 customer objects. In 2014, an investment project was launched to introduce smart electricity metering devices in Latvia in accordance with Directive 2009/72/EC of the European Parliament and of the Council. Introduction of smart meters will inform customers about electricity consumption, promote energy efficiency and reduce expenses for the distribution system operator and customers, as well as for electricity traders.

Investments (2010 – 2014)

	Unit	Method	2010	2011	2012	2013	2014
Investments	MEUR	c	37.3	65.2	83.2	88.6	**99.8**

m – measured, e – estimated, c – calculated

Reconstruction and construction (2010 – 2014)

	Unit	Method	2010	2011	2012	2013	2014
Overhead lines constructed (0.4 kV)	km	m	62	60	64	17	**19**
Cable lines constructed (0.4 kV)	km	m	307	643	852	995	**1,089**
Total low-voltage power lines	**km**	m	369	703	916	1,012	**1,107**
Overhead lines constructed (6 – 20 kV)	km	m	169	262	149	305	**300**
Cable lines constructed (6 – 20 KV)	km	m	64	61	212	126	**104**
Cable lines constructed (6 – 20 KV) – Cable programme	km	m		16	144	162	**207**
Total medium-voltage power lines	**km**	**m**	**233**	**339**	**505**	**593**	**611**
Transformer substations reconstructed	number	m	437	617	388	577	**649**
Connections constructed	number	m	5,906	6,968	6,944	7,335	**8,510**

m – measured, e – estimated, c – calculated

EU4

1.8.3 Management of Transmission System Assets

New *Kurzeme Ring* transmission line connection *Grobiņa-Ventspils* enters into operation

Transmission asset management functions are performed by Latvijas elektriskie tīkli AS. Operation of the segment in 2014 included construction, maintenance and lease of transmission assets in Latvia (330 kV and 110 kV electricity transmission lines, substations and distribution points) to the transmission system operator – Augstsprieguma tīkls AS.

As of 1 January 2015, the transmission system operator Augstsprieguma tīkls AS has taken over the construction and maintenance functions of the transmission system assets from Latvijas elektriskie tīkli AS. Latvijas elektriskie tīkli AS continues to conduct the transmission asset management, i.e. financing and lease of transmission assets to Augstsprieguma tīkls AS. As a result, in early 2015 the number of Latvijas elektriskie tīkli AS employees was reduced till 13 (at the end of 2014: 443), and the company's management was reorganised – the management board of Latvijas elektriskie tīkli AS is represented by one member (2014: five).

At the end of 2014, the total length of electricity transmission lines was 5,273 km, comprising 74% of 110 kV lines and 26% – 330 kV lines. Sixteen 330 kV substations with a total automatic transformer capacity of 3,825 MVA and one hundred twenty-one 110 kV substations with a total installed transformer capacity of 5,075 MVA are maintained in order to ensure the operation of the transmission network.

Length of power transmission lines (2010 – 2014)

	Unit	Method	2010	2011	2012	2013	2014
330 kV	km	m/c	1,250	1,250	1,250	1,265	**1,381**
110 kV	km	m/c	4,010	4,006	4,010	4,010	**3,891**
TOTAL	**km**		5,260	5,256	5,260	5,275	**5,273**

m – measured, e – estimated, c – calculated

Investments

In August 2014, a new 330 kV electricity transmission line was commissioned for the *Grobiņa–Ventspils* line connection of the NORDBALT-02-330 kV *Kurzeme Ring* project, which considerably increases energy supply reliability in Kurzeme region and in Latvia as a whole, enabling future opportunity to use the NordBalt Lithuania–Sweden submarine cable and access to the Nordic electricity market.

The *Kurzeme Ring* project, the most ambitious transmission system investment project recently, was launched in 2009 and is implemented in three stages. The first stage was concluded in 2012, building the *Riga Ring*. Commissioning of the new *Grobiņa–Ventspils* 330 kV electricity transmission line in August 2014 concluded the second stage of the *Kurzeme Ring* project. The environmental impact assessment procedure has been finished for the final stage of the project *Ventspils–Tume–Riga*, and its construction has been included in the 2014 – 2020 indicative funding allocation list of the European Commission, assigning 45% co-funding. The total length of the transmission line connection is expected to reach about 330 km.

The *Kurzeme Ring* project is scheduled for completion in 2019, and the total project construction costs are expected to constitute approximately EUR 220 million, including EUR 95 million for implementation of the first and second stage of the project.

Likewise, an important future electricity transmission infrastructure project for the entire Baltic region is the *Estonia – Latvia third interconnection*. Implementation of this project is a part of the 10-year electricity transmission network development plan devised by Augstsprieguma tīkls AS. The new 330 kV interconnection will increase the available throughput between the Latvian and Estonian energy systems, decreasing the price difference between Estonian and Latvian/Lithuanian bidding areas. In 2014, the average price in Latvian/Lithuanian bidding area was 33% higher than in Estonian bidding area due to power capacity constraints. The planed length of the new 330 kV interconnection line will be about 190 km in Latvia, and it is scheduled for completion by late 2020. The construction costs of the project are expected to total about EUR 100 million. To support the implementation of the project financially, the European Commission assigned 65% co-funding of all eligible costs during the approval of the 2014 – 2020 indicative funding allocation list in November 2014.

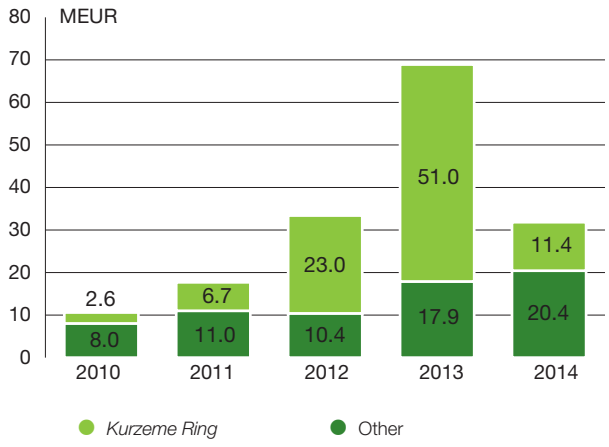
The total investments in transmission system assets in 2014 amounted to EUR 31.8 million, including EUR 11.4 million for the *Kurzeme Ring* project. In order to increase the stability of electricity supply for customers and provide the necessary capacity in the transmission system points, other major projects implemented in 2014 include reconstruction of 330 kV electricity transmission lines between Plavinas HPP and the substation *Aizkraukle*, reconstruction of switchgear at 110 kV substations *Gulbene, Bolderāja I* and *Olaine*, and replacement of 110 kV transformers at the *Krasts, Cēsis, Priedaine, Vecmīlgrāvis, Iecava* and *Brocēni* 110 kV substations, also initiating reconstruction of 110 kV facilities at *Imanta, Salamandra* and *Dagda* substations.

Number of transformer substations, transformers, installed capacity (2010 – 2014)

	Unit	Method	2010	2011	2012	2013	2014
Substations (330 kV)	number	m	15	15	15	15	**16**
Autotransformers (330 kV)	number	m	21	21	22	23	**25**
Installed capacity of autotransformers (330 kV)	MVA	m/c	3,200	3,200	3,325	3,575	**3,825**
Transformer substations (110 kV)	number	m	119	119	121	122	**121**
Transformers (110 kV)	number	m	243	243	244	246	**246**
Installed capacity of transformers (110 kV and 10 kV booster transformers)	MVA	m/c	4,806	4,829	4,902	4,968	**5,075**

m – measured, e – estimated, c – calculated

Investments in transmision system assets (2010 – 2014)



Latvenergo Group Performance Indicators

Prepared in accordance with GRI (Global Reporting Initiative) Guidelines 3.1 Application Level B+

2.1 Environmental Protection

Management Approach

Environmental protection is one of the cornerstones of sustainable development. To satisfy current needs without compromising the needs of future generations and preserve the environment clean, Latvenergo Group organises its operations and plans its development taking into account environmental, economic and social aspects.

> We strengthen our position among the most environmentally friendly power supply utilities in the Europe

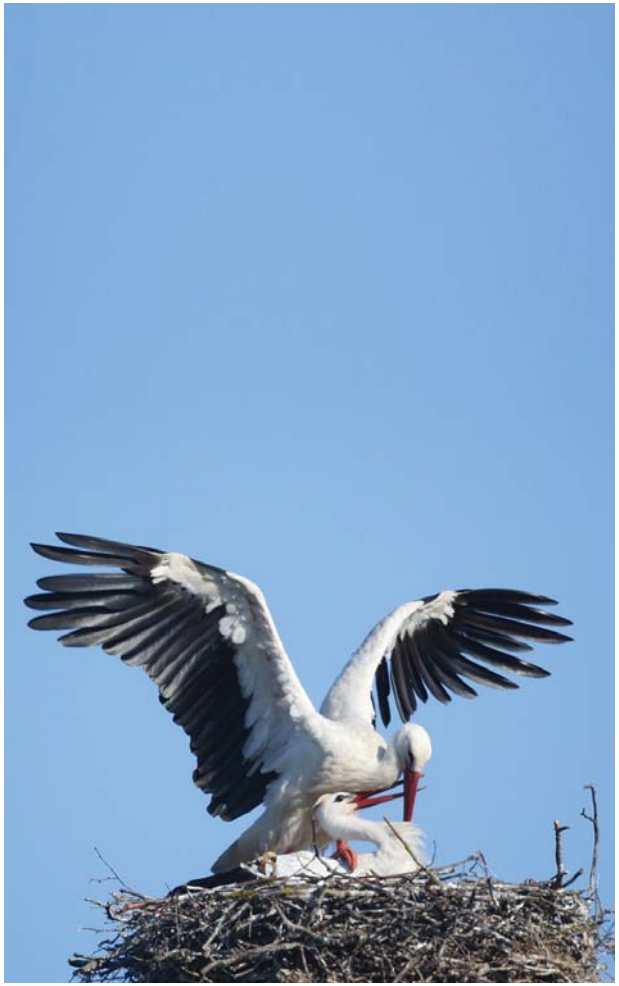
The key principles of Latvenergo Group in relation to environmental protection are defined in its Environmental Policy. One of the primary Environmental Policy issues is to reduce the impact on climate change in accordance with the initiatives and decisions of the European Parliament and of the Council. The key principles of the Environmental Policy that characterise the environmental philosophy of the Group and its attitude towards the environment are:

- reducing the pollutant emissions;
- using natural resources efficiently;
- taking care of preservation of biodiversity;
- identifying potential environmental risks and minimising adverse effects on the environment in all operational aspects of Latvenergo Group;
- assessing the environmental impact of investment projects in planning development and minimising the harm caused to the environment in stages of construction, exploitation and closure of a particular object;
- regularly and openly informing the society and stakeholders about environmental activities;
- acting in an environmentally-friendly way and urging the society and partners to act similarly.

The ability of Latvenergo Group to develop and to enhance its environmental performance is confirmed by its Environmental Management System, implemented and certified in compliance with the ISO 14001 standard.

Latvenergo Group continues to modernise and reconstruct its generation facilities, contributing to the ambitious 2030 climate and energy targets of the European Union (EU), which EU Member-States agreed upon in late 2014. On the way to reducing CO_2 emissions, significant changes are expected in the operation of the European Union Emission Trading Scheme (EU ETS). Latvenergo Group expects that drafting and introduction of the new legislation will establish fair and equal conditions for EU ETS participants and that the cost of emissions allowances will reflect the advantage of efficient and environmentally friendly technologies on the power market.

Latvenergo Group is proud of its achievements in generating electricity from renewable energy sources, its goal-oriented actions and environmentally friendly technologies. In 2014, 54% or 1,994 GWh of the total electricity output of Latvenergo Group came from renewable energy sources, while the remaining amount was generated at combined heat and power plants



(CHPPs) fuelled by a relatively environmentally friendly fuel natural gas.

To secure its position as one of the environmentally friendliest power supply utilities in Europe, Latvenergo Group is active in handling environmental issues and improving its environmental protection performance. Important investment projects were implemented in 2014 – not only to improve technology but also to reduce the environmental impact of production processes and facilities:

- the Daugava HPPs hydropower unit reconstruction programme was continued, designing the reconstruction of two hydropower units at the Plavinas HPP and concluding an agreement on reconstruction of three hydropower units at the second Kegums HPP;
- the project to repurpose the back-up fuel farm at Riga TEC-2 was concluded. By switching from heavy fuel oil to less environmentally harmful diesel fuel, sulphur dioxide and particulate matter emissions have been significantly reduced and emissions of vanadium oxides have been entirely eliminated. Likewise, consumption of resources for maintaining the fuel farm have been reduced;
- reconstruction of the main dam and gates at the Aiviekste HPP, boosting its operational stability and reliability;
- construction of a new stack at Riga TEC-2 was completed, discontinuing operation of the old one. The new stack is intended for taking away flue gas from heat only boilers and is equipped with a continuous emission monitoring system.

Other significant environmental activities of Latvenergo Group in 2014 included:

- development of Industrial Accident Prevention Programme along with establishment of the diesel fuel farm at Riga TEC-2; the Programme was submitted to the Environment State Bureau and includes an evaluation of the risk of industrial accidents involving chemical substances and products, defining risk mitigation activities;
- initiation of an environmental impact assessment for the transmission network investment project *Estonia – Latvia third Interconnection*;
- continued activities to reduce electricity losses in distribution: in a period of 5 years the losses was reduced by 25% reaching 4.8% in 2014.

EN1 Materials used by weight or volume / EN3 Direct energy consumption by primary energy source

Latvenergo Group uses renewable energy sources (water, wind, wood) as well as fossil fuel (primarily natural gas and other types of fuel in smaller amounts) for generation of electricity and thermal energy. In 2014, renewables accounted for 30% of the total consumption of energy resources. Other energy resources comprised mostly fossil fuel.

Generation of electricity and thermal energy requires different proportion of renewable and fossil energy resources. In 2014, 46% of the primary energy resource consumption for electricity generation were renewables and 54% – an environmentally friendly fossil fuel (natural gas). The high ratio of renewable energy sources was ensured primarily by generation of electricity at the Daugava HPPs. In turn, for thermal energy generation, renewable energy sources represented 6% of the total primary energy resource consumption. Woodchips are used for thermal energy generation at the Kegums boiler house, the Aiviekste boiler house and two Liepaja generation facilities – a biomass-fired combined heat and power plant and a biomass-fired boiler house.

Consumption of primary energy resources (2010 – 2014)

	Unit	Method	2010	2011	2012	2013	2014
Water, wind*	TJ	m/c	12,416	10,177	13,072	10,278	**6,946**
Natural gas	TJ	m/c	22,006	21,618	17,364	20,168	**17,459**
Wood	TJ	m/c	57	49	147	522	**718**
Others (diesel fuel, heavy fuel oil, coal)	TJ	m/c	15	6	1	1	**6**

* the amount of resources evaluated as the amount of energy generated using these resources (3.6 GJ=1 MWh)
m – measured, e – evaluated, c – calculated

Direct energy consumption by primary energy source for electricity generation (2010 – 2014)

	Unit	Method	2010	2011	2012	2013	2014
Water, wind*	TJ	m/c	12,416	10,177	13,072	10,278	**6,946**
Natural gas	TJ	m/c	12,620	11,388	6,746	10,253	**8,391**
Wood	TJ	m/c			14	59	**173**

* the amount of resources evaluated as the amount of energy generated using these resources (3.6 GJ=1 MWh)
m – measured, e – evaluated, c – calculated

The share of renewables in the overall energy resource consumption over the years depends on the amount of energy generated, which in turn is determined by hydrological conditions and market factors (see the Section 1.8.1 “Generation and Supply”).

Direct energy consumption by primary energy source for thermal energy generation (2010 – 2014)

	Unit	Method	2010	2011	2012	2013	2014
Natural gas	TJ	m/c	9,386	10,231	10,618	9,915	**9,068**
Wood	TJ	m/c	57	49	133	463	**545**
Others (diesel fuel, fuel oil, coal)	TJ	m/c	15	6	1	1	**6**

m – measured, e – evaluated, c – calculated

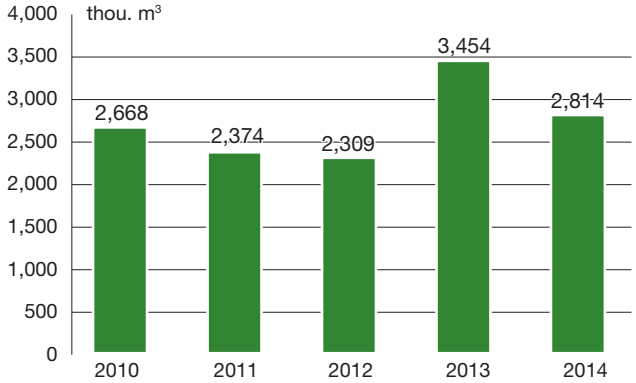
EN8 Total water withdrawal by source

Latvenergo Group uses water resources mainly to support generation processes. A relatively small amount of water is used for various technological needs and also for water supply to external consumers.

The water consumption balance of Latvenergo Group includes surface, underground and supply system water. In 2014, water used for operational needs amounted to 2,814 thousand m^3, including 2,588 thousand m^3 of surface water, 144 thousand m^3 of underground water and 82 thousand m^3 of supply system water.

The largest consumer of surface water resources is Riga TEC-2, which consumed 2,582 thousand m^3 of water in 2014 (compared to 3,260 thousand m^3 in 2013). The consumption of water resources at Riga TEC-2 is affected by the operational modes of generation facilities. Increased consumption of water resources in 2013 was determined by testing and adjustment works at the Riga TEC-2 second power unit. The largest consumer of underground water is Riga TEC-1, which consumed 39 thousand m^3 of underground water to feed the heating networks.

Total water withdrawal (2010 – 2014)



EN14 Strategies, current actions, and future plans for managing impacts on biodiversity / EN15 Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk

Among the key principles of the Environmental Policy of Latvenergo Group are care for preserving biodiversity and mitigation of the environmental impact of its activities. In its operations, the Group plans and implements measures that are aimed at preserving biodiversity. The main initiatives in this field are the protection of white stork, replenishment of fish resources and reinforcement of the Daugava riverbanks.

Bird protection

Latvenergo Group cooperates with the Latvian Ornithological Society (LOS) to address bird protection and research issues. Particular attention is paid to the issue of protecting the white stork. For its fourth year, Latvenergo Group jointly with LOS have been implementing the White Stork Monitoring project to gather information on white stork populations in Latvia, and we can be proud that so many birds of this specially protected species (over 10,000 pairs) nest in our country. In 2014, Latvenergo Group took part in the 7th International White Stork Nest Census. An initial summary of census results indicates that the number of white stork nests has not decreased in Latvia in the past 10 years. Power line poles are the most frequent sites selected by these birds for nesting. In 2014, 8,424 white stork nests were situated on electricity line poles. To ensure compliance with the safety requirements of electricity supply and reduce the number of white stork deaths on electricity transmission lines, following approval from environmental authorities, 640 potentially dangerous nests were removed from electricity line poles in 2014. During the stork nesting period, the birds are disturbed only in exceptional cases when the safety of electricity supply or people is endangered.

Fish resource replenishment and reinforcement of the Daugava riverbanks

To comply with the applicable legislation, Latvenergo Group makes annual contributions to replenish fish stocks (2014: EUR 864.2 thousands) and invests in reinforcement of the Daugava River banks and maintenance of engineering protective structures/ embankments (2014: EUR 1,209.4). These funds are earmarked both for artificial replenishment of fish stocks and for works to maintain the protective structures and reinforce the riverbanks, thereby mitigating the impact of Daugava hydropower plants on fish resources and deformation of the banks of the Daugava. 614.7 thousand salmon and sea trout smolts and fries and 687.8 thousand pike perch, whitefish and vimba fries, along with 5.4 million pike and larval larvae have been released into the Daugava River basin in 2014. In addition to these fish stock replenishment activities, Latvenergo Group released 30 thousand brown trout fries into small Daugava basin tributaries inhabited by trout.

In 2014, Latvenergo Group continued its cooperation with the *Mēs zivīm* (We to fish) society. In May 2014, artificial spawning nests were placed in the Ķegums HPP reservoir to stimulate the replenishment of common fish species within the Daugava River basin. In cooperation with local and foreign experts, the survey of fish migration and natural replenishment possibilities in the Daugava basin initiated in 2013 was continued. In 2014, a study of Atlantic salmon behaviour was performed using radio telemetry. The experiment involved marking of salmon with radio signal transponders, allowing researchers to identify the location of each individual fish. The results of this survey will be used in planning other scientifically sound activities in addition to the current ones to protect fish resources in the Daugava River.

The following species of fish and birds on the International Union for Conservation of Nature (IUCN) Red List are affected by Latvenergo Group operations:

- white stork (*Ciconia ciconia*);
- salmon (*Salmo salar*);
- sea trout (*Salmo trutta*);
- lamprey (*Lampetra fluviatilis*).

The level of risk for these species is least concern.

EN16 Total direct and indirect greenhouse gas emissions by weight / EN15 Allocation of CO_2 emissions allowances or equivalent, broken down by carbon trading framework

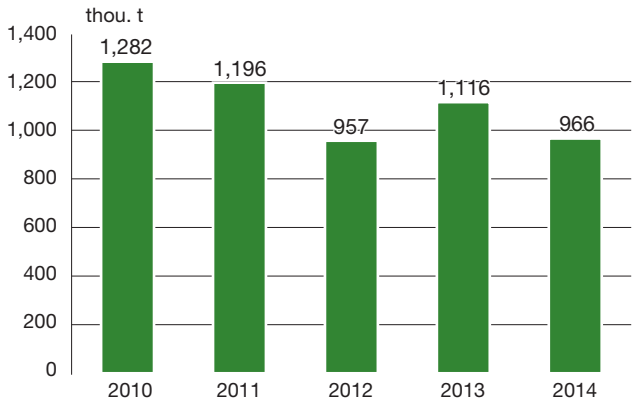
Greenhouse gas-induced climate change is one of the most topical global environmental issues. Modernization of Latvenergo Group facilities, replacing older and less efficient facilities with such that comply with the Best Available techniques reference documents, is a significant investment in the reduction of climate change and meeting the set goals.

In 2014, the combustion facilities of Latvenergo Group emitted 966 thousand tons of CO_2, which is 150 thousand tons less than the previous year. Reduced CO_2 emissions compared to previous years are due to discontinuing operation of older, less efficient facilities, as well as by different weather conditions. Comparatively higher emissions in 2013 are explained by testing and adjustment works at the second power unit of Riga TEC-2.

The volume of emissions (CO_2) include emissions from both the facilities that are part of the European Union Emissions Trading System (i.e. incineration equipment with a nominal installed thermal energy capacity of over 20 MW) and facilities that does not participate (10,134 tons CO_2). The CO_2 emission volume also includes indirect CO_2 emissions associated with supporting the energy generation process. Latvenergo Group does not produce any other types of direct greenhouse gas emissions.

The third phase of the EU Emissions Trading Scheme (EU ETS) was launched in 2013. Compared to the previous procedure, the new regulations grant free emissions allowances to thermal energy generation only, and the number of allowances granted is reduced gradually – to 30% of the necessary amount by 2020. In 2014, 442,778 allowance units were granted to Riga TEC-1 and Riga TEC-2 for generation of thermal energy (2013: 502,865) and 29,025 units – to Liepaja generation facilities (2013: 36,536). One allowance unit is equivalent to one tonne of CO_2 emitted.

CO_2 emissions (2010 – 2014)

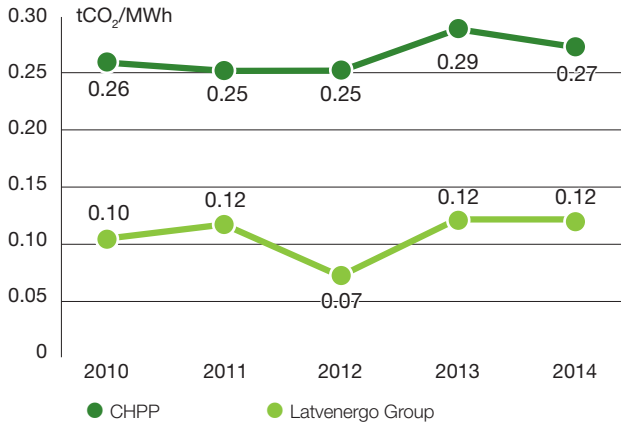


EN18 Initiatives to reduce greenhouse gas emissions and reductions achieved

The use of efficient and modern technologies is one of the main methods to reduce emissions and save resources. One of the performance indicators for a CHPP is the fuel consumption ratio. For the reconstructed facilities of the CHPPs of Latvenergo Group, this ratio is between 86% and 90% in cogeneration mode, and it may decrease to 48% in condensation mode.

Specific CO_2 emission indicators per unit of electricity generated for the entire Group characterise the allocation and efficiency of renewable energy sources and fossil fuel – the lower these indicators are, the larger the fraction of electricity that may be generated from renewable energy sources, indicating that CHPP facilities have operated at higher efficiency. In 2014, CO_2 emitted per unit of electricity generated was 0.12 t CO_2/MWh_{el}, while for CHPPs (i.e. Riga TEC-1 and Riga TEC-2) it was 0.27 t CO_2/MWh_{el}. Comparatively higher emissions in 2013 are explained by testing and adjustment works at the second power unit at Riga TEC-2.

CO_2 emissions per unit of electricity generated (2010 – 2014)



EN20 NO_x, SO_x and other significant air emissions by type and weight

The emission of harmful substances into the atmosphere depends directly on the type of fuel used, the efficiency of its consumption and the type of technology. Latvenergo Group uses renewable energy sources (water, wind, wood) and also fossil fuel (primarily natural gas, and diesel as the back-up fuel for Riga TEC-1 and Riga TEC-2 water boilers).

- Natural gas is one of the most environmentally-friendly types of fossil fuel, and Latvenergo Group uses it not only at its CHPPs but also at small boiler houses if it is possible. However, besides carbon dioxide, combustion of natural gas emits other harmful substances into the atmosphere. These substances are nitrogen oxides (NO_x) and carbon monoxide (CO).
- When burning fuel oil and diesel fuel, sulphur dioxide (SO_2), particulate matter and vanadium (V) pentoxide emissions are also produced. Diesel emits hydrocarbons during storage. In 2014, Latvenergo Group discontinued using heavy fuel oil as the back-up fuel at Riga TEC-2, replacing it with less environmentally harmful diesel fuel.

NO_x, CO, SO_2 and other emissions (2010 – 2014)

	Unit	Method	2010	2011	2012	2013	2014
NO_x	t	m/c	1,349	912	674	792	**623**
CO	t	m/c	250	356	336	397	**415**
SO_2	t	c	11	5	0	3	**1**
Other*	t	c	10	10	10	14	**17**

* including emissions of solid particles, vanadium, hydrocarbons
m – measured, e – evaluated, c – calculated

- Thermal energy generation at Group boiler houses and at the Liepaja bio-cogeneration plant is fuelled by woodchips. Woodchip combustion produces NO_x, CO and particulate matter emissions.

Implementation of the Riga CHPP reconstruction project replaced older, less efficient facilities with new, efficient ones complying with the Best Available Techniques reference documents of the European Commission. Consequently, specific emissions and concentration levels of harmful substances in flue gases, nitrogen oxides (NO_x) in particular, have been significantly reduced. For electricity generation at the reconstructed Riga TEC-2 power units, NO_x emissions per unit of energy generated was only 0.1 kg/MWh, which is an 83% reduction compared to emissions

prior to the reconstruction (0.6 kg/MWh). As a result of implementation of the Riga TEC-2 reconstruction project, the statutory requirements that define the maximum allowed threshold of NO_x and CO emissions in flue gases have been met: NO_x – 50 mg/m³, and CO – 100 mg/m³ given 15% O_2 content in flue gases. To limit emissions of pollutants from combustion facilities and avoid exceeding the threshold values specified in legislation, Latvenergo Group monitors and records pollutant emissions as well as plans and implements appropriate energy efficiency and environmental protection activities. Modernisation of facilities is important in terms of both efficiency and environmental protection.

EN21 Total water discharge by quality and destination

Use of water resources is directly related to the waste water treatment and discharge process. Different kinds of local water treatment facilities are operated at Latvenergo Group objects where waste cannot be discharged into the centralised sewage system and where water polluted with petroleum products might be discharged. Latvenergo Group operations discharge industrial wastewater, rainwater and municipal wastewater. Total water discharge by Latvenergo Group in 2014 was 3,001 thousand m³, including 2,955 thousand m³ discharged into sewage systems and 46 thousand m³ into the environment. Most of the discharged water (90% or 2,697 thousand m³) is Riga TEC-2 generation wastewater. The amount of wastewater at Riga TEC-2 depends on facility operation modes, amount of rainwater drainage, and several other factors. Regular analysis is performed to control the wastewater for compliance with the quality parameters specified in the applicable legislation and in the permits for polluting activity.

Water discharge (2010 – 2014)

Discharged into	Unit	Method	2010	2011	2012	2013	2014
Sewage system	thou.m³	m/c	3,092	3,017	2,887	3,710	**2,955**
Environment	thou.m³	m/c	54	55	47	43	**46**

m – measured, e – evaluated, c – calculated

EN22 Total weight of waste by type and disposal method

In accordance with the priority sequence of waste processing methods at Latvenergo Group, in cases when waste production causes cannot be eliminated or waste amounts cannot be reduced, the waste is consigned for recycling or management.

In accordance with the applicable legislation of the Republic of Latvia, Latvenergo Group conducts segregated collection of municipal and hazardous waste and maintains its waste collection sites. Segregated collection and consignment for recycling of various types of production waste (e.g., used tyres, scrap metal, construction waste, etc.) is also performed. All types of waste are delivered to waste management companies that have permits for processing and recycling of waste.

Increased output of hazardous waste in 2014 is explained by eliminating the historical pollution of soil on the premises of the *Ķengarags* 110/10 kV substation. Increased output of production waste is explained by biomass ash formation at Liepaja generation facilities. The production waste category also includes scrap metal (2014: 3,793 tons), the amount of which varies depending on the activities performed by the Group, such as repairs, takedown or disassembly of various buildings, structures and machinery.

Latvenergo Group companies operate waste management systems for used imported packaging and waste electrical and electronic equipment (WEEE).

Waste and recycled materials (2013 – 2014)

Waste	Unit	Method	2013	2014	Hazardousness	Management method
Municipal solid waste	t	m/c	2,230	2,391	non-hazardous	consigned for processing
Hazardous waste	t	m	528	1,214	hazardous	consigned for processing
Production waste	t	m	3,522	6,323	non-hazardous	consigned for processing
Imported packaging	t	m	111	4	non-hazardous	consigned for recycling
WEEE*	t	m	17	25	hazardous	consigned for recycling
Recycled materials						
Used transformer oil	t	m	96	77	hazardous	regenerated and recycled

* waste electrical and electronic equipment
m – measured, e – evaluated, c – calculated

EN23 Total number and volume of significant spills

To ensure compliance with the environmental protection legislation, Latvenergo Group cooperates actively with state environmental institutions, providing information related to environmental protection, organising environmental impact assessments, implementing the provisions of polluting activity permits, and receiving consultations on issues related to environmental protection.

No leakage of pollutants into the environment occurred and no other violations were identified at Latvenergo Group sites in 2014.

EN28 Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations

In 2014, eleven planned special-purpose inspections and one extraordinary inspection were performed by the State Environmental Service of the Ministry of Environmental Protection and Regional Development of the Republic of Latvia, as well as two planned inspections by the Health Inspectorate of the Ministry of Health of the Republic of Latvia. The planned inspections of Group operations in 2014 did not lead to significant reprimands or sanctions from controlling bodies, and no fines were paid.

In June 2014, the State Environmental Service Greater Riga Regional Environmental Board (GRREB) performed an extraordinary inspection at the *Ķengarags* 110/10 kV substation in connection with historical pollution with petroleum products on the property which Latvenergo AS purchased in 2012 in order to construct a new substation. Pollution was found initiating ground excavation works and its underlying causes are not related to the operation of Latvenergo Group. As part of the inspection, the GRREB defined measures to be taken for location research and remediation of the pollution. Soil survey and remediation measures have been ensured during construction of the new *Ķengarags* substation, keeping the GRREB informed of the results.

2.2 Employees and Work Environment

2.2.1 Employment and Work Environment Human Rights

Management Approach

We believe that an excellent job can only be done by working together – bringing the accumulated long-term experience of the company with the expertise and competencies of each of our employees. For this reason, Latvenergo Group promotes synergy of new knowledge and accumulated experience, allowing each and every employee to achieve their best result and respectively appreciating their performance. The values of the Group are the basis of our daily activities.

> Competence of each employee enriches the experience accumulated within the company and fosters its growth

Latvenergo Group values specified in its strategy are communicated to customers and the society through the actions of employees. Therefore, we strive to attract employees whose values are compatible with the values of the Group:

- our activity is professional: safe to society, environment, our customers and ourselves – this reflects our **responsibility**;
- we set far-sighted goals, achieve them as quickly as possible without compromising quality and optimally using resources – these are prerequisites of **efficiency**;
- we learn, develop and are ready for change. Our experience and know-how are the basis for our readiness and ability to offer customers the smartest solutions, developing them continually – this is our understanding of **openness**.

We take care to ensure that our everyday activities conform to these values, which is why we have created and continue to enhance a motivating work environment. A motivating work environment means open communication, understanding of achievable results and actions to be supported. Employees are provided with information and internal training about the strategy of the Group, values, ethical standards, work performance improvement, labour protection and other matters. The Group obtains feedback from employees about their understanding of these matters by testing their skills and knowledge as well as by conducting opinion surveys.

Appreciation of job performance is an important factor for everyone, therefore the Group employees receive motivating, performance-based remuneration – base salaries are defined according to employee competencies and labour market trends, while the short term incentives are tied is tied to the quality of work performed.

Primary aspects of personnel management currently are aligned with the activities of the last few years and strategy of Latvenergo Group:

▸ **providing each employee the opportunity to participate in improving company processes;**
Employee responsiveness to opinion survey increases every year at Latvenergo Group: in 2014, participation increased by 14.2% compared to 2013. We promote constructive openness and ensured 360º competency evaluation at annual employee interviews.

The employee self-service system is accessible to each employee at their workplace and outside it. This system provides opportunity to define goals and tasks and keep track of their execution. Within this system, we also maintain and gradually integrate all processes related to employee information, job performance evaluation, development, and opinion survey.

A qualitative improvement was introduced in 2014 – task specification environment and execution statuses are linked to the regular performance evaluation process. In the past few years, more and more managers have been using these innovations in their day-to-day operations and boosting their usage and efficiency is a challenge for the coming years.

▸ **caring for development of employee competencies;**
For Latvenergo Group, competencies refer to a complex of knowledge, skills and know-hows that ensure good and excellent job performance. Annual employee interviews ensure a unified view of development plans and evaluation of the previous year achievements.

Improvement of employee training methods continued in 2014, involving internal coaches and organising discussions for experience exchange, as well as working on use of efficient *e-learning*. To make the best use of the Group online platforms available to employees, we are working on improving of general e-skills for employees whose daily routine is not directly related to application of information technologies. In 2014, 360 employees have improved their *e-skills* necessary for performing their job duties.

The near-term goal for expanding training options is the integration of *e-learning* platform into the employee self-service system and boosting usage of the new environment. We accept variety and individual approach, therefore, a challenge for the next few years is establishing varied opportunities for staff development – considering the number and demographics of the Group personnel, the various operating segments and regional specifics, also promoting the individual responsibility of each employee to avail of the opportunities provided.

▸ **ensuring knowledge continuity.**
The operational specifics of the Group require that, to ensure sustainable development, it is essential to accumulate and transfer knowledge, including well-considered and balanced replacement of retirement age employees with new employees.

Cooperation with educational institutions in Latvia was expanded in 2014, providing 223 guaranteed paid internship positions at Latvenergo Group available in 2015. The objective is to give students practical work experience and understanding of the competencies necessary for working at Latvenergo Group as well as to foster improvement of quality in education.
The Group also continues its successful cooperation with educational institutions, proposing graduation thesis topics and offering the help of its employees as advisors in drafting the thesis. In 2014, we identified 322 employees who would like to improve their mentoring skills, allowing us to expand the cooperation in the future and involve young people in the activities of the Group.

LA1 Total workforce by employment type, employment contract, and region, broken down by gender

Latvenergo Group constantly improves its processes to ensure that its employee structure is efficient and optimal in size. In late 2014, Latvenergo Group employed 4,563 people. The number of employees has not changed significantly for five years.

The structure of Latvenergo Group employees has a relatively high proportion of male individuals: 73% of its employees are male and 27% are female. This is explained by industry specifics, requiring a high number of technical positions.

Most employment agreements at Latvenergo Group are concluded for full-time employment and an indefinite term. Only 9 individuals, or 0.2% of the total number (0.1% of males and 0.4% of females) work part time. Only 2% of all employment agreements are concluded on fixed-term (1% of male and 4% of female employees at the Group).

Distribution of employees by operating segments (2010 – 2014)

	Unit	Method	2010	2011	2012	2013	2014
Generation and supply	number	m	951	920	940	971	**989**
Distribution	number	m	2,552	2,543	2,502	2,505	**2,545**
Management of transmission system assets*	number	m	495	493	438	444	**443**
Corporate functions	number	m	519	534	577	592	**586**
TOTAL	number		4,517	4,490	4,457	4,512	**4,563**

* since 2 January 2012 Augstsprieguma tīkls AS is unbundled from the Group;
m – measured, e – estimated, c – calculated

In accordance with requirements of Certification of the Transmission System Operator, as of 1 January 2015, the transmission system operator Augstsprieguma tīkls AS has taken over the transmission system asset construction and maintenance functions from Latvijas elektriskie tīkli AS that implies transfer of 430 Latvenergo Group employees to Augstsprieguma tīkls AS.

LA2 Total number and rate of new employee hires and employee turnover by age group, gender, and region

Latvenergo Group has relatively low employee turnover that does not pose significant risks to sustainable development of the Group. Furthermore, risks are mitigated by balanced knowledge transfer to new hires. Employment was initiated with 343 employees in 2014 (6% of females and 12% of males employed by the Group). Employment was terminated with 292 employees (including 5% of females and 10% of males). Thus, employee turnover was 6% in 2014.

In preparation for the opening of the electricity market to households in Latvia, additional employees were hired on a fixed-term. Employment was terminated with 60 individuals (15 males and 45 females; 38 aged up to 30, one aged over 50) who were hired in 2014.

Employee turnover in 2014

			new employee hires		employment terminated	
Age group	**Unit**	**Method**	**Men**	**Women**	**Men**	**Women**
less than 30	number	m	125	78	44	47
30-50	number	m	60	69	50	59
above 50	number	m	10	1	70	22
TOTAL	**number**		**195**	**148**	**164**	**128**

m – measured, e – estimated, c – calculated

LA4 Percentage of employees covered by collective bargaining agreements

Coordination of the socio-economic interests of Latvenergo Group employees is ensured by the Latvenergo Collective Bargaining Agreement concluded between Latvenergo AS, Sadales tīkls AS, Latvijas elektriskie tīkli AS and Enerģijas publiskais tirgotājs AS and the labour union *Enerģija*. The Agreement provides employees with guarantees in addition to those provided by state legislation. In 2014, the Collective Bargaining Agreement was applicable to 4,430 or 97% of the Group employees and this percentage has remained at the same level for the last five years.

Collective bargaining agreements concluded by Latvenergo Group companies are effective not only for labour union members but for all employees of these companies. Thus, social guarantees ensure equal treatment of each employee and reduce the likelihood of conflict between employee and employer.

LA5 Minimum notice period(s) regarding operational changes, including whether it is specified in collective agreements

The employer regularly notifies employees and the labour union about the business activities of the company, current events and development. The Latvenergo Collective Bargaining Agreement specifies that the employer must notify the labour union at least one month prior to submitting an application for consent to terminating an employment agreement with an employee.

LA7 Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region and by gender

As an employer, Latvenergo Group provides its employees with workplaces that are adequate for fulfilment of their duties, with appropriate individual means of protection and technical resources, as well as provides employee training on occupational safety and safe work methods. The core business divisions of Latvenergo Group have implemented and maintain a work safety management system compliant with requirements of the OHSAS 18001 standard.

In 2014, nine accidents occurred at the Latvenergo Group companies (2013: thirteen). No jobsite fatalities occurred in 2014. Accidents are recorded in accordance with the requirements of the applicable legislation of the Republic of Latvia.

Injury and absentee rates* (2010 – 2014)

	Unit	Method	2010	2011	2012	2013	2014
Injury rate (IR)	number	c	0.33	0.33	0.47	0.34	**0.23**
Occupational diseases rate (ODR)	number	c	0.08	0.00	0.03	0.05	**0.10**
Lost day rate (LDR)**	number	c	14	9	12	14	**8**
Absentee rate in hours (AR)***	number	c	8,318	8,578	7,875	9,014	**7,961**

* calculated per 100 employees on average in a year according to methodology provided by GRI guidelines
** number of days lost due to injuries
*** absence due to incapacity for work, including incapacities not related to injury or occupational disease or occupational disease
m – measured, e – estimated, c – calculated

After the accidents, the work environment risks were re-assessed and repeated briefing of employees was conducted. During briefing, the causes of the accidents were discussed and analysed with employees. Seven contractors were injured in accidents during their work at Latvenergo Group sites (2013: three). All the injured contractors were males. Four cases of occupational diseases were recorded in 2014, representing an average of 0.1 cases per 100 employees per year.

LA12 Percentage of employees receiving regular performance and career development reviews, by gender

To evaluate the conformance of employee competencies to their professional duties and to motivate them to develop competencies that would foster achievement of the company goals, annual development interviews are conducted with Latvenergo Group employees. The interviews are applicable for employees who have worked for a full calendar year, and they are conducted by direct supervisor of an employee. As a result of the interview a decision is made on improving competencies of the employee, upgrading his or her qualifications and possible career growth. In 2014, development interviews were carried out for 85% of employees – this indicator has remained essentially unchanged in the last five years. Interviews were carried out with 80% of females and 87% of males employed by the Group in 2014. The proportional difference is due to a number of female employees being on maternity leave.

LA13 Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity

The grouping of professions within Latvenergo Group was performed using the Profession classificator of the Republic of Latvia. In 2014, 87% of the Group employees were highly qualified employees – management, senior specialists, specialists, and qualified workers. More than half of all employees have higher education. Overall, no significant changes in employee composition were observed in recent years. A large fraction of Latvenergo Group employees

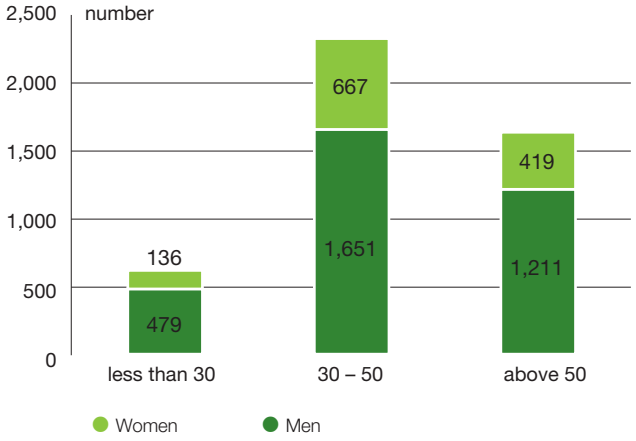
have a considerable length of service – it is at least 10 years for 66% of employees. The distribution by gender is similar – 68% of males and 59% of females employed by the Group have a length of service of more than 10 years.

The gender inequality in the distribution between qualified and support staff has remained unchanged for several years and is explained by industry specifics.

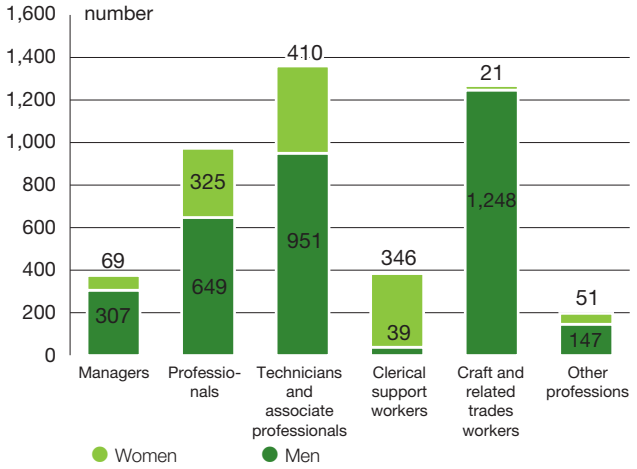
Latvenergo Group maintains equal treatment of all employees of the Group, without discriminating any minority group.

Information about the structure and composition of managerial bodies by gender, age, education, length of service and other diversity indicators is provided in the Section 1.4 “Group Governance”.

Distribution of employees by gender and by employee category 31.12.2013



Distribution of employees by gender and age group 31.12.2014



LA14 Ratio of basic salary and total salary for women and men by employee category, by significant locations of operation

The ratio of employment agreement base salaries for females and males who perform similar duties within an employee category shows that Latvenergo Group applies gender equality in specifying employee remuneration. To identify differences in remuneration between genders, the base salaries for employees with the same position titles and similar occupational duties were analysed. A total of 2,950 employee base salaries were analysed, representing 65% of the Group employees.

Observed differences in employee base salaries are not significant and might be explained by the correspondence of an employee competencies to the requirements specified for their position.

No differences in total employee remuneration have been observed due to unified work performance assessment criteria for a given position. Thus, based on the evaluation criteria, all employees have equal opportunity to receive the variable part of remuneration.

Ratio of basic salary of women to men by employee category

Profession group	Method	Rate of employees compared	Basic salary women/ men, range
Managers	c	87%	0.88 – 1.06
Professionals	c	59%	0.90 – 1.06
Technicians and associate professionals	c	73%	0.91 – 1.09
Clerical support workers	c	85%	0.91 – 1.04
Craft and related trades workers	c	54%	0.98 – 1.05
Other professions	c	28%	0.90 – 1.02

m – measured, e – estimated, c – calculated

2.2.2 Human Rights

Management Approach

Latvenergo Group respects the fundamental human rights enshrined in the *Satversme* (Constitution of the Republic of Latvia), laws and binding international treaties and shapes its work environment and processes so as to prevent any infringement upon or violation of the human rights of Latvenergo Group employees and, within the limits of possible influence of Latvenergo Group, the human rights of its business partners. All Latvenergo Group employees are provided equal opportunity and an equal treatment regardless of their gender, race, age or any other characteristic.

Fair treatment and equal opportunities for all employees

Appliance of the principles of human rights by Latvenergo Group and its business partners is specified in the Code of Ethics, aimed at creating a unified set of norms for ethical conduct, thereby ensuring that respect, trust and loyalty are maintained. The Group proactively educates its staff on these matters, and appliance of the standards specified in the Code of Ethics is the obligation of all Latvenergo Group employees and the responsibility of management staff and executives as well as one of the criteria for evaluating employees' job performance.

Appliance of the principles of human rights is also defined in other internal documents, which also inter alia specify employee rights to:

- safe, non-hazardous, non-discriminative work environment;
- work and rest time, fair labour compensation;
- equal treatment in job placement, promotion and work performance evaluation;
- express opinions, participate in associations and trade unions;
- report on cases that might indicate infringement.

HR5 Operations and significant suppliers identified in which the right to exercise freedom of association or collective bargaining may be at significant risk, and actions taken to support these rights

Latvenergo Group does not restrict individual participation of employees in various associations and organisations, including trade unions, and such participation does not require approval by the employer; thus, free exchange of experience and professional growth are ensured.

Latvenergo Group selects business partners, including suppliers, which understand and apply ethical standards, respect human rights in their operations, and support the Group in shaping fair cooperation, and do not engage in corruptive or fraudulent activities.

To ensure implementation of these principles, upon concluding agreements, the business partners of the Group are asked to provide a declaration of observing the values and principles specified in the Code of Ethics of Latvenergo Group.

2.3 Society

Management Approach

Latvenergo Group complies with the statutory requirements and also undertakes voluntary responsibility for its impact on society, economy, and the environment. In cooperation with stakeholders, the Group identifies mutually material issues, involving stakeholders in implementing relevant activities.

Responsible business conduct on national and international level

The management approach of Latvenergo Group related to its impacts on society is grounded in socially responsible activity and openness:

- Latvenergo Group is actively involved in shaping a public opinion on mutually material issues to the Group and its stakeholders in developing international as well as national legal documents for the energy sector and related industries. In 2014, Latvenergo Group has actively participated in preparations for Latvia's presidency of the European Union (EU) in the first half of 2015, in particular towards implementing priorities in the energy sector, including development of initiatives and participating in the EU Energy Union ministerial conference;
- in accordance with the principles specified in its Code of Ethics, Latvenergo Group guarantees a fair and equal attitude to all employees, customers, suppliers, and other stakeholders, providing each party with accurate and verified information;
- to develop a balanced energy system, Latvenergo Group commits to investments in modernising energy generation capacities and the electricity grid infrastructure, and at public discussions informs and explains to society and residents near relevant objects the necessity of projects and their implementation steps.

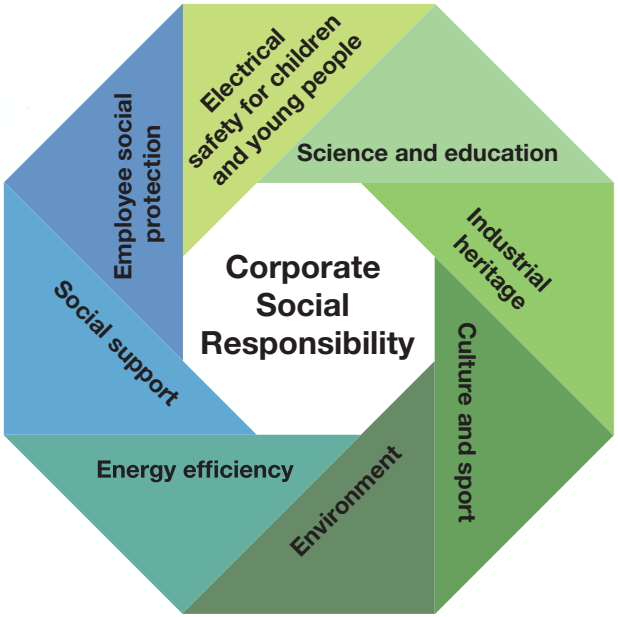
Latvenergo Group Corporate Social Responsibility (CSR) policy specifies the basic principles and criteria for doing business in a responsible manner. The Group implements CSR activities on national and Baltic scale related to the energy industry and/or human creative energy. To promote the best practice of CSR and enhance public welfare, the Group ensures engagement of large groups of society in CSR activities to achieve maximum long-term results and promote public understanding of the business segments of the Group and its current developments.

2014 was the anniversary year for Latvenergo Group – in December, 75 years passed since launching the first hydropower unit at the Kegums power plant. Affirming its openness – one of the key values of the Group – at the end of the year, as part of its anniversary campaign "Energy Hunting", Latvenergo Group offered opportunity for anyone to visit various energy facilities that are generally not available for visitors. More information about the events of 75th anniversary of Latvenergo Group is available at: http://75.latvenergo.lv/

Education of children and young people on electrical safety

In order to reduce electrical safety-related risks, raise the youth awareness of electrical safety and promote

Directions of Latvenergo Group CSR activities



physical sciences, Latvenergo Group, in cooperation with educational institutions and experts, annually implements projects dedicated to electrical safety for children and youth.

The *eXperiments*, erudition contest organised by Latvenergo Group, has been educating youth about safe and efficient use of electricity for almost 20 years, fostering their understanding of and interest in physics, natural phenomena, and the environment. Encouraging

children and youth to act with precaution near electrical installations, in 2014, Latvenergo Group organised an informatively-educational campaign called “Don’t approach! In the game with electricity the looser will be YOU!”. To educate young people about electrical safety issues, Latvenergo Group specialists took part in the family safety festival “Summer of Adventures 2014”, organised by the State Police and the Riga City Council, and in children summer camps. To raise awareness on electrical safety in the virtual environment, an Electrical Safety page was created on the draugiem.lv social network.

Support for science and education in the energy sector

To foster development of applied research, innovative environment and the energy sector and motivate student research activities, Latvenergo Group supports energy research and promotes power engineering and technical professions.

In cooperation with the Latvian Academy of Sciences, Latvenergo Group has been presenting its Annual Prize in power engineering for more than 10 years, recognising the achievements of young researchers alongside lifetime contribution to the energy industry. The Group holds a competition for students of higher education institution awarding best graduation theses on topical issues in the energy sector and a scholarship competition for the period writing graduation theses. The Group also provides internship opportunities to students from various educational institutions.

To involve youth in studying physics in an engaging way, Latvenergo Group maintainins the portal for schoolchildren *fizmix* (http://www.fizmix.lv). Experiments published on the portal are presented by the *fizmix* team during the annual European Researchers’ Night, the Technical Innovation Festival and in organized lectures in the Latvian schools. On 17 November 2014, as part of the *fizmix* project, the Guinness World Record for the longest human electrical circuit was organised the Arena Riga venue.

To increase the awareness of the foundations of the Latvian energy system and the advantages and drawbacks of nuclear energy among its employees, industry experts and students, in 2014, Latvenergo Group published Elmārs Tomsons book *Kodolenerģētika un vide* (Nuclear Energy and the Environment) and Valdis Gavars book *Fricis Rudzītis – pirmais Latvijas elektroinženieris* (Fricis Rudzītis – the First Latvian Electrical Engineer).

Preservation of industrial heritage

The Museum of Energy of Latvenergo Group preserves and studies the documentary and industrial heritage of the energy sector in Latvia and Latvenergo Group. The museum repository in Riga displays E. Kraucs’ collection of glass plate photonegatives entitled “Construction of the Kegums Hydropower Plant (1936–1940)”, which has been included in the Latvian National Register of the UNESCO Memory of the World Programme. A permanent exhibition in Kegums displays objects of industrial heritage, while the travelling exhibition “Kegums HPP – the Pride of Latvia’s Energy Industry” reveals the construction of this major industrial site in the first half of the 20th century.

The Museum of Energy offers themed educational activities where anyone can explore the history and industrial heritage of the Latvian energy industry and Latvenergo Group and see the film “How the Kegums power plant was built. Memoirs of Kārlis Dumbrājs”.

In 2014, the museum traditionally took part in local and international campaigns and events: International Museum Night, European Researchers’ Night, UNESCO Week and Balttour 2014.

Open to culture and sport

Latvenergo Group participates in various culture and sport events. For a number of years, the Group has supported a charity concert promoting the artistic talents of orphaned and handicapped children the *Nāc līdzās Ziemassvētkos!* (Come Along in Christmas!). As part of promoting an active lifestyle, Latvenergo Group employees participate in the *Nordea* Riga Marathon, which is one of the largest in Northern Europe, and in another large-scale national sporting event – the Latvian Cyclist Union Race in Sigulda.

For a number of years, the Group has been involved in various initiatives of public importance under the theme of light and energy. In the year of its 75th anniversary, Latvenergo Group took part in the “Riga Carnival” event of the Staro Rīga 2014 Light Festival, illuminating the Group headquarters at Pulkveža Brieža street 12 in an anniversary light show. During the *Positivus* music festival, Latvenergo Group organised the *Friendly Energy lighting* object contest.

Environmental protection

In 2014, Latvenergo Group continued cooperation with the Latvian Ornithological Society (LOS) to protect bird species and with the Mēs zivīm (We to fish) society to protect and replenish fish stocks in the Daugava River basin.

Further information about environmental protection activities implemented by the Group is available in the Section 2.1 “Environment”.

Energy efficiency measures

In 2014, Latvenergo Group participated in the Ministry of Economics workgroups to develop an optimised, balanced and cost-effective model of energy efficiency obligations and alternative measures for implementing the EU Energy Efficiency Directive 2012/27/EU in Latvia. Experts of the Group have notified stakeholders about progress and solutions at industry conferences and workshops, including the 55th International Scientific Conference of the Riga Technical University.

The Energy Efficiency Centre of Latvenergo Group hosts free-of-charge workshops, field trips and consultations about ways to save energy in households and in business, about the latest electric appliances and criteria for choosing them, and offers practical advice for improving electricity usage habits. Latvenergo Group website (http://www.latvenergo.lv/eng/for_customers/energy_efficiency_centre) provides simple tips for using electricity more efficiently.

Social support

To mitigate the economic impact of electricity tariffs on large families, Latvenergo Group implemented the following social support programmes:

- the lower Start tariff rate for the first 2,400 kWh consumed per year (effective until 1 April 2014);
- opportunity to receive electricity payment cards in the amount of EUR 84.24 (as of 1 August 2014).

Ensuring continuous support, also in 2014, Latvenergo Group donated computer hardware to Latvian educational institutions.

In 2015, Latvenergo AS supplies electricity to protected users (poor or low-income persons, large families), compensating electricity price increase due to the market opening.

Social protection of employees

Information about social protection of employees is available in the Section 2.2 “Employees and Work Environment”.

SO1 Percentage of activities implementing public involvement, impact assessment and development programmes

Latvenergo Group responsibly evaluates the impact of its activities on the environment in both day-to-day operations and in implementing new projects. To mitigate potential harm or the risk of harm to the environment and society and ensure public involvement in decision-making, stakeholder opinions are clarified by organising public discussions; customers and any third parties may also submit their complaints or applications in the way they find most convenient (see the Section 2.4 “Product Responsibility”). Environmental protection and environmental impact assessment studies are conducted. To ensure safety for residents of municipalities affected by the Daugava hydropower plant reservoirs during the spring flooding period, Latvenergo Group cooperates with the responsible services, institutions and local governments.

Four public discussions were held in 2014 concerning the project of *Estonia–Latvia third interconnection.* Further information about environmental impact assessments and mitigation measures by Latvenergo Group is available in the Section 2.1 “Environmental Protection”.

In spring, Latvenergo Group representatives took part in informative activities of the State Fire and Rescue Service (SFRS) for prompt and coordinated cooperation with the services, institutions in charge and with local governments to ensure safety at the Daugava River basin and in flood-prone areas.

The Group applies all regulatory requirements regarding assessment of the impact of its activities and performs the necessary mitigation activities.

SO2 Percentage and total number of business units analysed for risks related to corruption

In 2014, an assessment of fraud and corruption risk was conducted at all business functions of Latvenergo AS and at those functions of Sadales tīkls AS and Latvijas elektriskie tīkli AS which the management deemed more susceptible to this risk. According to the results of the risk assessment, the risk of fraud and corruption at Latvenergo Group is managed adequately.

Scheduled and unscheduled internal audits are regularly conducted within Latvenergo Group to assess corruption risks and the efficiency of internal controls in mitigating these risks. More information about fraud risk management and assessment within the Group is available in the Section 1.6 “Group Management”.

SO4 Actions taken to mitigate the risk of corruption

The Fraud and Corruption Risk Management Policy of Latvenergo Group defines the basic principles of fraud and corruption risk management in order to reduce this risk and the ensuing potential losses and harm to the reputation of the Group.

In accordance with the Code of Ethics, managers of all levels and the leading specialists, experts, project managers and other employees who participate in decision-making as part of their job duties must submit a conflict of interest declaration to the employer once a year. Submission of this declaration is also required

from the employees who have been or could be in conflict of interest situations while performing their work duties. During the reporting period, the annual conflict of interest declarations were submitted by 3,751 Group employees (82% of all employees). Upon commencing employment, new employees signing a statement must confirm their understanding of conflict of interest situations and commitment to preventing occurrence of such situations in their work.

In order to ensure employees' awareness of conflict of interest situations and the steps to be taken to prevent them, Group carries out explanatory measures, training for management and employees, organises discussions on prevention of conflict of interest situations and mitigation of fraud and corruption risks. No cases of corruption were identified within Latvenergo Group during the reporting period.

SO5 Public policy positions and participation in public policy development and lobbying

Latvenergo Group experts participate in public discussions and prepare positions, opinions and statements on public policy documents and draft legislation of Latvia and the European Union (EU), expressing its stance in line with the goals and tasks defined in the Strategy of the Group.

Lobbying of positions essential to the Group in the EU is ensured with participation in the Association of the Electricity Industry in Europe (EURELECTRIC). In 2014, the Group representatives took part in preparing positions on Latvian electricity industry priorities for EURELECTRIC in cooperation with EU institutions, the EU framework for climate and energy policies 2020–2030, EU energy supply security, state aid framework for environmental protection, energy costs and subsidies in the EU, and cogeneration as an essential component of the transition of the EU to a low-carbon content in the total energy mix.

Together with the Ministry of Environmental Protection and Regional Development, Latvenergo Group takes part in preparing position statement of Latvia on the Proposal for a Directive of the European Parliament and of the Council on the reduction of national emissions of certain atmospheric pollutants and amending Directive 2003/35/EC and the Proposal for a Directive of the European Parliament and of the Council on the limitation of emissions of certain pollutants into the air from medium combustion plants.

Furthermore, the Group experts gave their recommendations for development and improvement of various regulatory documents in 2014. The most important of them are: Energy Efficiency Draft Law, amendments to the Electricity Market Law, Law on the Management of Public Persons' Capital Shares and Capital Companies, amendments to the Labour Law, amendments to the Construction Law and subordinated Regulations of the Cabinet of Ministers, and the Mandatory procurement public service obligation fee calculation methodology.

SO6 Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country

The Corporate Social Responsibility Policy of Latvenergo Group does not permit financial or in-kind contributions to political organisations.

SO7 Total number of legal actions for anti-competitive behaviour, anti-trust, and monopoly practices and their outcomes

In 2014, no cases of anti-competitive behaviour or monopoly practices were identified at Latvenergo Group, and neither court proceedings thereof against Latvenergo Group have been initiated nor are ongoing.

SO8 Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations

Latvenergo Group ensures compliance of its activity with the applicable legislation – no significant fines or non-monetary sanctions were applied in 2014 for any failure by the Group to comply with legislation.

2.4 Product Responsibility

Management Approach

Latvenergo Group continues the implementation of its strategic direction towards strengthening its position on the Baltic market, becoming a recognisable and competitive electricity market player not only in Latvia but also in Lithuania and Estonia. Operation of the Group is targeted at developing and implementing services that meet the needs of customers, and increasing the value of the brand. At the same time, Latvenergo Group creates a unified business organisation system on the Baltic scale, ensuring cost-efficient and competitive provision of Latvenergo Group products and services.

> We offer a personal approach and a wide range of products according to the Baltic customer needs

Goals and results

The biggest challenge for Latvenergo Group in 2014 was the opening of the electricity market for households in Latvia as of 1 January 2015. Preparing for market liberalisation, widespread informative campaigns were conducted, systemic customer service tools were implemented, and organisational and processual improvements were implemented. Furthermore, new services were introduced to provide the most convenient and customer-friendly offers and service. In 2014, Latvenergo Group has introduced its *Elektrum* product brand also on the Latvian electricity market. The household segment in Latvia has been provided with a selection of 6 specialised offers based on the long-term experience and knowledge regarding customer consumption and payment habits.

Opening of the electricity market for households in Latvia included a wide range of activities:

- customers informed about market operations, electricity pricing components, market processes and products;
- activities to increase the awareness of the *Elektrum* brand were implemented;
- individual *Elektrum* product offers were sent to all households in Latvia;
- new services were developed and introduced that simplify product selection for customers, including new features on the *e-latvenergo.lv* portal and an option to apply for a product via SMS;
- engagement, participation in motivation-raising activities of Latvenergo Group employees were carried out;
- additional resources were provided at contact and customer service centres for efficient customer service during the market opening campaign.

Upon opening of the electricity market for households, Latvenergo Group was able to retain 99% of its customers in Latvia, 79% of whom have chosen the product *Elektrum Universal* and 21% – other *Elektrum* products.

To strengthen the market position in Lithuania and Estonia, activities to increase the awareness of the Elektrum brand were implemented in 2014, including advertising campaigns in the media and on social networks, as well as various cooperation projects. As part of these activities, in August, Elektrum started cooperation with the new "Lottemaa" family theme park in Estonia. The added value of the Elektrum products is also the optional offer to receive the Energy Risk Insurance. In addition, the functionality of a mobile application was developed, allowing customers to see electricity prices on the power exchange and receive notifications about price shifts.

In 2014, a number of important campaigns were launched in order to increase the recognition of Latvenergo Group services and explain their advantages. The balanced payment campaign resulted in a 7% increase in subscriptions. While after the campaign to promote the *e-latvenergo.lv* customer self-service portal, where one of the tasks was to update the database of customers' electronic contact details, an increase of 38% was achieved.

To increase customer loyalty, a programme of friendly offers was launched by Latvenergo AS in 2014, offering customers various services and goods from its partners under very favourable conditions. Within the year, 92 offers from 17 partners were developed, and 2.6 thousand customers have already used them.

While preparing for liberalisation of the electricity market, Sadales tīkls AS has gained a new role as a partner for all electricity suppliers. To reach all residents and raise public awareness on the necessity of an open electricity market, its principles, steps to be taken when selecting an electricity supplier and opportunity to receive state support, a widespread informative campaign was implemented in 2014. The campaign included:

- press conferences;
- publications in national and regional periodicals, on municipal websites, in newspapers and magazines;
- distribution of an informative booklet at municipal information centres and in electronic format (via portals as well as municipal periodicals);
- advertisements on television and radio;
- active communication within social networks of the company and in major news portals.

To explain the amendments to the Electricity Market Law, Sadales tīkls AS cooperated with electricity suppliers, municipal governments and public organisations representing large groups of society, such as the Latvian Senior Citizens' Association and the Latvian Association of Local and Regional Governments.

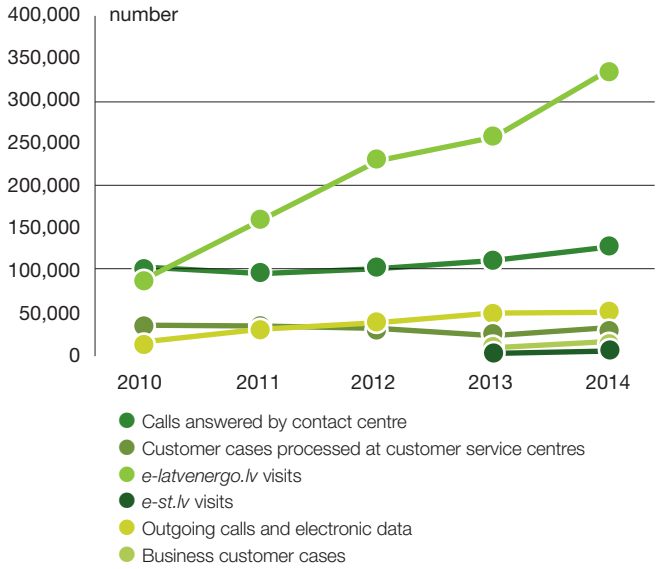
Organisational responsibility

To maintain high customer satisfaction and service quality and availability, customers are offered access to a number of service channels for their convenience. Customer service in Latvia is ensured through the following channels: self-service portals *e-latvenergo.lv, e-st.lv*; customer service via telephone; customer service in person at customer service centres; an option to submit questions electronically via e-mail; customer issues are also addressed on social networks. Customer service in Estonia and Lithuania is ensured via the *elektrum.ee* and *elektrum.lt* portals as well as over the phone. Besides, each resident who is not a customer of Latvenergo Group is also enabled to submit a complaint or application using the aforementioned customer service channels (except customer self-service portals).

The electricity market opening campaign in 2014 had a significant impact on the use of various customer service channels. The most popular customer service channel was the *e-latvenergo.lv* self-service portal; the number of visits over 2014 has increased by 29% compared to the previous year. The number of unique portal users has more than doubled. In 2014, the portal was visited more than 334 thousand times per month on average. The free call centre serviced an average of 126 thousand incoming calls from customers per month (17% more than in 2013). 23 thousand customers were serviced at ten Latvenergo Group customer service centres – a 14% increase over 2013.

More and more customers are using electronic means of communication by contacting customer service via e-mail or leaving their questions in voice mail. An average of 35.6 thousand customer cases were processed each month – 12% more than in 2013.

Average number of customer cases serviced per mont (2010 – 2014)



Overall, the average number of customer contacts through various customer service channels in Latvia was 540 thousand per month. In 2014, only 340 complaints were received from customers, representing less than one-tenth percent of all customers of the Group. 6% of all complaints were justified and 7% were partly justified. Customers were provided with response as soon as possible – 75% of all complaints filed were responded to within 15 days.

To increase response time and ensure mutual understanding about a solution to customer issues, in 2014, 51% (2013: 48%) of customer complaints and

issues were resolved directly with the customer by the phone.

Key performance indicators (KPI) were determined in order to assess the effectiveness of customer service: customer call response service level (percentage of calls answered, calls answered within 30 seconds), complaints and applications responded to within 15 days. The reduced performance for answered calls was due to more calls from customers regarding the opening of the household electricity market – in the last quarter of 2014, the flow of incoming calls increased 2.8 times.

Customer service KPIs in Latvia (2010 – 2014)

	Unit	Method	KPI	2010	2011	2012	2013	2014
Calls answered	%	m/c	90	88	89	90	92	**90**
Calls answered within 30 seconds	%	m/c	85	78	77	82	86	**78**
Claims answered in 15 days	%	m/c	50	51	52	58	63	**75**

m – measured, e – estimated, c – calculated

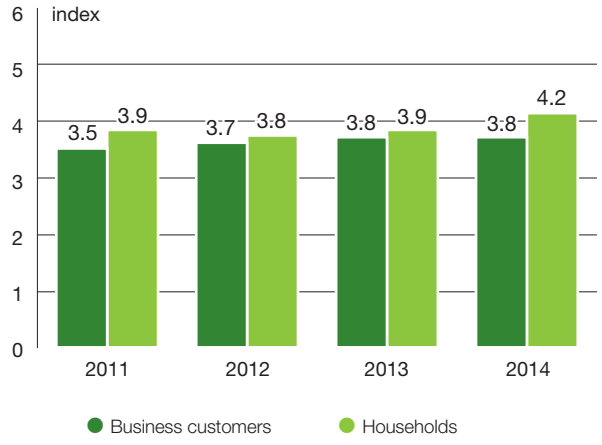
PR5 Practices related to customer satisfaction, including results of surveys measuring customer satisfaction

To ensure high-quality customer service, Latvenergo Group in cooperation with sociological research agencies conducts regular studies of customer satisfaction and loyalty identifying service aspects that can be developed and improved. The level of customer satisfaction is measured across several aspects – overall satisfaction with the company, its services, customer service, payment options, information availability and content. Customer satisfaction and loyalty are evaluated separately in the household and business customer segments.

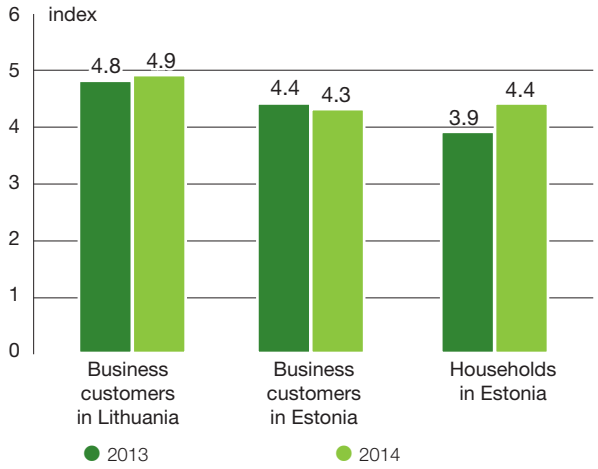
Likewise as in previous years, a customer polling was conducted in late 2014. The survey indicates that, compared to the previous year, the customer satisfaction index in Latvia increased to 4.2 in the household segment, which is the highest customer satisfaction rating to date, whereas the satisfaction index for corporate customers remained unchanged.

For the second time, customer satisfaction and loyalty has also been studied in Lithuania and Estonia. Compared to the previous year, Estonian households' satisfaction with Elektrum has increased, whereas the satisfaction index for corporate customers remained practically unchanged. Customer satisfaction in Lithuania was evaluated among business customers, reporting very high levels of customer satisfaction.

Customer satisfaction index among business customers and households in Latvia (2011 – 2014)



Customer satisfaction index in Lithuania and Estonia (2013 – 2014)



Satisfaction of Sadales tīkls AS customers was evaluated separately: the customer satisfaction results in 2014 are moderately high compared to average figures in the electricity, gas and thermal energy supply sectors of the Baltics and Europe.

PR8 Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data

Latvenergo Group holds extensive customer databases, the processing and maintenance of which complies with all statutory requirements in terms of data security and observance of confidentiality. Customer service processes are adapted in order to ensure confidentiality of data. Data safety and protection are also ensured in customer authorisation within the customer portal, providing customers access to sensitive information in customer service, and also in direct communication with them.

In 2014, one justified complaint (2013: two) and one partly justified complaint were registered concerning a potential violations of customer data privacy. The errors in customer data processing were resolved immediately upon receiving the complaints.

PR9 Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services

Latvenergo Group seeks to ensure maximum quality in provision of its services. If provision of electricity distribution services is found to be inconsistent with quality requirements, the customer is compensated for losses incurred.

Thus, in 2014, compensation for damaged electrical equipment due to distribution network disruptions was paid in 71 cases, for a total of EUR 31.3 thousand (2013: 97 cases totalling EUR 43.3 thousand). A reduced electricity distribution tariff for inadequate voltage quality was applied to 145 customer sites (2013: 70).

EU21 Contingency planning measures and disaster / emergency management plan and training programs, and recovery / restoration plans

Latvenergo Group is not fully protected against natural disasters and human-caused damage. To mitigate these risks, Latvenergo Group has created a unified emergency and crisis management system. The purpose of the system is to define a universal approach for resolving issues that arise during emergency or crisis situation and to ensure continuous and reliable operation of the Group, or its prompt and efficient recovery in case of emergency or crisis.

The principles developed for action in crisis situations stipulate cooperation with the Crisis Management Council, the Energy Crisis Centre, local governments, the Board of Control and Operations at the State Fire and Rescue Service, the National Armed Forces and Augstsprieguma tīkls AS. The emergency and crisis management plan of Latvenergo Group has been coordinated with the Ministry of Economics of the Republic of Latvia, which is in charge of developing the state energy policy and planning and managing energy crisis recovery measures.

To increase employee awareness of their duties in managing emergency and crisis, employees are regularly instructed. Moreover, in cooperation with Augstsprieguma tīkls AS, emergency and crisis management training with potential emergency scenarios for employees of various Latvenergo Group organisational units is performed annually, involving specialists from the Board of Control and Operations at the State Fire and Rescue Service and the National Armed Forces. After the training, an analysis of the training process is performed and the preventive measures to be taken are defined in order to improve recovery response and reduce material losses.

EU24 Practices to address language, cultural, low literacy and disability related barriers to accessing and safely using electricity and customer support services

To ensure clarity of Latvenergo Group services and their convenience and accessibility to as many customers as possible, the Group also provides customers service in Russian and English language over the phone, electronically, and in person. Latvenergo Group websites http://www.latvenergo.lv and http://www.sadalestikls.lv, as well as customer self-service portals *e-latvenergo.lv, elektrum.ee, elektrum.lt* and *e-st.lv* provide information to customers not only in the state languages of the respective country but also in Russian and English. Website http://www.let.lv is available in Latvian and in English. The informative and advertising materials about services of the company distributed at Latvenergo Group customer service centres are also provided in Russian. Customer service centres ensure access for handicapped people and wheelchair users. Customers with children and pregnant women have a separate queue, which reduces their waiting times.

EU25 Number of injuries and fatalities to the public involving company assets, including legal judgments, and settlements and pending legal cases of diseases

Injuries at Sadales tīkls AS electrical installations are mostly caused by the negligence of third parties – contacting 20 kV electricity line wires with machinery due to disregarding dimension restrictions or touching them with fishing rods, and also by illegal third party activities at Sadales tīkls AS electrical installations aimed at obtaining non-ferrous metals.

To reduce the number of electrical injuries and incidents, Sadales tīkls AS performs various educational activities. Informative and educational campaigns are organised to inform children and adolescents about basic electrical safety rules thereby reducing the frequency of electrical injuries. These campaigns involve Sadales tīkls AS employees visiting educational institutions and children summer camps, taking part in various events devoted to electrical safety. An *Elektrodrošība* (Electrical safety) page has been created on the social network *draugiem.lv* to raise electrical safety awareness, using the virtual environment.

Education of different target audiences on matters of electrical safety continued in 2014 – several press conferences were held, informative materials on safe work near electricity lines were prepared and meetings with representatives of Latvijas Valsts meži AS (Latvian State Forests) were organised.

In 2014, three accidents took place (2013: nine) involving third parties electrical injuries from exposure to voltage. No fatalities occurred in 2014.

EU26 Percentage of population not served in licensed distribution or service areas

The service area specified in the electricity distribution licence covers 99% of the territory of the Republic of Latvia. Electricity distribution is provided to approximately 840 thousand electricity distribution service customers. Electricity distribution services are provided to all households that have concluded an agreement on electricity supply within the service area specified in the licence.

EU28 Power outage frequency (SAIFI) and average power outage duration (SAIDI)

EU29

The key performance indicator characterising electricity distribution to which Sadales tīkls AS pays particular attention is the average electricity supply interruption, calculated on a per-customer-year basis, expressed as frequency (System Average Interruption Frequency Index, SAIFI) and duration in minutes (System Average Interruption Duration Index, SAIDI).

Electricity supply interruption indicators are subdivided for scheduled and unscheduled interruptions. The duration/frequency of scheduled interruptions is determined primarily by distribution network maintenance and reconstruction work, while the duration/frequency of unscheduled supply interruptions is determined by the historical technical solutions of the electricity grid, adverse weather conditions (storm, snow break, flooding, etc.), and damage or theft by third parties.

The reduced duration of scheduled power outage is linked to the implemented plan of activities to reduce the SAIDI indicator, one of which determines that the duration of a scheduled power outage may not 7 hours.

The following activities were carried out in 2014 to decrease the duration of unscheduled power outage:

- medium-voltage overhead lines in forested areas were replaced with cables for a total length of 207 km;
- electricity line maintenance and electricity rights-of-way clearance works were performed, including vertical trimming of tree branches along overhead lines using a helicopter;
- medium-voltage lines were equipped with damage location sensors;
- remote-controlled circuit breakers were installed for isolation of electricity lines in densely populated and forested areas and obsolete technologies were replaced by new circuit breakers.

In the coming years, plans include greater attention and preventative measures to reduce the frequency and duration of power outage for customers, constructing new cable lines, continuing electricity transmission line corridor clearance works, implementing new technical solutions, improving existing processes, and reviewing regulatory documents and cooperation with contractors.

System Average Interruption Frequency Index (SAIFI) (2010 – 2014)

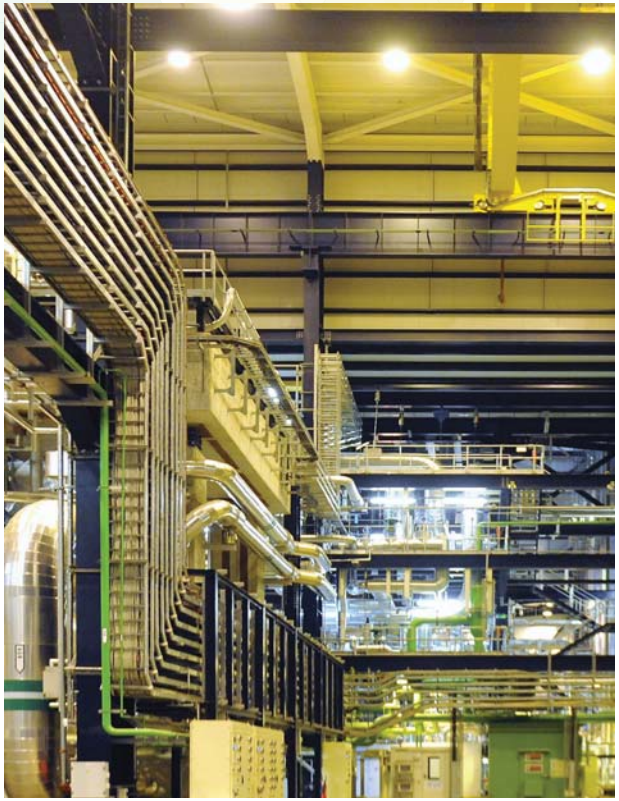
	Unit	Method	2010	2011	2012	2013	2014
Unscheduled: natural phenomena (massive damage)	number	m/c	0.7	1.5	0.5	0.6	**0.4**
Unscheduled: damage (incl. if caused by third parties)	number	m/c	3.4	3.2	3.4	2.9	**2.4**
Scheduled: network maintenance and overhaul	number	m/c	0.9	0.9	0.9	1.0	**1.0**
TOTAL SAIFI	number		5.0	5.6	4.8	4.5	**3.8**

m – measured, e – estimated, c – calculated

System Average Interruption Duration Index (SAIDI) (2010 – 2014)

	Unit	Method	2010	2011	2012	2013	2014
Unscheduled: natural phenomena (massive damage)	minutes	m/c	735	416	116	149	**57**
Unscheduled: damage (incl. if caused by third parties)	minutes	m/c	338	293	255	192	**153**
Scheduled: network maintenance and overhaul	minutes	m/c	219	236	265	280	**256**
TOTAL SAIDI	minutes		1292	945	636	621	**466**

m – measured, e – estimated, c – calculated



EU30 Average plant availability factor by energy source and by regulatory regime

The plant availability factor for the generation facilities of Daugava HPPs and Riga CHPPs is calculated as the period of time during which a plant can operate at nominal capacity. The remaining time is intended for scheduled and unscheduled power outage, such as repair works. Reduced availability at Riga CHPPs in 2014 is explained by inspections of the second power unit at Riga TEC-2 and adaptation process of water boilers for diesel fuel as part of transitioning of the back-up fuel farms to diesel at Riga CHPPs.

Average plant availability (2010 – 2014)

	Unit	Method	2010	2011	2012	2013	2014
Daugava HPPs	%	m/c	84%	86%	90%	91%	**93%**
Riga CHPPs	%	m/c	85%	82%	86%	93%	**86%**

m – measured, e – estimated, c – calculated

2.5 Economic Responsibility

Management approach

Latvenergo Group makes thought-out and sustainable investments in maintaining and developing generation capacities, improving power generation efficiency and reducing environmental harm, modernising and maintaining its network infrastructure, where power supply quality improvement is the key factor.

Operation of the Group contributes to society and economic develoment

The energy industry is an important economic driving force, with its major investment volumes and creation of jobs both directly and indirectly. In 2014, Latvenergo Group has invested EUR 178 million, while total investments made in the past five years exceed EUR 1 billion.

Major investments for Latvenergo Group in 2014 were related to various environmentally friendly and environmental development investment projects:

- Daugava HPPs modernisation and maintenance activities continued. In late 2013, an agreement was concluded for the replacement of two hydropower units at the Plavinas HPP; in 2014, another agreement was concluded for the reconstruction of three hydropower units at the Kegums HPP. Investments in reconstruction of Daugava HPP hydropower units are planned to exceed EUR 200 million over the period until 2022 ensuring operation of hydropower units for the next 40 years;
- as a result of reconstruction of its back-up fuel farm transitioning from fuel oil to a less environmentally harmful fuel – diesel, airborne emissions of pollutants during use of the back-up fuel at Riga TEC-2 and consumption of resources for maintaining the fuel farm were reduced.

In 2014, 74% of Latvenergo Group investments were allocated towards network assets:

- in August 2014, a new 330 kV electricity transmission line connection *Grobiņa–Ventspils* was commissioned under the NordBalt-02-330kV *Kurzeme Ring* project, which considerably increases energy supply reliability in Kurzeme and in all of Latvia and enables future

use of the NordBalt Lithuania–Sweden submarine cable to access the Nordic electricity market. The total construction costs of the project are estimated at approximately EUR 220 million, and the project is scheduled for completion in 2019;

- the amount of investments in distribution assets compared to the previous year has been increased by 13% reaching EUR 100 million. The *Sadales tīkls AS development plan 2014-2023* was drafted in 2013, defining investment priorities for the coming years, thereby contributing to increased electricity supply quality and establishing a smart and efficient power grid.

Along with thought-out and environmentally friendly investments in energy generation and network development, Latvenergo Group ensures direct economic benefit for society at large. Latvenergo Group is one of the largest taxpayers in the Baltics. In the past five years, Latvenergo Group has paid more than EUR 750 million in taxes, including about EUR 200 million in dividends for using state capital paid and remitted to the state budget.

Latvenergo Group financial results indicates its stable financial position and development. Detailed information about the performance of the Group is available in the Latvenergo Consolidated Annual Report 2014.

EC1 Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments

In 2014, the economic value generated by Latvenergo Group was EUR 1,018.7 million, while distributed economic value was EUR 825.5 million. Compared to the previous year, a decline in generated and distributed economic value was mainly due to change in accounting principles along with entrance into operation of Enerģijas publiskais tirgotājs AS as of 1 April 2014 – mandatory procurement public service obligation fee settlements are no longer included in profit or loss statement of the Group.

Distributed economic value reached 81% of the economic value generated. The major part or 80% of distributed value represents operating costs, including electricity procurement, electricity services, fuel and other operational costs. Compared to the previous year, state imposed payments have increased almost four-times, reaching EUR 23.7 million in 2014. The increase was mainly determined by the introduction of the Subsidised Energy Tax (SET) as of 1 January 2014: Latvenergo Group has paid EUR 15.3 million in SET in 2014.

Dividends paid for 2013 comprised EUR 23.6 million. Latvenergo Group is a significant payer of dividends for the use of state capital: over the last five years approximately EUR 200 million were remitted into the state budget.

Economic value generated and distributed (2013 – 2014)

	Unit	Method	2013	2014
Economic value generated	**MEUR**	**c**	**1,109.5**	**1,018.7**
Revenue and other income	MEUR	c	1,103.9	**1,016.0**
Income from financial activities	MEUR	c	5.6	**2.6**
Economic value distributed	**MEUR**	**c**	**903.2**	**825.5**
Raw materials, consumables and other operational expenses	MEUR	c	742.5	**657.8**
Remuneration of employees	MEUR	c	95.4	**98.3**
Payments for the use of state capital	MEUR	c	40.6	**23.6**
Payments to providers of debt capital	MEUR	c	17.8	**20.4**
State imposed payments	MEUR	c	6.1	**23.7**
Charity and sponsorships	MEUR	c	0.8	**1.8**
Retained economic value*	**MEUR**	**c**	**206.3**	**193.2**

* Depreciation, amortisation and savings
m – measured, e – estimated, c – calculated

In 2014, the undistributed economic value of Latvenergo Group represents less than one-fifth of the economic value generated reaching EUR 193.2 million, which has been earmarked for investment. Latvenergo Group total investments reached EUR 177.6 million in 2014.

EC4 Significant financial assistance received from government

For implementation of major investment projects, Latvenergo Group has attracted co-funding (foreign financial assistance) from the European Union (EU). One of the key projects for which co-funding was attracted is the *Kurzeme Ring* implementation within the framework of the NordBalt-02-330kV project, with 50% co-funding provided as part of the European Energy Programme for Recovery for the construction of the first two stages of the project – the *Riga Ring* and *Grobiņa–Ventspils* line connections. Construction costs of the final stage of the project *Ventspils–Tume–Riga* have been included in the indicative funding allocation list of the European Commission for infrastructure objects, assigning 45% co-funding. Attraction of EU co-funding is also planned for the 330 kV Estonia–Latvia third interconnection, at 65% of all eligible construction costs.

Likewise, co-funding from the EU Cohesion Fund was attracted in previous years for the projects of biomass boiler house construction and reconstruction of heating networks in Liepāja. The "Promoting energy efficiency in households using smart technologies" project has received funding within the framework of the Republic of Latvia state budget programme "Climate Change Financial Instrument".

In 2014, Enerģijas publiskais tirgotājs AS received a targeted grant from the State Budget at EUR 29.3 million. The purpose of this grant is to prevent an increase in the mandatory procurement public service obligation fee, keeping it at the 2013 level of 2.69 cents/kWh. The source of funding of the state earmarked grant is the Subsidised Energy Tax introduced in Latvia in 2014. The tax applies to companies that receive support for electricity generation within the framework of mandatory procurement or receive guaranteed payments for installed electric capacity at power plants.

Funding received from the state and the EU (2010 – 2014)

	Unit	Method	2010	2011	2012	2013	2014
Project Kurzemes loks	MEUR	c	13.2	-	0.2	7.6	**-**
Liepaja plants	MEUR	c	2.0	2.1	3.4	2.4	**2.2**
Smart technology	MEUR	c	-	-	-	0.2	**-**
Grant for limiting mandatory procurement PSO fee	MEUR	c	-	-	-	-	**29.3**
TOTAL	**MEUR**		**15.2**	**2.1**	**3.6**	**10.1**	**31.4**

m – measured, e – estimated, c – calculated

EU11 Average generation efficiency of thermal plants by energy source and regulatory regime

Efficiency is considered a paramount part of the energy generation process at Latvenergo Group. Generation efficiency indicators are calculated as the ratio of electricity and thermal energy generated to the energy used in its generation. Generation efficiency indicators are affected by the selected generation facility operation modes, which are adjusted to the electricity market conditions.

Along with decreased water inflow in the Daugava, generation efficiency at Daugava HPPs has improved, consuming 4% less water resources per kWh generated than the previous year. Riga CHPPs are mostly operated in the highly efficient cogeneration mode, flexibly adjusting it to electricity demand on the market.

Efficiency indicators for Latvenergo Group generation facilities are relatively high compared to other power generation companies in the Baltics.

Generation facility efficiency indicators (2010 – 2014)

	Unit	Method	2010	2011	2012	2013	2014
Daugava HPPs	m^3/kWh	m/c	19.6	19.4	19.4	19.5	**18.7**
Riga CHPPs	%	m/c	84%	83%	85%	79%	**80%**
Liepaja plants	%	m/c	92%	92%	93%	91%	**91%**
Kegums boiler house	%	m/c	78%	80%	83%	86%	**86%**

m – measured, e – estimated, c – calculated

EU12 Distribution losses as a percentage of total electricity

One of the most important indicators describing efficiency of the distribution segment is distribution losses as a percentage of total electricity received within the network. In 2014, this indicator was reduced to 4.8% – the historically lowest rate and the best in the Baltics.

Along with the improvement of electricity supply quality, Latvenergo Group pays great attention to programmes and activities to reduce electricity losses in distribution networks: electricity consumption is monitored regularly and improvement measures are taken, electric networks are optimised and automated, and smart grid technologies are gradually introduced. Various measures to reduce distribution network losses will continue in the coming years.

Further data is available in the Section 1.8.2 “Distribution”.

Distribution losses (2010 – 2014)

	Unit	Method	2010	2011	2012	2013	2014
Distribution losses	%	m/c	6.4	6.4	5.9	5.0	**4.8**

m – measured, e – estimated, c – calculated

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INDEPENDENT AUDITOR'S REVIEW REPORT ON THE SUSTAINABILITY REPORT

To the management of AS Latvenergo

We have been engaged by the management of AS Latvenergo to perform limited review procedures in respect to the Sustainability Report of AS Latvenergo and its subsidiaries ('the Group') for the year ended 31 December 2014.

Management's Responsibility

The Management of the Group is responsible for the preparation and presentation of the Sustainability Report 2014, in accordance with the requirements of the B level application of The Global Reporting Initiative Guidelines ('GRI Guidelines'), issued by The Global Reporting Initiative (GRI), a non-profit organisation with secretariat based in Amsterdam, the Netherlands. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the Sustainability Report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. The Management is responsible for ongoing activities regarding the environment, health & safety, quality, social responsibility and sustainable development, and for the preparation and presentation of the Sustainability Report in accordance with the applicable criteria.

Our responsibility

Our responsibility is to express a conclusion on the Sustainability Report based on our review. We conducted our engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000, 'Assurance engagements other than audits or reviews of historical financial information', issued by the International Auditing and Assurance Standards Board (IAASB). A review consists of making inquiries, primarily of persons responsible for preparing the Sustainability Report, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with IAASB's Standards on Auditing and Quality Control. The procedures performed consequently do not enable us to obtain an assurance that would make us aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Our assurance does not comprise the assumptions used by the Group or whether or not it is possible for the Group to reach certain future targets described in the report (e.g. goals, expectations and ambitions).

The criteria on which our review is based on are the parts of the "Sustainability Reporting Guidelines, G3.1" published by GRI as well as the accounting and calculation principles that the Group has developed. We consider these criteria suitable for the preparation of the Sustainability Report.

Our review has, based on an assessment of materiality and risk, included the following procedures:

- an assessment of suitability and application of the criteria regarding the stakeholders' need for information;
- an assessment of the outcome of the Group's stakeholder dialogue;
- interviews with the responsible management, at group level, subsidiary level, and at selected business units in order to assess if the qualitative and quantitative information stated in the Sustainability Report is complete, accurate and sufficient;
- review of internal and external documents in order to assess if the information stated in the Sustainability Report is complete, accurate and sufficient;
- an evaluation of the design of the systems and processes used to obtain, manage and validate sustainability information;
- verifying the information included in the Sustainability report 2014 through enquires to the relevant management of the Group;
- a reconciliation of financial information with the Group's Consolidated Annual Report for the financial year 2014;

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INDEPENDENT AUDITOR'S REVIEW REPORT ON THE SUSTAINABILITY REPORT (CONTINUED)

- an assessment of the Group's declared application level according to GRI guidelines;
- an assessment of the overall impression of the Sustainability Report, and its format, taking into consideration the consistency of the stated information with applicable criteria,
- testing performance data, on a selective basis, substantively at both an operational and corporate level;
- inspecting documentation to corroborate statements of management and senior executives in our interviews;
- a reconciliation of the reviewed information with the sustainability information in the Group's Consolidated Annual Report for the financial year 2014.

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the Sustainability Report 2014 of Latvenergo AS and its subsidiaries has not, in all material respects, been prepared in accordance with the above stated criteria.

SIA Ernst & Young Baltic
Licence No. 17

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

Riga, 14th of April 2015

2014 Latvenergo Group Consolidated Annual Report

Financial Statements Prepared in Accordance
with International Financial Reporting Standards
as Adopted by the EU and Independent Auditor's Report

Key Figures

	2014	2013	2012	2011	2010
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Revenue	1,010,757	1,099,893	1,063,691	962,453	804,246
EBITDA [1]	236,838	248,694	244,103	254,670	294,334
Operating profit [2]	49,243	61,091	70,234	74,053	87,639
Profit before tax [3]	31,510	48,841	59,859	60,711	72,584
Profit	29,790	46,149	50,856	62,290	63,069
Dividends	31,479	23,605	40,618	56,773	49,801
Total assets	3,486,576	3,575,358	3,517,752	3,255,536	3,243,103
Non-current assets	3,109,253	3,128,064	3,102,019	2,883,583	2,763,546
Total equity	2,020,801	2,021,714	2,006,975	1,923,119	1,913,404
Borrowings	827,222	944,675	846,961	730,408	776,329
Net debt [4]	706,211	689,252	604,468	575,492	443,000
Net cash flows from operating activities	135,329	146,540	214,526	256,685	228,461
Capital expenditure	177,607	224,868	264,260	282,757	181,472

	2014	2013	2012	2011	2010
Net debt / EBITDA ratio	3.0	2.8	2.5	2.3	1.5
EBITDA margin [5]	23.4 %	22.6 %	22.9 %	26.5 %	36.6 %
Operating profit margin [6]	4.9 %	5.6 %	6.6 %	7.7 %	10.9 %
Profit before tax margin [7]	3.1 %	4.4 %	5.6 %	6.3 %	9.0 %
Profit margin [8]	2.9 %	4.2 %	4.8 %	6.5 %	7.8 %
Capital ratio [9]	58 %	57 %	57 %	59 %	59 %
Return on assets (ROA) [10]	0.8 %	1.3 %	1.5 %	1.9 %	2.2 %
Return on equity (ROE) [11]	1.5 %	2.3 %	2.6 %	3.2 %	4.0 %
Retail electricity supply GWh	8,688	7,954	8,287	8,980	7,620
Electricity generated in power plants GWh	3,625	4,854	5,077	5,285	5,869
Aggregate heat supply GWh	2,442	2,517	2,669	2,524	2,928
Number of employees at the end of the year	4,563	4,512	4,457	4,490	4,517
Moody's credit rating of the Parent Company	Baa2 (stable)*	Baa3 (stable)	Baa3 (stable)	Baa3 (stable)	Baa3 (stable)

* Credit rating upgraded on 16th February 2015

[1] EBITDA – earnings before interest, income tax, share of result of associates, depreciation and amortisation, and impairment of intangible assets and property, plant and equipment
[2] Operating profit – earnings before income tax, finance income and costs
[3] Profit before tax – earnings before income tax
[4] Net debt – borrowings at the end of the year minus cash and cash equivalents at the end of the year
[5] EBITDA margin – EBITDA / revenue
[6] Operating profit margin – operating profit / revenue
[7] Profit before tax margin – profit before tax / revenue
[8] Profit margin – profit / revenue
[9] Capital ratio – total equity / total assets
[10] Return on assets (ROA) – profit / average value of assets (assets at the beginning of the year + assets at the end of the year / 2)
[11] Return on equity (ROE) – profit / average value of equity (equity at the beginning of the year + equity at the end of the year / 2)

Management Report

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

In 2014, Latvenergo Group has successfully retained its leadership in electricity supply on the Baltic market, supplying 9 % more electricity to Baltic retail customers reaching a total volume of 8,688 GWh (2013: 7,954 GWh). Most significantly electricity supply increased outside Latvia – in Lithuania and Estonia, where it increased almost by a half compared to the previous year and reached 3,053 GWh. Also, the number of customers in neighbouring countries has increased by more than one-fifth reaching approximately 34 thousands as at the end of 2014.

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

In 2014, the total amount of electricity generated by the power plants of Latvenergo Group was 3,625 GWh (2013: 4,854 GWh). Compared to 2013, electricity output at Daugava HPPs decreased by 32 % or 926 GWh due uncommonly low water inflow in the Daugava River – the lowest since the 1976. Likewise, electricity generation at Riga combined heat and power plants (Riga CHPPs) decreased by 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 total amount of thermal energy generated by Latvenergo Group was 2,488 GWh (2013: 2,566). The decrease was determined by warmer weather conditions during the heating season.

In 2014, Latvenergo Group revenue was EUR 1,010.8 million (2013: EUR 1,099.9 million).

The decrease in revenue was mainly due to change in mandatory procurement accounting principles as of 1st of April 2014 along with the establishment of Enerģijas publiskais tirgotājs AS, as the mandatory procurement public service obligation (PSO) fee revenues are no longer included in revenue of the Latvenergo Group.

Latvenergo Group EBITDA was EUR 236.8 million in 2014 (2013: EUR 248.7 million), but profit was EUR 29.8 million (2013: EUR 46.1 million). The results of the Group were negatively impacted by significantly lower output at Daugava HPPs. Besides, the lost revenues due to electricity supply at the regulated tariff in Latvia, which is below the market price, are estimated at EUR 48.2 million in 2014.

In 2014, the total amount of investments was EUR 177.6 million (2013: EUR 224.9 million). 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 phase of the second stage of the *Kurzeme Ring* project transmission line construction.

The amount invested in networks represents 74 % of the total investments

Latvenergo Group has 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. As a result of these investments the losses in distribution network have decreased – during the period from 2010 to 2014 the electricity distribution losses have decreased by 25 %. Likewise, the Group continuously invests in environmentally friendly and environmental development projects – in 2014, almost EUR 10 million were invested in Daugava HPPs hydropower unit reconstruction.

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. The final stage of the project *Ventpils–Tume–Rīga* has been included in the indicative funding allocation list of the European Commission assigning 45 % co–funding. 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.

Second stage of the *Kurzeme Ring* project is completed

Latvenergo Group regularly sources borrowed capital to ensure the required funding for investment programme of following years and debt repayment. In late 2014, two activities were completed within the borrowed capital sourcing plan: procurement of bank loans was finalised in November 2014, 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.

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 31st of December 2014, while the net debt/ EBITDA ratio was 3.0 (2013: 2.8). Latvenergo Group maintains stable capital structure and in the end of 2014 the equity is 58 % of total assets (31/12/2013: 57 %), which is considered to be an appropriate rate within the industry.

Funding of EUR 250 million has been raised

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

Activities of the Latvenergo Group are exposed to a variety of financial risks: market risk, credit risk and liquidity risk. The risk management programme of the Group focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. In order to maintain financial stability the Group used various financial risk control and limiting activities, as well the Group uses derivative financial instruments to hedge certain risk exposures (see Note 3).

2014 is the middle point of the period of Latvenergo Group's strategy. Accomplishments during this period – gained 1/3 market share in the Baltics, completion of Riga CHPPs reconstruction programme and reconstruction of HPPs hydropower units according to the plan, completion of the second stage of *Kurzeme Ring* and modernisation of the distribution network according to the distribution development plan indicate successful progress towards achieving Latvenergo Group's strategic goals for 2016 – strengthening of the market position in the Baltics, diversification of electricity generation sources and balanced development of networks. The accomplishment of the strategic goals will be continued also in the following two years of the strategic period.

Events after the reporting period

According to the Electricity Market Law, the electricity market for households in Latvia is open since 1st of 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.

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.

Other significant events after the end of the reporting period that would materially affect the financial position of the Group are disclosed in Note 27 of the Consolidated Financial Statements.

Statement of management responsibility

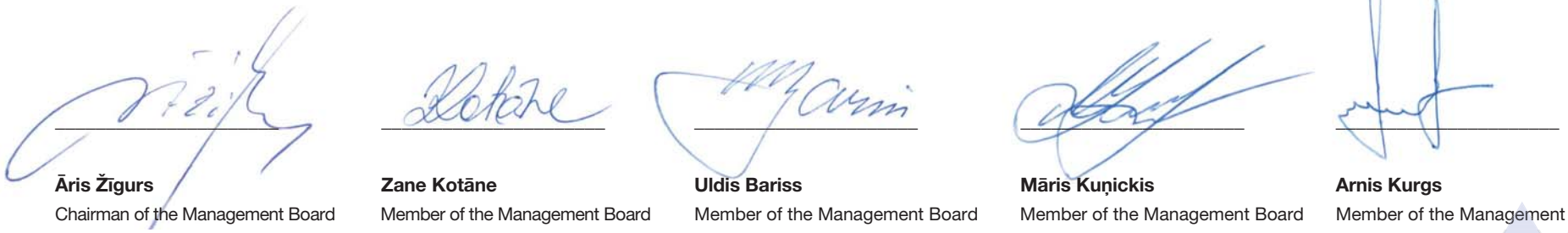
Based on the information available to the Management Board of Latvenergo AS, in all material aspects Latvenergo Consolidated Annual Report 2014 has been prepared in accordance with applicable laws and regulations and gives a true and fair view of assets, liabilities, financial position, profit or loss, equity and cash flows of the Latvenergo Group. All information included in the Management report is true.

Profit distribution

Fulfilling the requirements of the Law on State and Municipality Owned Shares and Companies, the Law on the Management of State–Owned Capital Shares and Capital Companies (centered into force on 1st of January 2015), Regulations No. 1471 of 15 December 2009 on Procedure how to determine and transfer to the State Budget the share of the profit payable for use of State Capital, the Management Board of Latvenergo AS proposes to allocate profit for the year of Latvenergo AS in the amount of EUR 31.5 million to be paid out in dividends and the rest of the profit to be transferred to Latvenergo AS reserves.

The distribution of profit for 2014 is subject to a resolution of Latvenergo AS Shareholders' Meeting.

The Management Board of Latvenergo AS:



Āris Žīgurs	**Zane Kotāne**	**Uldis Bariss**	**Māris Kuņickis**	**Arnis Kurgs**
Chairman of the Management Board	Member of the Management Board	Member of the Management Board	Member of the Management Board	Member of the Management Board

14th of April 2015

Consolidated Financial Statements

Consolidated Statement of Profit or Loss

	Notes	2014	2013
		EUR'000	EUR'000
Revenue	6	1,010,757	1,099,893
Other income	7	5,273	4,050
Raw materials and consumables used	8	(621,285)	(701,453)
Personnel expenses	9	(97,954)	(95,074)
Depreciation, amortisation and impairment of property, plant and equipment	13 a,14 a	(187,595)	(187,603)
Other operating expenses	10	(59,953)	(58,722)
Operating profit		**49,243**	**61,091**
Finance income	11 a	3,004	4,529
Finance costs	11 b	(20,380)	(17,840)
Share of profit / (loss) of associates	15	(357)	1,061
Profit before tax		**31,510**	**48,841**
Income tax	12	(1,720)	(2,692)
Profit for the year		**29,790**	**46,149**
Profit attributable to:			
- Equity holders of the Parent Company		28,515	44,305
- Non–controlling interests		1,275	1,844
Basic earnings per share (in euros)	20 c	0.023	0.049
Diluted earnings per share (in euros)	20 c	0.023	0.049

Consolidated Statement of Comprehensive Income

	Notes	2014	2013
		EUR'000	EUR'000
Profit for the year		**29,790**	**46,149**
Other comprehensive (loss) / income to be reclassified to profit or loss in subsequent periods (net of tax):			
(Losses) / gains from change in hedge reserve	20 a, 21 c	(6,495)	8,844
(Losses) / gains on currency translation differences	20 a	(14)	14
Net other comprehensive (loss) / income to be reclassified to profit or loss in subsequent periods		**(6,509)**	**8,858**
Other comprehensive income / (loss) not to be reclassified to profit or loss in subsequent periods (net of tax):			
Gains on revaluation of property, plant and equipment	20 a	14	97
Gains / (losses) as a result of re–measurement on defined post-employment benefit plan	22 a	159	(307)
Net other comprehensive income / (loss) not to be reclassified to profit or loss in subsequent periods		**173**	**(210)**
Other comprehensive (loss) / income for the year, net of tax		**(6,336)**	**8,648**
Total comprehensive income for the year		**23,454**	**54,797**
Attributable to:			
– Equity holders of the Parent Company		22,179	52,953
– Non–controlling interests		1,275	1,844

The notes on pages 90 to 141 are an integral part of these Consolidated Financial Statements.

The Management Board of Latvenergo AS:

Āris Žīgurs
Chairman of the Management Board

Zane Kotāne
Member of the Management Board

Uldis Bariss
Member of the Management Board

Māris Kuņickis
Member of the Management Board

Arnis Kurgs
Member of the Management Board

14th of April 2015

Consolidated Statement of Financial Position

	Notes	31/12/2014	31/12/2013
		EUR'000	EUR'000
ASSETS			
Non–current assets			
Intangible assets	13 a	13,011	11,130
Property, plant and equipment	14 a	3,066,316	3,086,775
Investment property	14 b	1,343	1,473
Non-current financial investments	15	41	41
Other non-current receivables		14	57
Investments in held–to–maturity financial assets	21 a	28,528	28,588
Total non-current assets		**3,109,253**	**3,128,064**
Current assets			
Inventories	16	22,560	21,634
Trade receivables and other receivables	17 a, b	233,752	161,560
Current financial investments	15	-	8,060
Derivative financial instruments	21 c	-	617
Cash and cash equivalents	18	121,011	255,423
Total current assets		**377,323**	**447,294**
TOTAL ASSETS		**3,486,576**	**3,575,358**

	Notes	31/12/2014	31/12/2013
		EUR'000	EUR'000
EQUITY			
Share capital	19	1,288,446	1,288,011
Reserves	20 a	645,829	652,418
Retained earnings		79,995	74,832
Equity attributable to equity holders of the Parent Company		2,014,270	2,015,261
Non–controlling interests		6,531	6,453
Total equity		**2,020,801**	**2,021,714**
LIABILITIES			
Non–current liabilities			
Borrowings	21 b	688,297	805,192
Deferred income tax liabilities	12	268,026	269,116
Provisions	22	15,588	15,597
Derivative financial instruments	21 c	11,698	6,238
Other liabilities and deferred income	23	194,474	170,152
Total non-current liabilities		**1,178,083**	**1,266,295**
Current liabilities			
Trade and other payables	24	**139,909**	**130,667**
Income tax payable		3	3
Borrowings	21 b	138,925	139,483
Derivative financial instruments	21 c	8,855	17,196
Total current liabilities		287,692	287,349
TOTAL EQUITY AND LIABILITIES		**3,486,576**	**3,575,358**

The notes on pages 90 to 141 are an integral part of these Consolidated Financial Statements.

The Management Board of Latvenergo AS:

Āris Žīgurs
Chairman of the Management Board

Zane Kotāne
Member of the Management Board

Uldis Bariss
Member of the Management Board

Māris Kuņickis
Member of the Management Board

Arnis Kurgs
Member of the Management Board

14th of April 2015

Consolidated Statement of Changes in Equity

	Notes	Attributable to equity shareholders 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 31st of December 2012		**1,287,137**	**644,113**	**70,803**	**2,002,053**	**4,922**	**2,006,975**
Increase in share capital	19	874	-	-	874	-	**874**
Dividends for 2012	20 b	-	-	(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	20 a	-	8,305	343	8,648	-	**8,648**
Total comprehensive income		**-**	**8,305**	**44,648**	**52,953**	**1,844**	**54,797**
As at 31st of December 2013		**1,288,011**	**652,418**	**74,832**	**2,015,261**	**6,453**	**2,021,714**
Increase in share capital	19	435	-	-	435	-	**435**
Dividends for 2013	20 b	-	-	(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		-	-	28,515	28,515	1,275	**29,790**
Other comprehensive (loss) / income	20 a	-	(6,589)	253	(6,336)	-	**(6,336)**
Total comprehensive (loss) / income		**-**	**(6,589)**	**28,768**	**22,179**	**1,275**	**23,454**
As at 31st of December 2014		**1,288,446**	**645,829**	**79,995**	**2,014,270**	**6,531**	**2,020,801**

The notes on pages 90 to 141 are an integral part of these Consolidated Financial Statements.

Consolidated Statement of Cash Flows

	Notes	2014	2013
		EUR'000	EUR'000
Cash flows from operating activities			
Profit before tax		31,510	48,841
Adjustments:			
– Amortisation, depreciation and impairment of property, plant and equipment	13 a, 14 a	187,595	187,603
– Loss from disposal of non–current assets		2,470	3,068
– Losses / (gains) on investments accounting at equity method	15	357	(1,061)
– Interest costs	11 b	20,351	21,500
– Interest income	11 a	(2,045)	(2,170)
– Fair value (gains) / losses on derivative financial instruments	8, 11	(8,759)	2,261
– Increase in provisions	22	150	339
– Unrealised losses / (gains) on currency translation differences	11 a, b	65	(122)
Operating profit before working capital adjustments		**231,694**	**260,259**
Decrease in inventories		2,468	1,322
Increase in trade and other receivables		(93,285)	(10,486)
Increase / (decrease) in trade and other payables		19,062	(64,800)
Cash generated from operating activities		**159,939**	**186,295**
Interest paid		(20,915)	(24,350)
Interest received		2,082	2,361
Income tax paid		(5,777)	(17,766)
Net cash flows from operating activities		**135,329**	**146,540**
Cash flows from investing activities			
Purchase of intangible assets and PPE		(177,988)	(209,812)
Proceeds from sales of investments	15	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)	21 b	-	84,835
Proceeds on borrowings from financial institutions	21 b	22,600	117,300
Repayment of borrowings	21 b	(139,695)	(105,174)
Dividends paid to non–controlling interests		(1,197)	(313)
Dividends received from associates		1,924	-
Dividends paid to equity holders of the Parent Company*		(12,649)	(30,644)
Net cash flows (used in) / generated from financing activities		**(129,017)**	**66,004**
Net (decrease) / increase in cash and cash equivalents		**(163,676)**	**12,930**
Cash and cash equivalents at the beginning of the year	18	255,423	242,493
Cash and cash equivalents at the end of the year**	**18**	**91,747**	**255,423**

* dividends declared 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 declared for 2012 – EUR 40,619 thousand are settled partly by corporate income tax overpayment in the amount of EUR 9,975 thousand);
** received government grant for mandatory procurement public service obligation costs compensation in the amount of EUR 29,264 has not be included in cash and cash equivalents at the end of the year because it is defined as restricted cash and cash equivalents (Note 18)

The notes on pages 90 to 141 are an integral part of these Consolidated Financial Statements.

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

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

On 26th of September 2013 Shareholder's Meeting of Latvenergo AS passed a decision outermination of 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 of July 2009 concerning common rules for the internal market in electricity and repealing Directive 2003/54/EC, Latvenergo AS, as electricity generator and supplier, performed activities so that after 31st of December 2013 it would not be owner of the electricity transmission infrastructure. On 12th of 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 of 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 shareholdering in Nordic Energy Link AS with 25 % interest held.

The Parent Company's shareholdering in subsidiaries, associates and other non-current financial investments is disclosed in Note 15.

Since 15th of August 2011 until the date of approving of the 2014 Annual Report, the Management Board of Latvenergo AS includes the following members: Āris Žīgurs (Chairman), Uldis Bariss, Māris Kuņickis, Arnis Kurgs and Zane Kotāne.

The Consolidated Financial Statements for year 2014 include the financial information in respect of the Parent Company and its subsidiaries for the year ending 31st of December 2014 and comparative information for year 2013. Financial Statements for year 2014 are prepared by comparability of financial results, and where it is necessary, comparatives for year 2013 are reclassified using the same principles applied for preparation of the 2014 Annual Report.

The Management Board of Latvenergo AS has approved the Consolidated Financial Statements on 14th of April 2015. The decision on approval of the Consolidated Financial Statements is made by Shareholder's Meeting.

2. Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these Consolidated Financial Statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. Where it is necessary comparatives are reclassified.

2.1. Basis of Preparation

The Consolidated Financial Statements are prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted for use in the European Union. Due to the European Union's endorsement procedure, the standards and interpretations not approved for use in the European Union are presented in this note as they may have impact on the Consolidated Financial Statements in the following periods if endorsed.

The Consolidated Financial Statements are prepared under the historical cost convention, as modified by the revaluation of land and buildings, financial assets and financial liabilities (including derivative financial

instruments) at fair value through profit or loss as disclosed in accounting policies presented below.

All amounts shown in these Consolidated Financial Statements are presented in thousands of euros (EUR). Comparative figures for year 2013 are translated from Latvian lats (LVL) into euros using official currency rate of the Bank of Latvia 1 EUR = 0.702804 LVL, that conforms with the Latvian lats conversion rate to the euros determined by the European Central Bank in accordance with the ECOFIN decision passed by the European Union Council on 9th of July 2013.

The preparation of the Consolidated 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 Parent Company Management's best knowledge of current events and actions, actual results ultimately may differ from those. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Consolidated Financial Statements are disclosed in Note 4.

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

The following new and/or amended International Financial Reporting Standards or interpretations published or revised during the reporting year, which became effective for the reporting period started from 1st of January 2014, have been adopted by the Group:

- Amendment to **IAS 27 "Separate Financial Statements"** – As a result of the new standards IFRS 10, IFRS 11 and IFRS 12 this standard was amended to contain accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The implementation of this amendment had no impact on the financial statements of the Group.
- Amendment to **IAS 28 "Investments in Associates and Joint Ventures"** – As a result of the new standards IFRS 10, IFRS 11 and IFRS 12 this standard was renamed and addresses the application of the equity method to investments in joint ventures in addition to associates. The implementation of this amendment had no impact on the financial statements of the Group.
- Amendment to **IAS 32 "Financial Instruments: Presentation** – Offsetting Financial Assets and Financial Liabilities" – This amendment clarifies the meaning of "currently has a legally enforceable right to set–off" and also clarifies the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The implementation of this amendment had no impact on the financial statements of the Group.
- Amendment to **IAS 36 "Impairment of Assets"** – This amendment adds a few additional disclosure requirements about the fair value measurement when the recoverable amount is based on fair value less costs of disposal and removes an unintended consequence of IFRS 13 to IAS 36 disclosures. The amendment did not have any impact on the financial position or performance of the Group.
- Amendment to **IAS 39 "Financial Instruments: Recognition and Measurement"** – The amendment provides relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The amendment did not have any impact on the financial position or performance of the Group.
- **IFRS 10 "Consolidated Financial Statements"** – IFRS 10 establishes a single control model that applies to all entities, including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled and, therefore, are required to be consolidated by a parent. IFRS 10 replaces the part of IAS 27 Consolidated and Separate Financial Statements related to consolidated financial statements and replaces SIC 12 Consolidation – Special Purpose Entities. Management has assessed that the Group does not have entity controlled investments, except its subsidiaries owned by 51 % and above, that would be required to be consolidated by the Parent Company
- **IFRS 11 "Joint Arrangements"** – IFRS 11 eliminates proportionate consolidation of jointly controlled entities. Under IFRS 11, jointly controlled entities, if classified as joint ventures (a newly defined term), must be accounted for using the equity method. Additionally, jointly controlled assets and operations are joint operations under IFRS 11, and the accounting for those arrangements will generally be consistent with today's accounting. That is, the entity will continue to recognise its relative share of assets, liabilities, revenues and expenses. The implementation of this amendment had no impact on the financial statements of the Group since it has no joint ventures.
- **IFRS 12 "Disclosures of Interests in Other Entities"** – IFRS 12 combines the disclosure requirements for an entity's interests in subsidiaries, joint arrangements, investments in associates and structured entities into one comprehensive disclosure standard. A number of new disclosures are also required such as disclosing the judgments made to determine control over another entity. The amendment did not have any impact on the financial position or performance of the Group, but certain additional disclosures added (see Note 15).
- Amendment to **IFRS 10, IFRS 12 and IAS 27 – Investment Entities** – The amendments apply to entities that qualify as investment entities. The amendments provide an exception to the consolidation requirements of IFRS 10 by requiring investment entities to measure their subsidiaries at fair value through profit or loss, rather than consolidate them. The implementation of this amendment had no impact on the financial statements of the Group, as the parent of the Group is not an investment entity.

Standards issued but not yet effective

The Group has not applied the following IFRS and IFRIC interpretations that have been issued as of the date of authorisation of these financial statements for issue, but which will become effective for the reporting periods started from 1st of January 2015 or later. At present

the Management of the Group evaluates the impact or expected effect from adoption of these standards, but does not consider that any of these amendments will have significant effect to the Consolidated Financial Statements:

- Amendments to **IAS 1 "Presentation of financial statements: Disclosure Initiative"** (effective for financial years beginning on or after 1st of January 2016, once endorsed by the EU). The amendments aim at clarifying IAS 1 to address perceived impediments to preparers exercising their judgment in presenting their financial reports. The Group has not yet evaluated the impact of the implementation of this standard, but considers that these amendments will have an effect to the Consolidated Financial Statements.
- Amendments to **IAS 16 "Property, Plant & Equipment" and IAS 38 "Intangible assets: Clarification of Acceptable Methods of Depreciation and Amortization"** (effective for financial years beginning on or after 1st of January 2016, once endorsed by the EU). The amendment provides additional guidance on how the depreciation or amortisation of property, plant and equipment and intangible assets should be calculated. It is clarified that a revenue–based method is not considered to be an appropriate manifestation of consumption. Implementation of these amendments will not have an effect to the Consolidated Financial Statements as the Group does not use revenue based depreciation and amortisation methods.
- Amendments to **IAS 27 "Equity method in separate financial statements"** (effective for financial years beginning on or after 1st of January 2016, once endorsed by the EU). The amendments reinstate the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements. The Group has not yet evaluated the impact of the implementation of this standard, but considers that these amendments will not have an effect to the Consolidated Financial Statements.
- **IFRS 9 "Financial Instruments"** (effective for financial years beginning on or after 1st of January 2018, once endorsed by the EU). *IFRS 9* will replace *IAS 39* and will have effect on the classification and measurement framework for financial assets, impairment of financial assets and hedge accounting. The Group has not yet evaluated the impact of the implementation of this standard, but considers that this standard will have an effect to the Consolidated Financial Statements.
- Amendments to **IFRS 10** and **IAS 28** – "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture" (effective for financial years beginning on or after 1st of January 2016, once endorsed by the EU). The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business and partial gain or loss is recognised when a transaction involves assets that do not constitute a business. The Group has not yet evaluated the impact of the implementation of this standard, but does not consider that any of these amendments will have significant effect to the Consolidated Financial Statements.
- **IFRS 15 "Revenue from Contracts with Customers"** (effective for financial years beginning on or after 1st of January 2017, once endorsed by the EU). IFRS 15 establishes a five–step model that will apply to revenue earned from a contract with a customer, regardless of the type of revenue transaction or the industry. Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. Management still evaluating whether adoption of this IFRS will have an impact on the presentation of revenue disclosures in the Consolidated Financial Statements and financial position or performance of the Group.

The Management of the Group plans to adopt the above mentioned standards and interpretations that were applicable for the Group on their effectiveness date.

Standards issued but not yet effective and not applicable for the Group

- **Amendments to IAS 19 "Employee Benefits"** (effective for financial years beginning on or after 1st of February 2015). The amendments address accounting for the employee contributions to a defined benefit plan. Since the Group's employees do not make such contributions, the implementation of this amendment will not have any impact on the financial statements of the Group.
- **Amendments to IFRS 10, IFRS 12** and IAS 28 – "Investment Entities: Applying the consolidation exception" (effective for financial years beginning on or after 1st of January 2016, once endorsed by the EU). The amendments address issues that have arisen in the context of applying the consolidation exception for investment entities. The implementation of these amendments will have no impact on the financial statements of the Group, as the parent of the Group is not an investment entity.
- **Amendment to IFRS 11 "Joint arrangements: Accounting for Acquisitions of Interests in Joint Operations"** (effective for financial years beginning on or after 1st of January 2016, once endorsed by the EU). IFRS 11 addresses the accounting for interests in joint ventures and joint operations. The amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business in accordance with IFRS and specifies the appropriate accounting treatment for such acquisitions. Management has assessed that this amendment will have no impact on the financial statements of the Group, as the Group has not any interests in joint ventures and joint operations.
- **IFRS 14 "Regulatory Deferral Accounts"** (effective for financial years beginning on or after 1st of January 2016, once endorsed by the EU). IFRS 14 provides first-time adopters of IFRS with relief from derecognising rate-regulated assets and liabilities. The implementation of this standard will not have any impact on the Group since the Group is not first–time adopter of IFRS.

The Management of the Group will not adopt these amendments because they will not be applicable for the Group.

Improvements to IFRSs

- In December 2013 the IASB issued the Annual Improvements to IFRSs 2011 – 2013 Cycle, which is a collection of amendments to the following IFRSs (effective for financial years beginning on or after 1st of January 2015): IFRS 1 First-time adoption of IFRS, IFRS 3 Business Combinations, IFRS 13 Fair value Measurement and IAS 40 Investment Property; and to IFRSs 2010 – 2012 Cycle (effective for financial years beginning on or after 1st of February 2015) – IFRS 2 Share-based Payment, IFRS 3 Business Combinations, IFRS 8 Operating Segments, IFRS 13 Fair value Measurement, IAS 16 Property, Plant and Equipment, IAS 24 Related Party Disclosures and IAS 38 Intangible Assets.
- In September 2014 IASB issued the Annual Improvements to IFRSs 2012 – 2014 Cycle (effective for financial years beginning on or after 1st of January 2016, once endorsed by the EU): IFRS 5 Non-current Assets Held for Sale and Discontinued Operation, IFRS 7 Financial Instruments: Disclosures, IAS 19 Employee Benefits and IAS 34 Interim Financial Reporting.

The adoption of these amendments may result in changes to accounting policies or disclosures but will not have any impact on the financial position or performance of the Group.

IFRIC Interpretation 21 Levies (effective for financial years beginning on or after 17th of June 2014). This interpretation addresses the accounting for levies imposed by governments. Liability to pay a levy is recognised in the financial statements when the activity that triggers the payment of the levy occurs. The Group has not yet evaluated the impact of the implementation of this interpretation.

2.2. Consolidation

a) Subsidiaries

Subsidiaries, which are those entities where the Group has control over the financial and operating policies of the entity, financial reports are consolidated. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee).

Subsidiaries' financial reports are consolidated from the date on which control is transferred to the Parent Company and are no longer consolidated from the date when control ceases. General information about entities included in consolidation and its primary business activities are disclosed in Note 15.

The acquisition method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured, as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Costs directly attributable to the acquisition are expensed to the Consolidated Statement of Profit or Loss as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in business combination are measured initially at their fair values at the acquisition date. Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in the Statement of Profit or Loss.

Intercompany transactions, balances and unrealised gains on transactions between the Group's entities are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

b) Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group's Parent Company. For purchases from non–controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in the Group's equity.

c) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20 % and

50 % of the voting rights. Investments in associates are accounted for using the equity method of accounting in the consolidated financial statements and are initially recognised at cost. Under this method the Group's share of its associate's post–acquisition profits and losses is recognised in the Consolidated Statement of Profit or Loss, and its share of post–acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post–acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in associate equals or exceeds its interest in associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.3. Disclosures of Operating Segments

For segment reporting purposes the Group allocates division into operating segments 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 chief operating decision maker.

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

2.4. Foreign Currency Translation

a) Functional and presentation currency

Items included in the Consolidated Financial Statements are measured using the currency of the primary economic environment in which the Group's entity operates ("the functional currency"). The Consolidated Financial Statements have been prepared in euros (EUR), which is the Parent Company's functional currency.

b) Transactions and balances

All transactions denominated in foreign currencies are translated into functional currency at the exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into functional currency using the exchange rate at the last day of the reporting year. The resulting gain or loss is charged to the Consolidated Statement of Profit or Loss.

c) Consolidation of the Group's foreign companies

The results and financial position of all the Group's entities (none of which has the currency of a hyper–inflationary economy) that have functional currency different from the presentation currency are translated into the presentation currency as follows:

1) Assets and liabilities for each financial position presented are translated at the closing rate at the date of that financial position;
2) Income and expenses for each statement of profit or loss are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of transactions).

2.5. Intangible Assets

a) Licenses and software

Licenses and software are shown at historical cost less accumulated amortisation. Amortisation is calculated using the straight–line method to allocate the cost of licenses and software over their estimated useful lives (5 years). Computer software development costs recognised as assets are amortised over their estimated useful lives, not exceeding a period of five years.

b) Greenhouse gas emission allowances

Emission rights for greenhouse gases (or allowances) are recognised at purchase cost. Allowances received from the Government free of charge are recognised at zero cost as off–balance sheet assets. Emission rights are recognised at cost when the Group is able to exercise the control. In those cases when the quantity of emitted greenhouse gases exceeds the quantity of allowances allocated by the state free of charge, the Group purchases additional allowances and carrying value of those allowances is determined on the basis of the market price of greenhouse gas emission allowances at the reporting period. Allowances are accounted for within 'Intangible assets' (see Note 13 b).

2.6. Property, Plant and Equipment

Property, plant and equipment (PPE) are stated at historical cost or revalued amount (see point 2.8) less accumulated depreciation and accumulated impairment loss.

The cost comprises the purchase price, transportation costs, installation, and other direct expenses related to the acquisition or implementation. The cost of the self-constructed item of PPE includes the cost of materials, services and workforce. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of an item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repair and maintenance expenses are charged directly to the Consolidated Statement of Profit or Loss when the expenditure is incurred. Borrowing costs are capitalised proportionally to the part of the cost of fixed assets under construction over the period of construction. Effective part of the changes in the fair value of forward foreign currencies exchange contracts, the purpose of which is to hedge currency exchange risk on PPE items, are also capitalised and included in the Consolidated Statement of Profit or Loss along with the expenses of depreciation over the useful life of the asset or at the disposal of the asset.

If an item of PPE consists of components with different useful lives, these components are depreciated as separate items. Homogenous items with similar useful lives are accounted for in groups.

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

Type of property, plant and equipment	Estimated useful life, years
Buildings and facilities, including	
– Hydropower plants, combined heat and power plants	15 – 100
– Electricity transmission lines	30 – 50
– Electricity distribution lines	30 – 40
Technology equipment and machinery, including	
– Hydropower plants	10 – 40
– Combined heat and power plants	3 – 25
– Transmission and distribution machinery and equipment	10 – 40
Other property, plant and equipment	2 – 25

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see point 2.8).

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

All fixed assets under construction are stated at historical cost and comprised costs of construction of assets. The initial cost includes construction and installation costs and other direct costs related to construction of fixed assets. Assets under construction are not depreciated as long as the relevant assets are completed and assigned for the operation.

2.7. Investment Property

Investment properties are land or a building or part of a building held by the Group as the owner to earn rentals or for capital appreciation, rather than for use in the production of goods or supply of services or for administrative purposes, or sale in the ordinary course of business. The investment properties are initially recognised at cost and subsequently measured at acquisition cost net of accumulated depreciation and impairment losses. The applied depreciation rates are based on estimated useful life set for respective fixed asset categories – from 15 to 80 years.

2.8. Revaluation of Property, Plant and Equipment

Revaluations have been made with sufficient regularity to ensure that the carrying amount of property, plant and equipment items subject to valuation does not differ materially from that which would be determined using fair value at the end of reporting period.

The following property, plant and equipment groups are revalued regularly but not less frequently than every five years:

a) Buildings and facilities, including
- Daugava hydropower plants' buildings and facilities,
- Buildings and facilities of transmission system,
- Buildings and facilities of distribution system;

b) Technology equipment and machinery, including
- Daugava hydropower plants' technology equipment and machinery,
- Technology equipment and machinery of transmission system,
- Technology equipment and machinery of distribution system;

c) Other property, plant and equipment, including
- Other PPE of Daugava hydropower plants',
- Other PPE of transmission system,
- Other PPE of distribution system.

Increase in the carrying amount arising on revaluation net of deferred tax is credited to the Consolidated Statement of Financial Position as "Property, plant and equipment revaluation reserve" in shareholders' equity. Decreases that offset previous increases of the same asset are charged in 'Other comprehensive income' and debited against the revaluation reserve directly in equity; all other decreases are charged to the current year's Consolidated Statement of Profit or Loss. Any accumulated depreciation at the date of revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after the revaluation equals its revalued amount.

Property, plant and equipment revaluation reserve is decreased at the moment, when revalued asset has been eliminated or disposed.

Revaluation reserve cannot be distributed in dividends, used for indemnity, reinvested in other reserves, or used for other purposes.

2.9. Impairment of Assets

Assets that are subject to depreciation or amortisation and land are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre–tax discount rate that reflects the current market expectations regarding the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash–generating unit to which the asset belongs. Impairment losses are recognised in the Other Comprehensive Income within PPE revaluation reserve for the assets accounted at revalued amount and in the Consolidated Statement of Profit or Loss within amortisation, depreciation and impairment charge expenses for the assets that are accounted at amortised historical cost and for the assets accounted at revalued amount in case if impairment charge exceeds revaluation surplus previously recognised on individual asset.

The key assumptions used in determining recoverable amount of the asset are based on the Group entities' or the Parent Company's management best estimation of the range of economic conditions that will exist over the remaining useful life of the asset, on the basis of the most recent financial budgets and forecasts approved by the management for a maximum period of 10 years. Assets are reviewed for possible reversal of the impairment whenever events or changes in circumstances indicate that impairment must be reviewed. The reversal of impairment for the assets that are accounted at amortised historical cost is recognised in the Consolidated Statement of Profit or Loss. Reversal of impairment loss for revalued assets is recognised in the Consolidated Statement of Profit or Loss to the extent that an impairment loss on the same revalued asset was previously recognised in the Consolidated Statement of Profit or Loss; the remaining reversals of impairment losses of revalued assets are recognised in Other Comprehensive Income.

2.10. Leases

a) The Group is the lessee

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the Consolidated Statement of Profit or Loss on a straight–line basis over the period of the lease (Note 14 e).

b) The Group is the lessor

Assets leased out under operating leases are recorded within property, plant and equipment at historic cost less depreciation and accumulated impairment loss. Depreciation is calculated on a straight-line basis to write down each asset to its estimated residual value over estimated useful life. Rental income from operating lease and advance payments received from clients (less any incentives given to lessee) are recognised in the Consolidated Statement of Profit or Loss on a straight-line basis over the period of the lease (Note 14e).

2.11. Inventories

Inventories are stated at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Cost is determined using the weighted average method.

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

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

At the end of each reporting year the inventories are reviewed for any indications of obsolescence. In cases when obsolete or damaged inventories are identified allowances are recognised. During the reporting year at least each month revaluation of the inventories is performed with the purpose to identify obsolete and damaged inventories. Allowances for an impairment loss are recognised for those inventories.

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

a) Inventories (spare parts, that are not considered as emergency reserve under property, plant and equipment) for machinery and equipment of hydropower plants and thermal power plants that haven't turned over during last 12 months are impaired in amount of 90 %,
b) Other inventories that haven't turned over during last 12 months are fully impaired,
c) Inventories (spare parts, that are not considered as emergency reserve under property, plant and equipment) for machinery and equipment of hydropower plants and thermal power plants that haven't turned over during last 6 months are impaired in amount of 45 %,
d) Other inventories that haven't turned over during last 6 months are impaired in amount of 50 %,
e) Allowances are not calculated for the inventory of heating materials necessary to ensure uninterrupted operations of heat power plants.

2.12. Trade and Other Receivables

Trade receivables are recognised initially at fair value and subsequently carried at amortised cost or cost less impairment. An allowance for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of repayment. Significant financial difficulties of the debtor, probabilities that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered as indicators that the trade receivable is impaired.

Trade receivables are classified in groups:

a) Electricity receivables,
b) Heating receivables,
c) Other services trade receivables (IT & telecommunication services, connection service fees, distribution system services and services of transmission system assets construction, management and lease).

An allowance for impairment of doubtful debts is calculated on the basis of trade receivables aging analysis according to estimates defined by the Group entities management and the Parent Company's management, which are revised at least once a year. Allowances for electricity trade receivables are calculated for debts overdue 45 days, and, if the debt is overdue for more than 181 day, allowances are established at 100 %. For other trade receivables allowances are calculated for debts overdue 31 day, and, if the date of payment is overdue for more than 91 day, allowances are established at 100 % (see Note 17 a).

Individual impairment assessments are performed for the debtors:

a) In Latvia – if their debt balance exceeds EUR 700 thousand and debt repayment schedule has been individually agreed,
b) In Lithuania and Estonia – if their debt balance exceeds EUR 200 thousand and debt repayment schedule has been individually agreed,
c) If debtor has been announced as insolvent, allowances are established at 100 %.

The level of allowance for such type of debtors is based on the individual risk assessment of insolvency probability.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the Consolidated Statement of Profit or Loss within selling and customer services costs. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against selling and customer services costs in the Consolidated Statement of Profit or Loss.

2.13. Cash and Cash Equivalents

Cash and cash equivalents include cash balances on bank accounts, demand deposits at bank and other short-term deposits with original maturities of three months or less. Cash and cash equivalents also are consisting of restricted cash, that are excluded from cash and cash equivalents in the Consolidated Statement of Cash Flows (see Note 18).

2.14. Dividend Distribution

Dividend distribution to the Parent Company's shareholders is recognised as a liability in the Consolidated Financial Statements in the period in which the dividends are approved by the Parent Company's shareholders.

2.15. Pensions and Employment Benefits

a) Pension obligations

The Group makes monthly contributions to a closed defined contribution pension plan on behalf of its employees. The plan is managed by the non–profit public limited company *Pirmais Slēgtais Pensiju Fonds*, with the participation of the Group companies amounting for 48.15 % of its share capital. A defined contribution plan is a pension plan under which the Group pays contributions into the plan. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior periods. The contributions amount to 5 % of each pension plan member's salary. The Group recognizes the contributions to the defined contribution plan as an expense when an employee has rendered services in exchange for those contributions.

b) Provisions for post–employment obligations arising from collective agreement

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

The defined benefit obligations are calculated annually by independent actuaries using the projected unit credit method.

The liability recognised in the Consolidated Statement of Financial Position in respect of post–employment benefit plan is the present value of the defined benefit obligation at the end of the reporting period. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds. The Group uses projected unit credit method to establish its present value of fixed benefit obligation and related present and previous employment expenses. According to this method it has been stated that each period of work makes benefit obligation extra unit and the sum of those units comprises total Group's obligations of post–employment benefits. The Group uses objective and mutually compatible actuarial assumptions on variable demographic factors and financial factors (including expected remuneration increase and determined changes in benefit amounts).

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

2.16. Income Tax

a) Corporate income tax

Latvia and Lithuania

Income tax expense for the period comprises current income tax and deferred income tax. Current income tax charges are calculated on current profit before tax using the tax rate 15 % in accordance with applicable tax regulations as adjusted for certain non-deductible expenses/non-taxable income and are based on the taxable income reported for the taxation period.

Estonia

Under the Income Tax Act, the annual profit earned by entities is not taxed in Estonia. Corporate income tax is paid on dividends, fringe benefits, gifts, donations, costs of entertaining guests, non-business related disbursements and adjustments of the transfer price. The tax rate on the net dividends paid out of retained earnings is 21/79 (20/80 starting from 1st of January 2015). In certain circumstances, it is possible to distribute dividends without any additional income tax expense. The corporate income tax arising from the payment of dividends is accounted for as a liability and expense in the period in which dividends are declared, regardless of the actual payment date or the period for which the dividends are paid.

b) Deferred income tax

Latvia and Lithuania

Deferred income tax is provided in full, using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates (and laws) that have been enacted by the end of reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit of the respective Group entity will be available against which the temporary differences can be utilised.

Tax incentives for new technological equipment are not considered when calculating deferred income tax.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the Group controls the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Estonia

Due to the nature of the taxation system, the entities registered in Estonia do not have any differences between the tax bases of assets and their carrying amounts and hence, no deferred income tax assets and liabilities arise.

2.17. Subsidised Energy Tax

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 1st of 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 cogeneration plants that use fossil energy sources a 15 % tax rate applies to the received support (taxable income) amount, 10 % tax rate – plants that use renewable energy sources, 5 % – cogeneration plants that use gas, biogas and biomass energy sources and installed electrical capacity in cogeneration plants is over 4 MW. Taxpayers are all producers of subsidised electricity. Revenues from SET are used as a funding for the grant included in the State Budget programme "Electricity user support" to limit the increase of mandatory procurement public service obligation fee.

2.18. Borrowing Costs

General and specific borrowing costs directly attributable to the acquisition or construction of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are expensed

in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

2.19. Provisions

Provisions are recognised when the Group has a present obligation as a result of past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and when a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses.

Provisions are presented in the Consolidated Statement of Financial Position at the best estimate of the expenditure required to settle the present obligation at the end of reporting period. Provisions are used only for expenditures for which the provisions were originally recognised and are reversed if an outflow of resources is no longer probable.

Provisions are measured at the present value of the expenditures expected tto be required for settling the obligation by using pre-tax rate that reflects current market assessments of the time value of the money and the risks specific to the obligation as a discount rate. The increase in provisions due to passage of time is recognised as interest expense.

Environmental protection provisions are recognised to cover environmental damages that have occurred before the end of the reporting period when this is required by law or when the Group's past environmental policies have demonstrated that the Group has a constructive present obligation to liquidate this environmental damage. Experts' opinions and prior experience in performing environmental work are used to set up the provisions (see Note 22 b).

2.20. Grants

Government grants are recognised as income over the period necessary to match them with the related costs, for which they are intended to compensate, on a systematic basis. A government grant is not recognised until there is reasonable assurance that the entity will comply with the conditions attaching to it, and that the grant will be received. Receipt of a grant does not of itself provide conclusive evidence that the conditions attaching to the grant have been or will be fulfilled. Government grants are received with the purpose to reduce the increase of mandatory procurement public service obligation fee partly compensating the increase of mandatory procurement costs. Acceptance from European Union is a prerequisite for use of the government grant received in 2014.

Property, plant and equipment received at nil consideration are accounted for as grants. Those grants are recognised at fair value as deferred income and are credited to the Consolidated Statement of Profit or Loss on a straight–line basis over the expected lives of the related assets.

Financing provided by European Union funds

The Group ensures the management, application of internal controls and accounting for the Group's projects financed by the European Union funds, according to the guidelines of the European Union and legislation of the Republic of Latvia.

Accounting of the transactions related to the projects financed by the European Union is ensured using separately identifiable accounts. The Group ensures separate accounting of financed projects with detailed income and expense, non–current investments and value added tax in the relevant positions of the Group's Consolidated Statement of Profit or Loss and Consolidated Statement of Financial Position.

2.21. Financial Instruments – Initial Recognition, Subsequent Measurement and De–recognition

a) Financial assets

I) Initial recognition and measurement

Financial assets within the scope of *IAS 39* are classified as financial assets at fair value through profit or loss, loans and receivables, held–to–maturity investments, available–for–sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

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

II) Subsequent measurement

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non–current. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented as finance costs (negative net changes in fair value) or finance income (positive net changes in fair value) in the Consolidated Statement of Profit or Loss. Financial assets designated upon initial recognition at fair value through profit or loss are designated at their initial recognition date and only if the criteria under IAS 39 are satisfied. The Group has not designated any financial assets at fair value through profit or loss.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value though profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss.

Loans and receivables

Loans and receivables are non–derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement,

such financial assets are subsequently measured at amortised cost using the EIR method, less impairment. The losses arising from impairment are recognised in the statement of profit or loss in finance costs for loans and in other operating expenses for receivables.

Held–to–maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. After initial measurement, held to maturity investments are measured at amortised cost using the EIR, less impairment. If the Group were to sell other than an insignificant amount of held–to–maturity financial assets, the whole category would be tainted and reclassified as available for sale. Held–to–maturity financial assets with maturities more than 12 months from the end of the reporting period are included in non–current assets; however those with maturities less than 12 months from the end of the reporting period are classified as current assets.

The Group follows the *IAS 39* guidance on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held–to–maturity. This classification requires significant judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity (see Note 4 g).

If the Group fails to keep these investments to maturity other than for specific circumstances explained in *IAS 39*, it will be required to reclassify the whole class as available–for–sale. Therefore the investments would be measured at fair value not at amortised cost.

Purchases and sales of financial assets held–to–maturity are recognised on trade date – the date on which the Group commits purchase of the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired. Held–to–maturity financial assets are carried at amortised cost using the effective interest rate method, net of accumulated impairment losses. Gains and losses arising from changes in the amortised value of the financial instruments are included in the Consolidated Statement of Profit or Loss in the period in which they arise.

Available–for–sale financial assets

Available–for–sale financial assets include equity instruments and debt securities. After initial measurement available–for–sale financial assets are subsequently measured at fair value with unrealised gains or losses recognised in other comprehensive income and credited in the available–for–sale financial assets reserve until the investment is derecognised.

III) De–recognition

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

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

b) Financial liabilities

I) Initial recognition and measurement

Financial liabilities within the scope of *IAS 39* are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, bank overdrafts, loans and borrowings, financial guarantee contracts, and derivative financial instruments.

II) Subsequent measurement

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by *IAS 39*. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

Loans and borrowings

Loans and borrowings are recognised initially at fair value. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss, except for the capitalised part. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability at least for 12 months after the end of reporting period.

Trade and other payables

The Group's trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method.

III) De-recognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the de-recognition of the original liability and the

recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

2.22. Derivative Financial Instruments and Hedging Activities

The Group uses derivatives such as forward foreign exchange contracts, interest rate swaps and electricity forward and future contracts to hedge risks associated with currency exposures, the interest rate and purchase price fluctuations.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices and discounted cash flow models as appropriate (see point 2.23).

The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, on the nature / content of the relevant asset or liability being hedged.

The Group designates certain derivatives as hedges of a particular risk associated with a recognised liability or highly probable forecast transactions denominated in foreign currency (cash flow hedge). Other derivatives are accounted for at fair value through profit or loss.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an on-going basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

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

a) Cash flow hedge

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

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

The gain or loss relating to the ineffective portion of electricity forward and future contracts hedging variable electricity prices and interest rate swaps hedging variable rate borrowings is recognised in the Consolidated Statement of Profit or Loss.

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

b) Fair value changes of derivatives through profit and loss

Changes in the fair value of derivatives at fair value through profit or loss, ineffective part of changes in the fair value of hedging derivatives and amounts accumulated in equity that are recycled to the Consolidated Statement of Profit or Loss, are classified according to the purpose of the derivatives – gains/ losses from electricity forward and future contracts are recognised within ‘Raw materials and consumables used’, while gains / losses from interest rate swap agreements and forward foreign currencies exchange contracts are recognised within ‘Finance costs’ or ‘Finance income’.

2.23. Fair Value Measurement

The Group measures financial instruments, such as, derivatives, at fair value at each balance sheet date. Such non–financial assets as investment properties are measured at amortised cost, but some items of property, plant and equipment at revalued amounts. Also fair values of financial instruments measured at amortised cost are disclosed in Note 21 d.

The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair values are estimated based on market prices and discounted cash flow models as appropriate (see Note 4 c).

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of reporting period. The quoted market prices used for financial assets held by the Group is the current bid prices.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group use a variety of methods and make assumptions that are based on market conditions existing at each end of reporting period. Estimated discounted cash flows are used to determine fair value for the remaining financial instruments.

The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows, by discounting their future contractual cash flows at current market interest rates for similar financial instruments.

The fair value of electricity forward and future contracts is calculated as discounted difference between actual market and settlement prices multiplied by the volume of the agreement.

If counterparty is a bank, then fair values of financial instruments are obtained from corresponding bank’s revaluation reports and in financial statements fair values of financial instruments as specified by banks are disclosed. In case of electricity forward and future contracts concluded with counterparties others than a bank; fair values as calculated by the Group are disclosed in Consolidated Financial Statements.

2.24. Revenue Recognition

Revenue comprises the value of goods sold and services rendered in the ordinary course of the Group’s activities. The Latvian regulatory authority (Public

Utilities Commission) determines tariffs for electricity and heat. Revenue is measured at the fair value of the consideration received or receivable, net of value–added tax, estimated returns, rebates and discounts. Revenue is recognised as follows:

a) Electricity sales

The Group records electricity sales to residential customers on the basis of reported meter readings. Where relevant, this includes an estimate of the electricity supplied between the date of the last meter reading and the year-end. Electricity sales to corporate customers are recognised on the basis of issued invoices according to meter readings of customers. Revenues from electricity sales to associated users are based on regulated tariffs approved by Public Utilities Commission, while revenues from market participants – on contractual prices included in electricity trade agreements. Revenues from trade of electricity in Nord Pool Spot power exchange are based on the calculated market prices.

b) Heat sales

The Group recognises revenue from sales of thermal energy at the end of each month on the basis of the meter readings.

c) Connection fees

When connecting to the electricity network, the clients must pay a connection fee that partly reimburses for the cost of infrastructure to be built to connect the client to the network. Connection fees are carried in the Consolidated Statement of Financial Position as deferred income and amortised to Consolidated Statement of Profit or Loss on a straight-line basis over the estimated customer relationship period.

d) Sales of distribution services

Revenues from electricity distribution services are based on regulated tariffs that are subject to approval by the Public Utilities Commission. The Group recognizes revenue from sales of distribution services at the end of each month on the basis of the automatically made meter readings or customers' reported meter readings.

e) Lease and management of transmission system assets

Revenues from lease and management of transmission system assets are recognised on the basis of invoices which are prepared for transmission system operator accordingly to lease agreement.

f) Sales of IT & telecommunication services

Revenues derived from information technology services (internet connection services, data communication services), open electronic communication network and telecommunication services to customers are recognised on the basis of invoices which are prepared for clients upon either usage of services listed in telecommunications billing system.

g) Interest income

Interest income is recognised using the effective interest method. Interest income is recorded in the Consolidated Statement of Profit or Loss as "Finance income".

h) Dividend income

Revenue is recognised when the Group's right to receive the payment is established, which is generally when shareholders approve the dividend.

i) Accrued income on mandatory procurement public service obligation fee

Before the applying of agent principle revenue is recognised as accured income the amount of income on mandatory procurement can be reliably measured and it is virtually certain that the economic benefits from mandatory procurement will flow to the Group with collected mandatory procurement public service obligation fees from electricity end users. Income from mandatory procurement component is calculated as difference between mandatory procurement expenses above the electricity market price and collected mandatory procurement component payments from all end users of electricity.

j) Mandatory procurement public service obligation fees

Since 1st of April 2014 revenue from mandatory procurement public service obligation fees is not recognised in the Consolidated Statement of Profit or Loss, but as assets or liabilities in the Consolidated Statement of Financial Position by applying agent accounting principle as subsidiary Enerģijas publiskais tirgotājs AS (hereinafter – the entity) is acting in management of the mandatory procurement process as an agent. Features that indicate that an entity is acting as an agent include:

- The entity has not the primary responsibility for including the mandatory procurement public service obligation fee as a part of the services or products ordered or purchased by customers;
- The entity has not latitude in establishing prices, either directly or indirectly,
- The entity does not bear the customer's credit risk for the amount receivable from the customer.

By applying agent principle difference between revenue from sale of electricity in Nord Pool Spot power exchange by market price, received mandatory procurement public service obligation 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), is recognised in net amount in assets or liabilities.

2.25. Related Parties

The parties are considered related when one party has a possibility to control the other one or has significant influence over the other party in making financial and operating decisions. Related parties of the Group 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.

2.26. Non-current Assets Held for Sale

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

2.27. Share Capital

The Group's share capital consists of the Parent Company's ordinary shares. All shares have been fully paid.

2.28. Issued Guarantees

Guarantees issued are initially recognised at fair value, which is usually equal to the premium received. Subsequently they are measured at the higher of the amount expected to be paid and the amount initially recognised less accumulated amortisation.

2.29. Events After the Reporting Period

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

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

Financial Assets by Categories

	Notes	Loans and receivables	Derivatives used for hedging	Held-to-maturity assets
		EUR'000	EUR'000	EUR'000
Financial assets as at 31st of December 2014				
Trade receivables, net	17 a	108,107	-	-
Other non-current receivables		14	-	-
Accrued income and other financial current receivables	17 b	113,396	-	-
Held-to-maturity financial assets	21 a	-	-	28,528
Cash and cash equivalents	18	121,011	-	-
		342,528	**-**	**28,528**
Financial assets as at 31st of December 2013				
Derivative financial instruments	21 c, l	-	617	-
Trade receivables, net	17 a	89,608	-	-
Other non-current receivables		57	-	-
Accrued income and other financial current receivables	17 b	53,774	-	-
Held-to-maturity financial assets	21 a	-	-	28,588
Cash and cash equivalents	18	255,423	-	-
		398,862	**617**	**28,588**

Financial Liabilities by Categories

	Notes	Derivatives used for hedging	Other financial liabilities at amortised cost	Liabilities at fair value through the profit or loss
		EUR'000	EUR'000	EUR'000
Financial liabilities as at 31st of December 2014				
Borrowings	21 b	-	827,222	-
Derivative financial instruments	21 c, I	16,333	-	4,220
Trade and other payables	24	-	101,940	-
		16,333	**929,162**	**4,220**
Financial liabilities as at 31st of December 2013				
Borrowings	21 b	-	944,675	-
Derivative financial instruments	21 c, I	10,455	-	12,979
Trade and other payables	24	-	95,622	-
		10,455	**1,040,297**	**12,979**

a) Market risk

I) Foreign exchange risk

The introduction of euro in Latvia as at 1st of January 2014 prevented the euro currency risk, which primarily was arising from settlements in foreign currencies for borrowings, capital expenditures and imported electricity. As at 31st of December 2014 the Group had borrowings denominated only in euros (Note 21 b).

Management has set up a Financial Risk Management policy inter alia to manage the Group's foreign currencies exchange risk against functional currency. To manage the Group's foreign currencies exchange risk arising from future transactions and recognised assets and liabilities, the Group 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.

The Group Treasury's Financial Risk Management Policy is to hedge all anticipated cash flows (capital expenditure and purchase of inventory) in each major foreign currency that might create significant currency risk. During 2014 the Group had not any capital expenditure project who's expected transactions would create significant currency risk (Note 21 c, IV).

In 2014, the Parent Company had certain investment in subsidiary, which was exposed to foreign currency risks. Currency exposure arising from the net assets of the Group's foreign operations in Lithuania was limited as subsidiary had insignificant amount of assets and Lithuania had fixed currency peg to euro. The introduction of euro in Lithuania as at 1st of January 2015 prevented the euro currency risk arising from above mentioned investments in subsidiary in Lithuania.

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.

During 2014, if euro interest rates had been 50 basis points higher or lower with all other variables held constant, the Group's income from the cash reserves held at bank for the year would have been EUR 314 thousand higher or lower (2013: EUR 280 thousand).

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 2–4 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.

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

To hedge cash flow interest rate risk the Group has entered into rate swap agreements with total notional amount of EUR 320.0 million (2013: EUR 347.7 million) (Note 21 c, II). As at 31st of December 2014 42 % of the total Group's borrowings (31/12/2013: 43 %) had fixed interest rate (taking into account the effect of the interest rate swaps) and average fixed rate duration was 2.2 years (2013: 2.1 years).

During 2014, if interest rates on euro denominated borrowings at floating base interest rate (after considering hedging effect) had been 50 basis points higher or lower with all other variables held constant, the Group's profit for the year net of taxes would have been EUR 2,164 thousand lower or higher (2013: EUR 2,021 thousand).

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.

At 31st of December 2014, if short and long term euro interest rates had been 50 basis points higher or lower with

all other variables held constant fair value of interest rate swaps would have been EUR 5,321 thousand higher or lower (31/12/2013: EUR 5,569 thousand). Furthermore EUR 209 thousand (2013: EUR 413 thousand) would have been attributable to Consolidated Statement of Profit or Loss and EUR 5,112 thousand (2013: EUR 5,156 thousand) to the Consolidated Statement of Comprehensive Income as hedge accounting item.

III) Price risk

Price risk is the risk that the fair value and cash flows of financial instruments will fluctuate in the future due to reasons other than changes in the market prices resulting from interest rate risk or foreign exchange risk. The purchase and sale of goods produced and the services provided by the Group 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 during 2014 has purchased electricity forward and future contracts (Note 21 c, III).

b) Credit risk

Credit risk is managed at the Group level. Credit risk arises from cash and cash equivalents, derivative financial instruments and 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 (Note 17).

The maximum credit risk exposure related to financial assets comprises of carrying amounts of cash and cash equivalents (see table below and Note 18), trade and other receivables (Note 17), derivative financial instruments (Note 21 c) and held-to-maturity financial assets (Note 21 a).

Assessment of Maximum Possible Exposure to Credit Risk

	Note	31/12/2014	31/12/2013
		EUR'000	EUR'000
Trade receivables	17 a	108,107	89,608
Accrued income	17 b	31,249	53,487
Other non-current financial receivables		14	57
Other current financial receivables	17 b	19,001	287
Cash and cash equivalents	18	121,011	255,423
Derivative financial instruments	21 c	-	617
Held-to-maturity financial assets	21 a	28,528	28,588
		307,910	**428,067**

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

For estimation of the credit quality of fully performing trade receivables two rating categories are used:

- Customers with no overdue receivables,
- Customers with overdue receivables.

Credit limits are regularly monitored.

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.

The table below shows the balance of cash and cash equivalents by financial counterparties at the end of the reporting period:

	31/12/2014	31/12/2013
	EUR'000	EUR'000
Investment level credit rating	95,325	218,536
No or non-investment level credit rating	25,686	36,887
	121,011	**255,423**

No credit limits were exceeded during the reporting period, and the Group management does not expect any losses from to occurrence of credit risk.

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 (Note 21 b), and cash and cash equivalents (Note 18).

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

Liquidity Analysis (Contractual Undiscounted Cash Flows)

	Less than 1 year	From 1 to 2 years	From 3 to 5 years	Over 5 years	TOTAL
	EUR'000	EUR'000	EUR'000	EUR'000	**EUR'000**
At 31st of December 2014					
Borrowings from banks	148,268	96,802	312,507	211,340	**768,917**
Issued debt securities (bonds)	2,940	2,940	74,900	35,980	**116,760**
Derivative financial instruments	10,704	5,351	7,029	3,146	**26,230**
Trade and other payables*	101,940	-	-	-	**101,940**
	263,852	**105,093**	**394,436**	**250,466**	**1,013,847**
At 31st of December 2013					
Borrowings from banks	146,993	229,895	248,403	266,137	**891,428**
Issued debt securities (bonds)	2,940	2,940	76,860	36,960	**119,700**
Derivative financial instruments	22,386	6,870	6,653	1,841	**37,750**
Trade and other payables*	95,622	-	-	-	**95,622**
	267,941	**239,705**	**331,916**	**304,938**	**1,144,500**

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

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.

The capital ratio figures were as follows:

	31/12/2014	31/12/2013
	EUR'000	EUR'000
Total equity	2,020,800	2,021,714
Total assets	3,486,576	3,575,358
Capital Ratio	**58 %**	**57 %**

4. Critical Accounting Estimates and Judgements

Estimates and judgments are regularly evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

a) Estimates concerning property, plant and equipment

I) Useful lives of property, plant and equipment

The Group makes estimates concerning the expected useful lives and residual values of property, plant and equipment. These are reviewed at the end of each reporting period and are based on the past experience as well as industry practice. Previous experience has shown that the actual useful lives have sometimes been longer than the estimates. As at 31st of December 2014, the net book amount of property, plant and equipment of the Group totalled EUR 3,066 million (31/12/2013: EUR 3,087 million), and the depreciation charge for the reporting period was EUR 174.1 million (2013: EUR 168.0 million) (Note 14 a). If depreciation rates were changed by 10%, the annual depreciation charge would change by EUR 17.4 million (2013: EUR 16.8 million).

II) Recoverable amount of property, plant and equipment

When the events and circumstances indicate a potential impairment, the Group performs impairment tests for items of property, plant and equipment. According to

these tests assets are written down to their recoverable amounts, if necessary. When carrying out impairment tests management uses various estimates for the cash flows arising from the use of the assets, sales, maintenance, and repairs of the assets, as well as in respect of the inflation and growth rates. The estimates are based on the forecasts of the general economic environment, consumption and the sales price of electricity. If the situation changes in the future, either additional impairment could be recognised, or the previously recognised impairment could be partially or fully reversed. Such factors as high maintenance and reconstruction costs, low load of several auxiliaries, comparatively substantial maintenance expense, limited facilities to sell property, plant and equipment in the market and other essential factors have an impact of decreasing of the recoverable amounts. If discount rate used for the purposes of impairment charge calculation would be lower or higher by one per cent point the current year's impairment charge on technological equipment would be by EUR 32.5 million higher or lower (2013: EUR 36.8 million). Impairment charges recognised during the current reporting year are disclosed in Note 14 d.

III) Revaluation

External, certified valuers have performed revaluation of the Group's property, plant and equipment by applying the depreciated replacement cost model. Valuation has been performed according to international standards on property valuation and *IAS 16*, *Property, plant and equipment*, based on current use of property, plant and equipment. As a result of valuation, depreciated replacement cost was determined for each asset. Depreciated replacement cost is calculated as property, plant and equipment instant market value at its current use, increased by the replacement cost of existing buildings, machinery and equipment as well as refinements on the said property, plant and equipment decreased by the depreciation expenses and other impairment losses. Last revaluation was performed for assets of Daugava hydropower plants as at 1st of January 2012, for assets of transmission system as at 1st of January 2011 and for assets of distribution system as at 1st of September 2011.

b) Recoverable amount of trade receivables

The estimated collectability of accounts receivable is assessed on the basis of trade receivables aging analysis according to estimates defined by the Group entities management and the Parent Company's management. In case individual assessment is not possible due to the large number of individual balances, receivables are classified into groups of similar credit risk characteristics and are collectively assessed for impairment, using historical loss experience. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The circumstances indicating an impairment loss may include initiated insolvency of the debtor and inability to meet payment terms (point 2.12). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss incurred (Note 17).

c) Fair value estimation for financial instruments

The following table presents the Group's financial assets and liabilities that are measured at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1),
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2),
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

As at 31st of December 2014	Notes	Level 1	Level 2	Level 3	Total balance
		EUR'000	EUR'000	EUR'000	**EUR'000**
Liabilities					
Financial liabilities at fair value through profit or loss:					
– Electricity trading derivatives	21 c, III	-	2,112	-	**2,112**
– Interest rate derivatives	21 c, II	-	2,108	-	**2,108**
Interest rate derivatives used for hedging	21 c, II	-	16,333	-	**16,333**
Total liabilities		**-**	**20,553**	**-**	**20,553**

As at 31st of December 2013	Notes	Level 1	Level 2	Level 3	Total balance
		EUR'000	EUR'000	EUR'000	**EUR'000**
Assets					
Interest rate derivatives used for hedging	21 c, II	-	617	-	**617**
Total assets		**-**	**617**	**-**	**617**
Liabilities					
Financial liabilities at fair value through profit or loss:					
– Electricity trading derivatives	21 c, III	-	9,912	-	**9,912**
– Interest rate derivatives	21 c, II	-	3,051	-	**3,051**
– Forward foreign exchange contracts	21 c, IV	-	16	-	**16**
Interest rate derivatives used for hedging	21 c, II	-	10,455	-	**10,455**
Total liabilities		**-**	**23,434**	**-**	**23,434**

d) Recognition of connection service fees

Connection and other service fees are recognised as income over the estimated customer relationship period, which is 20 years (see Note 23). The estimated customer relationship period is based on the Management's estimate. In the reporting period the Group's received connection fees totalled EUR 18.2 million (2013: EUR 17.9 million), and to the Consolidated Statement of Profit or Loss credited EUR 10.9 million (2013: EUR 9.9 million).

If the estimated customer relationship period is reduced/increased by 25%, the annual income from connection service fees would increase/decrease by EUR 2.7 million (2013: EUR 2.5 million).

e) Recognition and revaluation of provisions

As at 31st of December 2014, the Group had set up provisions for environmental protection and post-employment benefits totalling EUR 15.6 million (31/12/2013: EUR 15.6 million) (Note 22). The amount and timing of the settlement of these obligations is uncertain. A number of assumptions and estimates have been used to determine the present value of provisions, including the amount of future expenditure, inflation rates, and the timing of settlement of the expenditure. The actual expenditure may also differ from the provisions recognised as a result of possible changes in legislative norms, technology available in the future to restore environmental damages, and expenditure covered by third parties. For revaluation of provisions for post-employment obligations probabilities of retirement in different employees' aging groups as well as variable demographic factors and financial factors (including expected remuneration increase and determined changes in benefit amounts) have been estimated. The probabilities and other factors are determined on the basis of previous experience.

f) Evaluation of effectiveness of hedging instruments

The Group has concluded significant number of forward and future contracts and swap agreements to hedge the risk of the changes in prices of electricity and interest rate fluctuations to which cash flow hedge risk accounting is applied and the gains and losses from changes in the fair value of the effective hedging instruments and items secured against risk are included in respective equity reserve. The evaluation of the effectiveness of the hedging is based on Management's estimates with regard to future purchase transactions of electricity and signed variable interest loan agreements. When hedging instruments turn out to be ineffective, gains/losses from the changes in the fair value are recognised in the Consolidated Statement of Profit or Loss (Note 21 c).

g) Held-to-maturity financial assets

The management of the Group applies judgement in assessing whether financial assets can be categorised as held-to-maturity at initial recognition, in particular (a) its intention and ability to hold the assets to maturity and (b) whether the assets are quoted in an active market. If the Group fails to keep these investments to maturity other than in certain specific circumstances - for example, selling an insignificant amount or settle a position close to maturity - it will be required to reclassify the entire category as available-for-sale. The investments would therefore be measured at fair value rather than amortised cost. For the estimated fair value of investment securities held-to-maturity as at 31st of December 2014 refer to Note 21 a.

Evidence of an active market exists if quoted prices are readily and regularly available from an exchange, dealer, broker, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

h) Financial investments

The Group has applied judgement in determining that it has a financial investment with 48.15 % interest held in the company Pirmais Slēgtais Pensiju Fonds AS that manages closed pension plan in Latvia as investment that has been valued at cost without applying equity method. The Group is only a nominal shareholder as all risks and benefits arising from management of pension plan will accrue to the Group's employees who are members of the pension plan and the Group does not have existing rights that give it the current ability to direct the relevant activities of the investee. Therefore this investment has been determined as financial investment in Pirmais Slēgtais Pensiju Fonds AS and not as investment in associate.

5. 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 and management of transmission system assets. In addition, Corporate Functions, that cover administration and other support services, are presented separately.

Generation and supply 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 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. In accordance with this directive and concerning common rules for the internal market of electricity and the Electricity Market Law of the Republic of Latvia, Latvijas elektriskie tīkli AS at 1st of January 2015 transfers to Augstsprieguma tīkls AS functions of the reconstruction or renewal, operation and routine maintenance of the existing transmission network system assets as well as development of the transmission system and construction of new networks.

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
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	**EUR'000**
Year ended 31st of December 2014							
Revenue							
External customers	652,778	295,314	57,795	4,870	1,010,757	-	**1,010,757**
Inter-segment	24,603	2,040	2,933	46,432	76,008	(76,008)	**-**
Total revenue	**677,381**	**297,354**	**60,728**	**51,302**	**1,086,765**	**(76,008)**	**1,010,757**
Results							
Amortisation, depreciation and property, plant and equipment impairment loss	(74,492)	(77,498)	(24,293)	(11,312)	(187,595)	-	**(187,595)**
Segment profit	**11,935**	**15,010**	**16,416**	**5,882**	**49,243**	**(17,733)**	**31,510**
Segment assets at the end of the year	**1,514,218**	**1,272,355**	**456,723**	**87,283**	**3,330,579**	**155,997**	**3,486,576**
Segment liabilities at the end of the year	**73,185**	**185,019**	**48,934**	**6,300**	**313,438**	**1,152,337**	**1,465,775**
Capital expenditure	33,542	99,830	31,836	12,399	177,607	-	**177,607**
Year ended 31st of 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							
Amortisation, depreciation and property, plant and equipment impairment loss	80,182	71,908	23,675	11,838	187,603	-	**187,603**
Segment profit	**23,294**	**19,074**	**14,032**	**4,691**	**61,091**	**(12,250)**	**48,841**
Segment assets at the end of the year	**1,497,066**	**1,252,016**	**431,224**	**86,458**	**3,266,764**	**308,594**	**3,575,358**
Segment liabilities at the end of the year	**70,375**	**170,498**	**34,802**	**6,070**	**281,745**	**1,271,899**	**1,553,644**
Capital expenditure	53,423	88,617	68,941	13,887	224,868	-	**224,868**

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

	Notes	2014	2013
		EUR'000	EUR'000
Segment profit		**49,243**	**61,091**
Finance income	11 a	3,004	4,529
Finance costs	11 b	(20,380)	(17,840)
Share of profit of associates	15	(357)	1,061
Profit before tax		**31,510**	**48,841**

Reconciliation of Assets

	Notes	2014	2013
		EUR'000	EUR'000
Segment operating assets		**3,330,579**	**3,266,764**
Investments in associates and other investments	15	41	41
Held-to-maturity financial assets	21 a	28,528	28,588
Current financial assets		-	617
Other assets and assets held for sale		6,417	23,925
Cash and cash equivalents	18	121,011	255,423
Group operating assets		**3,486,576**	**3,575,358**

Reconciliation of Liabilities

	Notes	2014	2013
		EUR'000	EUR'000
Segment operating liabilities		**313,438**	**281,745**
Deferred income tax liabilities	12	268,026	269,116
Current corporate income tax liabilities		3	3
Borrowings	21 b	827,222	944,675
Derivative financial instruments	21 c	20,553	23,434
Trade and other payables		36,533	34,671
Group operating liabilities		**1,465,775**	**1,553,644**

Geographical Information on Segments

	2014	2013
	EUR'000	EUR'000
Revenue from external customers		
Baltics	997,445	1,069,436
Scandinavian countries	13,312	30,457
Total revenue	**1,010,757**	**1,099,893**

Non-current assets are located in the Group's country of domicile – Latvia and consist of intangible assets, property, plant and equipment and investment properties. Revenue from major customer in 2014 amounted to EUR 98,410 thousand (2013: EUR 105,270 thousand) arising from sales by the generation and supply segment.

6. 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 of April 2014 through 31st of December 2014 revenue of mandatory procurement public service obligation fee is recognised in the Consolidated Statement of Financial Position by applying agent accounting principle (Note 2.24. j)

7. Other Income

	2014	2013
	EUR'000	EUR'000
Net gain from sale of assets held for sale and PPE	754	941
Net gain from sale of current assets and other income	4,519	3,109
Total other income	**5,273**	**4,050**

8. Raw Materials and Consumables Used

	2014	2013
	EUR'000	EUR'000
Electricity:		
Purchased electricity*	338,551	381,144
Fair value loss / (income) on electricity forwards and futures (Note 21 c, III)	(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	38,677	38,295
Capitalised costs of raw materials and consumables used (fuel)	-	(9,573)
Total raw materials and consumables used	**621,285**	**701,453**

* in period from 1st of April 2014 through 31st of 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 fee for installed electrical capacity in cogeneration plants (over 4 MW) are recognised in the Consolidated Statement of Financial Position by applying agent accounting principle (Note 2.24. j)

9. Personnel Expenses

	2014	2013
	EUR'000	EUR'000
Wages and salaries	74,770	71,922
Expenditure of employment termination	1,824	2,258
Pension costs – defined contribution plan	3,283	3,172
State social insurance contributions and other benefits defined in the Collective Agreement	18,376	18,056
Capitalised personnel expenses	(299)	(334)
Total personnel expenses, including remuneration to the management	**97,954**	**95,074**
Including remuneration to the management:		
Wages and salaries	1,459	1,241
Pension costs – defined contribution plan	64	54
State social insurance contributions and other benefits defined in the Collective Agreement	251	303
Total remuneration to the management*	**1,774**	**1,598**

	2014	2013
Number of employees at the end of the year	4,563	4,512
Average number of employees during the year	4,559	4,504

* remuneration to the management includes remuneration to the members of the Management Boards and Supervisory body of the Group entities.

10. Other Operating Expenses

	2014	2013
	EUR'000	EUR'000
Selling expenses and customer service costs*	8,172	19,776
Information technology maintenance expenses	3,694	3,661
Transportation expenses	7,546	7,809
Environment protection and work safety expenses	4,224	3,540
Rent, maintenance and utilities costs	7,966	7,247
Telecommunications expenses	2,455	2,486
Electric power transit and capacity services costs	270	3,944
Real estate tax	1,063	1,024
Public utilities regulation fee	987	1,426
Subsidised energy tax (SET)**	15,338	-
Other expenses	8,238	7,809
Total other operating expenses	**59,953**	**58,722**

* selling expenses and customer service costs in 2014 are decreased due fewer allowances for impaired electricity trade receivables (Note 17 a)
** subsidised energy tax according to the "Subsidised energy tax Law" has been introduced for a four-year period as of 1st of January 2014 and applies to state support for generators of subsidised electricity (Note 2.17.)

11. Finance Income and Costs

a) Finance income

	2014	2013
	EUR'000	EUR'000
Interest income on bank accounts and deposits	501	629
Interest income from held-to-maturity financial assets	1,544	1,541
Fair value gain on interest rate swaps (Note 21 c, II)	943	1,917
Fair value gain on forward foreign currencies exchange contracts (Note 21 c, IV)	16	-
Fair value gain on issued guarantees	-	285
Net gain on issued debt securities (bonds)	-	35
Net gain from currency exchange rate fluctuations	-	122
Total finance income	**3,004**	**4,529**

b) Finance costs

	2014	2013
	EUR'000	EUR'000
Interest expense on borrowings	9,856	9,680
Interest expense on issued debt securities (bonds)	2,940	2,614
Interest expense on interest rate swaps	7,555	9,206
Fair value loss on forward foreign currencies exchange contracts (Note 21 c, IV)	-	16
Net losses on redemption of held-to-maturity financial assets	60	60
Net losses on issued debt securities (bonds)	1	-
Capitalised borrowing and finance costs (Note 14 a)	(167)	(3,819)
Net losses on currency exchange rate fluctuations	65	-
Other finance costs	70	83
Total finance costs	**20,380**	**17,840**

12. Income Tax

	2014	2013
	EUR'000	EUR'000
Current tax	2,796	725
Deferred tax	(1,076)	1,967
Total income tax	**1,720**	**2,692**

The tax on the Group's profit before tax differs from the theoretical amount that would arise if using the tax rate applicable to profits of the Group as follows:

	2014	2013
	EUR'000	EUR'000
Profit before tax	**31,510**	**48,841**
Corporate income tax at the statutory rate 15 %	4,727	7,326
Expense non-deductible for tax purpose	639	343
Impairment of receivables	186	2,133
Discount on undistributed profit	-	(26)
Income / (losses) as a result of re-measurement on defined post-employment benefit plan	24	(46)
Real estate tax	(159)	(154)
Other expenses	222	36
Tax incentives for new technological equipment*	(3,919)	(6,920)
Total income tax	**1,720**	**2,692**

* increase in the amount of depreciation of PPE applying coefficients for additions of PPE and calculation of depreciation for tax purposes as defined in article No. 13 of the Law of Corporate Income Tax of the Republic of Latvia

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same taxation authority.

The Movement on the Deferred Income Tax Accounts

	2014	2013
	EUR'000	EUR'000
At the beginning of the year	**269,116**	**267,246**
(Income) credited / expense charged to the Consolidated Statement of Profit or Loss	(1,076)	1,967
Attributable to non-current assets revaluation reserve in equity (Note 20 a)	(14)	(97)
Deferred tax liabilities at the end of the year	**268,026**	**269,116**

Deferred income tax has been calculated from the following temporary differences between assets and liabilities values for financial reporting and tax purposes:

	2014	2013
	EUR'000	EUR'000
Deferred tax liabilities		
	Accelerated tax depreciation	
At the beginning of the year	**275,167**	**272,512**
Expense charged to the Consolidated Statement of Profit or Loss	3,300	2,752
Attributable to non-current assets revaluation reserve in equity (Note 20 a)	(14)	(97)
At the end of the year	**278,453**	**275,167**
Deferred tax assets		
	Accruals / provisions	
At the beginning of the year	**(6,051)**	**(5,266)**
Income credited to the Consolidated Statement of Profit or Loss	(4,376)	(785)
At the end of the year	**(10,427)**	**(6,051)**

13. Intangible Assets

a) Intangible assets

	Licenses	Software	Assets under construction	TOTAL
	EUR'000	EUR'000	EUR'000	**EUR'000**
At 31st of December 2012				
Cost	2,490	29,270	1,676	**33,436**
Accumulated amortisation	(1,228)	(23,950)	-	**(25,178)**
Net book amount	**1,262**	**5,320**	**1,676**	**8,258**
Year ended 31st of December 2013				
Additions	-	3,196	2,129	**5,325**
Disposals	(210)	-	-	**(210)**
Amortisation charge	-	(2,243)	-	**(2,243)**
Closing net book amount	**1,052**	**6,273**	**3,805**	**11,130**
At 31st of December 2013				
Cost	2,490	30,654	3,805	**36,949**
Accumulated amortisation	(1,438)	(24,381)	-	**(25,819)**
Net book amount	**1,052**	**6,273**	**3,805**	**11,130**
Year ended 31st of December 2014				
Additions	-	268	4,740	**5,008**
Transfers	-	8,217	(8,217)	**-**
Disposals	(210)	(27)	-	**(237)**
Amortisation charge	-	(2,890)	-	**(2,890)**
Closing net book amount	**842**	**11,841**	**328**	**13,011**
At 31st of December 2014				
Cost	2,490	38,992	328	**41,810**
Accumulated amortisation	(1,648)	(27,151)	-	**(28,799)**
Net book amount	**842**	**11,841**	**328**	**13,011**

b) Greenhouse gas emission allowances

	2014	2013
	Number of allowances	Number of allowances
At the beginning of the year	**2,619,839**	**3,190,862**
Allowances allocated free of charge	494,041	517,163
Purchased allowances	-	16,196
Used allowances	(1,092,621)	(1,104,382)
At the end of the year	**2,021,259**	**2,619,839**

Allowances are allocated free of charge in accordance with the law "On Pollution" and Directives of the Ministry of Environmental Protection and Regional Development of the Republic of Latvia and are recognised as off-balance sheet assets.

As at 31st of December 2014 the number of allowances in the Group received in 2014 from the Government free of charge was 494,041 (31/12/2013: 517,163). Therefore their carrying amount as at 31st of December 2014 was nil (31/12/2013: nil).

The fair value of greenhouse gas emission allowances as at 31st of December 2014 was EUR 14,755 thousand (31/12/2013: EUR 13,152 thousand). For estimation of the fair value of allowances was used fixed daily price in NASDAQ Commodities Exchange for European Union Allowances (EUA) on 30th of December 2014 what was the last trade date in 2014 – 7.30 EUR/t (30/12/2013: 5.02 EUR/t).

Received European Union Allowances (EUA) must be used until the end of 2020.

As at 31st of December 2014 the Group has not purchased greenhouse gas emission allowances (31/12/2013: 16,196). In 2013 purchase costs of allowances in the amount of EUR 3 thousand are included in the Consolidated Statement of Profit or Loss position 'Fuel expense' (see Note 8). All purchased allowances during the 2013 are used therefore their carrying amount as at 31st December 2013 was nil.

14. Property, Plant and Equipment

a) Property, plant and equipment

	Revalued buildings and facilities			Non-revalued buildings and facilities	Land and buildings, total	Revalued technology equipment, machinery			Non-revalued technology equipment, machinery	Technology equipment and machinery, total
	Daugava hydropower plants'	Transmission system	Distribution system			Daugava hydropower plants'	Transmission system	Distribution system		
	EUR'000	EUR'000	EUR'000	EUR'000	**EUR'000**	EUR'000	EUR'000	EUR'000	EUR'000	**EUR'000**
At 31st of December 2012										
Cost or valuation	1,496,524	451,013	1,903,340	338,116	**4,188,993**	324,134	398,539	698,307	321,844	**1,742,824**
Accumulated depreciation and impairment	(847,471)	(296,536)	(1,087,218)	(86,938)	**(2,318,163)**	(204,213)	(219,865)	(376,406)	(207,401)	**(1,007,885)**
Net book amount	**649,053**	**154,477**	**816,122**	**251,178**	**1,870,830**	**119,921**	**178,674**	**321,901**	**114,443**	**734,939**
Year ended 31st of December 2013										
Additions	-	-	-	4	**4**	-	92	905	8	**1,005**
Invested in share capital (Note 19)*	-	-	-	874	**874**	-	-	-	-	**-**
Transfers	3,364	16,814	56,652	90,509	**167,339**	6,484	11,930	23,019	297,537	**338,970**
Disposals	-	(995)	(1,332)	(11)	**(2,338)**	-	(214)	(1,123)	-	**(1,337)**
Impairment charge	-	-	-	-	**-**	-	-	-	(17,654)	**(17,654)**
Depreciation	(15,694)	(10,263)	(51,602)	(10,750)	**(88,309)**	(10,377)	(11,566)	(17,148)	(28,181)	**(67,272)**
Closing net book amount	**636,723**	**160,033**	**819,840**	**331,804**	**1,948,400**	**116,028**	**178,916**	**327,554**	**366,153**	**988,651**
At 31st of December 2013										
Cost or valuation	1,499,501	457,126	1,945,801	429,211	**4,331,639**	329,450	402,886	709,077	604,840	**2,046,253**
Accumulated depreciation and impairment	(862,778)	(297,093)	(1,125,961)	(97,407)	**(2,383,239)**	(213,422)	(223,970)	(381,523)	(238,687)	**(1,057,602)**
Net book amount	**636,723**	**160,033**	**819,840**	**331,804**	**1,948,400**	**116,028**	**178,916**	**327,554**	**366,153**	**988,651**
Year ended 31st of December 2014										
Additions	-	-	-	49	**49**	-	-	1,067	6	**1,073**
Invested in share capital (Note 19)*	-	-	-	435	**435**	-	-	-	-	**-**
Transfers	-	56,772	60,266	29,432	**146,470**	714	22,391	24,665	16,939	**64,709**
Reclassified to investment property	-	-	-	(434)	**(434)**	-	-	-	-	**-**
Disposals	13,266	(229)	(1,108)	(13,354)	**(1,425)**	-	(400)	(1,130)	(16)	**(1,546)**
Impairment charge	-	-	-	2	**2**	-	-	(14,564)	-	**(14,564)**
Reclassified depreciation of emergency spare parts	-	-	-	-	**-**	-	-	-	(3,394)	**(3,394)**
Depreciation	(15,904)	(10,400)	(41,241)	(13,218)	**(80,763)**	(8,958)	(11,960)	(17,517)	(39,652)	**(78,087)**
Closing net book amount	**634,085**	**206,176**	**837,757**	**334,716**	**2,012,734**	**107,784**	**188,947**	**320,075**	**340,036**	**956,842**
At 31st of December 2014										
Cost or valuation	1,512,382	511,341	1,989,627	444,991	**4,458,341**	330,151	414,944	724,848	621,680	**2,091,623**
Accumulated depreciation and impairment	(878,297)	(305,165)	(1,151,870)	(110,275)	**(2,445,607)**	(222,367)	(225,997)	(404,773)	(281,644)	**(1,134,781)**
Net book amount	**634,085**	**206,176**	**837,757**	**334,716**	**2,012,734**	**107,784**	**188,947**	**320,075**	**340,036**	**956,842**

* in October 2014, in accordance with the Directive No. 496 of the Cabinet of Ministers of the Republic of Latvia, dated 16th of September 2014 – "On the Investment of the State's property units in the Share Capital of Latvenergo AS", real estate in the amount of EUR 435 thousand was invested in the share capital of Latvenergo AS (2013: real estate in the amount of EUR 874 thousand).

	Revalued other property, plant and equipment			Non-revalued other PPE	Other PPE, total	Assets under construction	Property, plant and equipment, total
	Daugava hydropower plants'	Transmission system	Distribution system				
	EUR'000	EUR'000	EUR'000	EUR'000	**EUR'000**	EUR'000	**EUR'000**
At 31st of December 2012							
Cost or valuation	13,657	7,829	8,543	111,851	**141,880**	422,173	**6,495,870**
Accumulated depreciation and impairment	(7,702)	(5,353)	(5,227)	(88,170)	**(106,452)**	(6,931)	**(3,439,431)**
Net book amount	**5,955**	**2,476**	**3,316**	**23,681**	**35,428**	**415,242**	**3,056,439**
Year ended 31st of December 2013							
Additions	-	969	-	8,913	**9,882**	207,778	**218,669**
Invested in share capital (Note 19)*	-	-	-	-	**-**	-	**874**
Transfers	-	740	519	7,203	**8,462**	(514,771)	**-**
Disposals	-	(1)	(30)	(24)	**(55)**	(117)	**(3,847)**
Impairment charge	-	-	-	-	**-**	283	**(17,371)**
Depreciation	(507)	(925)	(696)	(10,280)	**(12,408)**	-	**(167,989)**
Closing net book amount	**5,448**	**3,259**	**3,109**	**29,493**	**41,309**	**108,415**	**3,086,775**
At 31st of December 2013							
Cost or valuation	13,657	9,409	8,734	121,952	**153,752**	115,063	**6,646,707**
Accumulated depreciation and impairment	(8,209)	(6,150)	(5,625)	(92,459)	**(112,443)**	(6,648)	**(3,559,932)**
Net book amount	**5,448**	**3,259**	**3,109**	**29,493**	**41,309**	**108,415**	**3,086,775**
Year ended 31st of December 2014							
Additions	-	602	2,986	6,264	**9,852**	161,190	**172,164**
Invested in share capital (Note 19)*	-	-	-	-	**-**	-	**435**
Transfers	1	385	489	3,479	**4,354**	(215,533)	**-**
Reclassified to investment property	-	-	-	-	**-**	-	**(434)**
Disposals	-	(1,530)	(7)	(6)	**(1,543)**	(11)	**(4,525)**
Impairment charge	-	-	-	-	**-**	601	**(13,961)**
Reclassified depreciation of emergency spare parts	-	-	-	-	**-**	-	**(3,394)**
Depreciation	(503)	(971)	(910)	(9,510)	**(11,894)**	-	**(170,744)**
Closing net book amount	**4,946**	**1,745**	**5,667**	**29,720**	**42,078**	**54,662**	**3,066,316**
At 31st of December 2014							
Cost or valuation	13,657	6,214	11,708	126,683	**158,262**	60,709	**6,768,935**
Accumulated depreciation and impairment	(8,711)	(4,469)	(6,041)	(96,963)	**(116,184)**	(6,047)	**(3,702,619)**
Net book amount	**4,946**	**1,745**	**5,667**	**29,720**	**42,078**	**54,662**	**3,066,316**

* in October 2014, in accordance with the Directive No. 496 of the Cabinet of Ministers of the Republic of Latvia, dated 16th of September 2014 – "On the Investment of the State's property units in the Share Capital of Latvenergo AS", real estate in the amount of EUR 435 thousand was invested in the share capital of Latvenergo AS (2013: real estate in the amount of EUR 874 thousand).

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

As at 31st of December 2014 cost or valuation of fully depreciated PPE amounted to EUR 929,068 thousand (31/12/2013: EUR 758,683 thousand).

In 2014 the Group has capitalised borrowing and finance costs in the amount of EUR 167 thousand (2013: EUR 3,819 thousand). Rate of capitalised borrowing costs was of 1.61 % (2013: 1.48 %).

Information about the Group's pledged property, plant and equipment is disclosed in Note 21 b, I.

b) Investment property

Land or a building or part of a building held by the Group as the owner to earn rentals or for capital appreciation, rather than for use in the production of goods or supply of services or for administrative purposes, or sale in the ordinary course of business, after decision of the Group's management are initially recognised as investment properties at cost and subsequently measured at acquisition cost net of accumulated depreciation and impairment losses (Note 2.7.).

	Land		Buildings		TOTAL Investment property	
	2014	2013	2014	2013	2014	2013
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Net book amount at the beginning of the year	**435**	**498**	**1,038**	**1,090**	**1,473**	**1,588**
Reclassified from property, plant and equipment	80	-	354	-	434	-
Sold	(85)	(63)	(389)	(28)	(474)	(91)
Disposal	-	-	(7)	-	(7)	-
Depreciation	-	-	(83)	(24)	(83)	(24)
Net book amount at the end of the year	**430**	**435**	**913**	**1,038**	**1,343**	**1,473**

c) Property, plant and equipment revaluation

As at 1st of January 2011 transmission system assets and as at 1st of September 2011 distribution system assets were evaluated for property investment in subsidiaries share capital (Latvijas elektriskie tīkli AS and Sadales tīkls AS respectively). Latvenergo AS revalued assets of Daugava hydropower plants as at 1st of January 2012. Valuation have been done by independent certified valuators by applying the cost model, which provides, that the assets value comprises replacement or renewal costs of similar asset at the date of revaluation less the accumulated depreciation and impairment losses. To determine original cost replacement value of the revaluated asset current acquisition or purchase cost is used.

The carrying amounts of revalued property, plant and equipment of Daugava hydropower plants, transmission and distribution system assets at revalued amounts and their cost basis are as follows:

	Revalued property, plant and equipment categories			
	Buildings and facilities	Technology equipment and machinery	Other property, plant and equipment	Total
	EUR'000	EUR'000	EUR'000	EUR'000
		At revalued amounts		
At 31st of December 2013				
Revalued	3,902,428	1,441,413	31,800	5,375,641
Accumulated depreciation	(2,285,832)	(818,915)	(19,984)	(3,124,731)
Revalued net book amount	**1,616,596**	**622,498**	**11,816**	**2,250,910**
At 31st of December 2014				
Revalued	4,013,350	1,469,943	31,579	5,514,872
Accumulated depreciation	(2,335,332)	(853,137)	(19,221)	(3,207,690)
Revalued net book amount	**1,678,018**	**616,806**	**12,358**	**2,307,182**
		At amounts stated on historical cost basis		
At 31st of December 2013				
Cost	890,277	642,108	26,470	1,558,855
Accumulated depreciation	(280,895)	(326,351)	(19,604)	(626,850)
Net book amount	**609,382**	**315,757**	**6,866**	**932,005**
At 31st of December 2014				
Cost	1,019,203	688,276	26,825	1,734,304
Accumulated depreciation	(300,559)	(336,857)	(18,640)	(656,056)
Net book amount	**718,644**	**351,419**	**8,185**	**1,078,248**

d) Impairment

As at the end of reporting period the Group has been performed impairment evaluation for PPE. The accumulated impairment as at 31st of December 2014 amounted to EUR 108,334 thousand and consists of impairment charge on technological equipment and machinery of the Riga combined heat and power plant (carried in non–revalued technology equipment and machinery) – EUR 93,770 thousand and partial impairment charge on PPE category's 'Technology equipment and machinery' subcategory 'Transformers for AC voltage lowering' – EUR 14,564 (carried in revalued distribution system's technology equipment and machinery) (31/12/2013: impairment charge in the amount of EUR 93,770 thousand on technological equipment and machinery of the Riga combined heat and power plant). Impairment review performed in accordance with *IAS 36 Impairment of Assets* resulted in an impairment charge on technological equipment and machinery of the Riga combined heat and power plant (carried in non–revalued technology equipment and machinery) based on value in use calculations. Estimation of revalued distribution system PPE recoverable value has been performed using replacement cost method and comparing PPE acquisition price changes since September 2011, when has been performed revaluation for corresponding PPE category and investment into Sadales tīkls AS equity. The recognised impairment charge is included in the Consolidated Statement of Profit or Loss position 'Depreciation, amortisation and impairment of intangible assets and property, plant and equipment'. The cash–generating unit is defined as the assets of Riga combined heat and power plant. In 2014 has been prepared impairment review for Riga combined heat and power plants (Riga CHHPs) and as a result of this review there is no any impairment loss that must be recognised (2013: a one–off impairment loss of in the amount EUR 17.7 million has been recognised). Nominal pre-tax discount rate used to determine value in use of cash-generating unit by discounting cash flows is 7.2 % (2013: 7.3 %).

For sensitivity analysis see Note 4 a, II.

e) Operating leases

	2014	2013
	EUR'000	EUR'000
Rental income (the Group is the lessor)	**38,933**	**37,712**
of which,		
Transmission system assets lease	37,490	36,128
Rental expense (the Group is the lessee)	**1,228**	**1,219**

Future Minimum Lease Receivables under Non-Cancellable Operating Lease Contracts by Due Dates

	2014	2013
	EUR'000	EUR'000
– < 1 year	37,490	36,128
– 1–5 years	178,999	149,960
– > 5 years	287,867	339,701
TOTAL rental income	**504 356**	**525,789**

Transmission system assets had been leased out to Augstsprieguma tīkls AS under non-cancellable operating lease agreement.

Future Minimum Lease Payments under Non-cancellable Operating Lease Contracts by Due Dates

	2014	2013
	EUR'000	EUR'000
– < 1 year	1,349	1,323
– 1–5 years	5,458	5,468
– > 5 years	7,375	6,927
TOTAL rental expense	**14,182**	**13,718**

15. Non-current Financial Investments

	2014	2013
	EUR'000	EUR'000
At the beginning of the year	**41**	**7,040**
Share of profit / (loss) in Nordic Energy Link AS using the equity method	(357)	1,061
Investment in Nordic Energy Link AS reclassified to current financial investments held for sale*	-	(8,060)
Received dividends from Nordic Energy Link AS	1,924	-
Net loss from disposal of investment in Nordic Energy Link AS	(1,567)	-
At the end of the year	**41**	**41**

* On 26th of 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 of July 2009 concerning common rules for the internal market in electricity and repealing Directive 2003/54/EC, Latvenergo AS, as electricity generator and supplier, performed activities so that after 31st of December 2013 it would not be owner of the electricity transmission infrastructure. On 12th of 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 of 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.

The table below discloses the Group's share of profit from investments in significant associates and summarised financial information on the amounts of assets, liabilities and net sales of these entities.

	Assets	Liabilities	Net sales	Share of profit / (loss)
	EUR'000	EUR'000	EUR'000	EUR'000
As of 30st of September 2014*				
Nordic Energy Link AS	21,163	6	7	(357)
	21,163	**6**	**7**	**(357)**
As of 31st of December 2013				
Nordic Energy Link AS	33,598	1,357	12,814	1,061
	33,598	**1,357**	**12,814**	**1,061**

* final financial data before liquidation

Participating Interest in Subsidiaries and Associates

Name	Country of incorporation	Business activity held	Interest held, %	
			31/12/2014	31/12/2013
Subsidiaries:				
Latvijas elektriskie tīkli AS	Latvia	Management of transmission system assets	100 %	100 %
Sadales tīkls AS	Latvia	Electricity distribution	100 %	100 %
Enerģijas publiskais tirgotājs AS*	Latvia	Management of the mandatory procurement process	100 %	-
Elektrum Eesti OÜ	Estonia	Electricity supply	100 %	100 %
Elektrum Latvija SIA	Latvia	Electricity supply	100 %	100 %
Elektrum Lietuva UAB	Lithuania	Electricity supply	100 %	100 %
Liepājas enerģija SIA	Latvia	Thermal energy generation and supply in Liepaja city, electricity generation	51 %	51 %
Associates:				
Nordic Energy Link AS	Estonia	Electricity transmission	-	25 %
Other non-current financial investments:				
Pirmais Slēgtais Pensiju Fonds AS	Latvia	Management of pension plans	48.15 %	48.15 %
Rīgas siltums AS	Latvia	Thermal energy generation and supply in Riga, electricity generation	0.0051 %	0.0051 %

* In order to improve the transparency of administration of electricity mandatory procurement process, new subsidiary Enerģijas publiskais tirgotājs AS was established on 25th of February 2014. The subsidiary as of 1st of April 2014 has taken over the mandatory procurement administration functions from Latvenergo AS.

The Group owns 48.15 % of the shares of the closed pension fund Pirmais Slēgtais Pensiju Fonds AS. However, the Group is only a nominal shareholder as all risks and benefits arising from associate's activities will accrue to the Group's employees who are members of the pension fund. Therefore, investment in Pirmais Slēgtais Pensiju Fonds AS is valued at cost and equity method is not applied.

16. Inventories

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

Changes in the allowance for raw materials and spare parts are included in the Consolidated Statement of Profit or Loss position 'Raw materials and consumables used'.

Movement on the allowance for raw materials, spare parts and technological fuel

	2014	2013
	EUR'000	EUR'000
At the beginning of the year	**4,259**	**3,961**
Inventories written off	(32)	(171)
Reclassified to property, plant and equipment	(3,394)	-
Charged to the Consolidated Statement of Profit or Loss	554	469
At the end of the year	**1,387**	**4,259**

17. Trade Receivables and Other Current Receivables

a) Trade receivables, net

	31/12/2014	31/12/2013
	EUR'000	EUR'000
Receivables		
– Electricity customers	103,756	91,925
– Heating customers	17,477	17,580
– Other trade receivables	30,877	23,597
	152,110	**133,102**
Allowances for impairment of receivables		
– Electricity customers	(41,080)	(40,643)
– Heating customers	(393)	(369)
– Other trade receivables	(2,530)	(2,482)
	(44,003)	**(43,494)**
Receivables, net		
– Electricity customers	62,676	51,282
– Heating customers	17,084	17,211
– Other trade receivables	28,347	21,115
	108,107	**89,608**

There is no significant concentration of credit risk with respect to trade receivables, as the Group has a large number of customers except the major heating customer the net debt of which as at 31st of December 2014 amounted to EUR 14,658 thousand (31/12/2013: EUR 15,013 thousand).

Electricity receivables grouped by past due days and calculated impairment loss

	31/12/2014	31/12/2013
	EUR'000	EUR'000
Electricity receivables:		
Fully performing receivables	53,672	46,380
Receivables past due but not impaired:		
– Receivables past due by 1-45 days	5,351	4,452
Impaired receivables:		
– Receivables past due by 46-90 days	683	497
– Receivables past due by 91-180 days	621	804
– Receivables past due by more than 181 day	11,275	14,313
– Individually impaired receivables with scheduled payments*	32,154	25,479
	103,756	**91,925**
Allowances for impaired electricity receivables:		
– Receivables past due by 46-90 days	(341)	(248)
– Receivables past due by 91-180 days	(466)	(603)
– Receivables past due by more than 181 day	(11,275)	(14,313)
– Individually impaired receivables with scheduled payments*	(28,998)	(25,479)
	(41,080)	**(40,643)**
Electricity receivables, net		
Fully performing receivables	53,672	46,380
Receivables past due but not impaired:		
– Receivables past due by 1-45 days	5,351	4,452
Net impaired receivables:		
– Receivables past due by 46-90 days	342	249
– Receivables past due by 91-180 days	155	201
– Individually impaired receivables with scheduled payments*	3,156	-
	62,676	**51,282**

* receivables under insolvency process

Heating and other receivables grouped by past due days and calculated impairment loss

	31/12/2014	31/12/2013
	EUR'000	EUR'000
Heating and other trade receivables:		
Fully performing receivables	44,605	36,883
Receivables past due but not impaired:		
– Receivables past due by 1-30 days	713	1,242
Impaired receivables:		
– Receivables past due by 31-90 days	211	404
– Receivables past due by more than 91 day	2,645	2,648
– Individually impaired receivables with scheduled payments*	180	-
	48,354	**41,177**
Allowances for impaired heating and other trade receivables:		
– Receivables past due by 31-90 days	(105)	(203)
– Receivables past due by more than 91 day	(2,645)	(2,648)
– Individually impaired receivables with scheduled payments*	(173)	-
	(2,923)	**(2,851)**
Heating and other trade receivables, net		
Fully performing receivables	44,605	36,883
Receivables past due but not impaired:		
– Receivables past due by 1-30 days	713	1,242
Net impaired receivables:		
– Receivables past due by 31-90 days	106	201
– Individually impaired receivables with scheduled payments*	7	-
	45,431	**38,326**

* receivables under insolvency process

The Group's Management has estimated allowances for impairment of receivables on the basis of aging of trade receivables and by evaluating liquidity and history of previous payments of each significant debtor (see point 2.12). The carrying amount of trade receivables, less allowances for impairment, is assumed to approximate their fair values.

The Group's Management assumptions and methodology for estimation of recoverable amount of trade receivables and evaluation of impairment risk are described in Note 4 b.

Receivables Credit Quality

	31/12/2014	31/12/2013
	EUR'000	EUR'000
Fully performing electricity receivables:		
- customers with no overdue receivables	45,874	42,342
- customers with overdue receivables	7,798	4,038
	53,672	**46,380**
Fully performing heating and other receivables:		
- customers with no overdue receivables	43,527	35,104
- customers with overdue receivables	1,078	1,779
	44,605	**36,883**

The basis for estimating the credit quality of fully performing trade receivables not due yet and not written down are internal ratings by reference to earlier credit behaviour of clients.

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	1,443	15,867
At the end of the year	**44,003**	**43,494**

The charge and release of allowance for impaired trade receivables due to delayed payments have been recorded in the Consolidated Statement of Profit or Loss position 'Other operating expenses' as selling expenses and customer services costs (Note 10).

b) Other current receivables

	31/12/2014	31/12/2013
	EUR'000	EUR'000
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 accrued income	15,362	8,534
Pre-tax and overpaid taxes	9,268	14,417
Deferred expenses	707	1,001
Other current financial receivables	19,001	287
Other current non-financial receivables	2,274	2,760
Total other current receivables	**125,645**	**71,952**

Accrued revenue on mandatory procurement public service obligation fee 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 of January 2013 through 31st of March 2014. Since 1st of April 2014 according to the conditions included in the article No. 37 of transition terms of the Electricity Market Law of the Republic of Latvia, Public Supplier licence holder (established in 2014) was obliged to compensate the uncollected difference of mandatory procurement service obligation for period from 1st of January 2013 until transfer of Public Supplier licence.

By applying agent principle unsettled revenue on mandatory procurement public service obligation fee is recognised as assets in net amount as difference between revenue from sale of electricity in Nord Pool Spot energy exchange by market price, received mandatory procurement public service obligation 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).

The growth of other current financial receivables is affected by accounting of accepted, but unsettled financing from European Union funds for The European Energy Development Program – 330 kV *Kurzeme Ring*.

None of the receivables are secured with pledges or otherwise. The carrying amounts of other receivables are assumed to approximate their fair values.

18. 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 that is restricted until acceptance from European Union and not included in the Consolidated Statement of Cash Flows and of the financial security for participating in NASDAQ OMX Commodities Exchange in the amount of EUR 1,606 thousand

Cash at bank balances earns daily interest mostly based on floating interbank deposit rates. Short–term deposits are placed for different periods between several days and three months depending on the immediate cash needs of the Group and cash flow forecasts. During 2014 the average annual effective interest rate earned on short-term cash deposits was 0.32 % (2013: 0.36 %). See also Note 3.1.b.

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

19. Share Capital

As at 31st of December 2014, the registered share capital of the Latvenergo AS is EUR 1,288,446 thousand (31/12/2013: EUR 1,288,011 thousand) and consists of 1,288,446 thousand ordinary shares (31/12/2013: 1,288,011 thousand) with the nominal value of EUR 1 per share (31/12/2013: LVL 1 is equivalent to EUR 1.423 per share).

In October 2014, in accordance with the Directive No. 496 of the Cabinet of Ministers of the Republic of Latvia, dated 16th of September 2014 – "On the Investment of the State's property units in the Share Capital of Latvenergo AS", real estate in the amount of EUR 435 thousand was invested in the share capital of Latvenergo AS (2013: real estate in the amount of EUR 874 thousand). The value of real estate was determined by independent certified valuation experts applying amortised cost model, based on construction or acquisition costs of similar assets. Increase in the share capital was approved by the Latvenergo AS Shareholders' Meeting on 25th of September 2014 and registered with the Commercial Register of the Republic of Latvia on 30th of October 2014.

20. Reserves, Dividends and Earnings per Share

a) Reserves

As at 31st of December 2014, the Group's reserves are in the amount EUR 645,829 thousand (31/12/2013: EUR 652,418 thousand) and consist of the property, plant and equipment revaluation reserve, hedge reserve, currency translation reserve and other reserves. The Group cannot distribute as dividends the property, plant and equipment revaluation reserve, currency translation and hedge reserves. Other reserves are maintained with the aim to maintain stability in the operations of the Group entities.

	Note	Non-current assets revaluation reserve	Hedge reserve	Currency translation	Other reserves	TOTAL
		EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
As at 31st of December 2012		**662,685**	**(18,682)**	**97**	**13**	**644,113**
Disposal of non-current assets revaluation reserve		(456)	–	–	–	(456)
Deferred tax related to non-current assets revaluation reserve	12	(97)	–	–	–	(97)
Currency translation differences		–	–	14	–	14
Gains from fair value changes in derivative financial instruments	21 c, l	–	8,844	–	–	8,844
As at 31st of December 2013		**662,132**	**(9,838)**	**111**	**13**	**652,418**
Disposal of non-current assets revaluation reserve		(94)	–	–	–	(94)
Deferred tax related to non-current assets revaluation reserve	12	14	–	–	–	14
Currency translation differences		–	–	(14)	–	(14)
Losses from fair value changes in derivative financial instruments	21 c, l	–	(6,495)	–	–	(6,495)
As at 31st of December 2014		**662,052**	**(16,333)**	**97**	**13**	**645,829**

b) Dividends

The dividends declared to equity holders of the Parent Company for 2013 were EUR 23,605 thousand or EUR 0.02608 per share (2012: EUR 40,619 thousand or EUR 0.0449 per share) and to non–controlling interests – EUR 1,197 thousand or EUR 0.35 per share (2012: EUR 313 thousand or EUR 0.09 per share). Dividends declared for 2013 and paid in 2014 to equity holders of the Parent Company are settled partly by corporate income tax overpayment in the amount of EUR 10,956 thousand (dividends declared for 2012 and paid in 2013 – settled partly by corporate income tax overpayment in the amount of EUR 9,975 thousand) (see Consolidated Statement of Cash Flows).

The Management Board of Latvenergo AS proposes to allocate profit of Latvenergo AS for the year ended 31st of December 2014 in the amount of EUR 31.5 million or EUR 0.02443 per share to be paid out in dividends. These financial statements do not reflect this amount as a liability as the dividends has not been approved as at 31st of December 2014.

The distribution of net profit for the 2014 is subject to a resolution of the Parent Company's Shareholders Meeting.

c) Earnings per share

Basic earnings per share are calculated by dividing profit attributable to the equity holders of the Parent Company by the weighted average number of ordinary shares outstanding (Note 19). As there are no potential ordinary shares, diluted earnings per share are equal to basic earnings per share in all comparable periods.

	2014	2013
	EUR'000	EUR'000
Profit attributable to the equity holders of the Parent Company (in thousand EUR)	28,515	44,305
Weighted average number of shares (thousand)	1,230,405	904,746
Basic earnings per share (in euros)	0.023	0.049
Diluted earnings per share (in euros)	0.023	0.049

21. Financial Assets and Liabilities

a) Held–to–maturity financial assets

As at 31st of December 2014 the entire Group's held–to–maturity financial assets were 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. During 2014 and 2013 there were no gains or losses recognised in association with the disposal of held–to–maturity financial assets. All held–to–maturity financial assets are denominated in euros. The maximum exposure to credit risk at the reporting date is the carrying amount of held–to–maturity financial assets.

In 2014 the fair value of held–to–maturity financial assets is greater than the carrying amount by EUR 6,403 thousand (2013: EUR 4,687 thousand). The fair value of financial assets is calculated by discounting their future cash flows and using as discount factor the banks quoted prices of the financial instruments at the end of the reporting period.

Held–to–maturity Financial Assets Carrying Amount

	31/12/2014	31/12/2013
	EUR'000	EUR'000
Held–to–maturity financial assets:		
– current	–	–
– non–current	28,528	28,588
Total held–to–maturity financial assets	**28,528**	**28,588**

b) 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)	104,803	104,802
Total non–current borrowings	**688,297**	**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	**827,222**	**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	(358)	753
Issued debt securities (bonds)	–	84,835
At the end of the year	**827,222**	**944,675**

Borrowings by Categories of Lenders

	31/12/2014	31/12/2013
	EUR'000	EUR'000
Foreign investment banks	482,869	538,497
Commercial banks	238,856	300,663
Issued debt securities (bonds)	105,497	105,515
Total borrowings	**827,222**	**944,675**

Borrowings by Maturity (Excluding the Effect of derivative financial instruments)

	31/12/2014	31/12/2013
	EUR'000	EUR'000
Fixed rate non–current and current borrowings:		
– < 1 year (current portion of non–current borrowings)	1,099	1,102
– 1–5 years	70,433	70,930
– > 5 years	34,570	34,490
Total fixed rate borrowings	**106,102**	**106,522**
Floating rate non–current and current borrowings:		
– < 1 year (current portion of non–current borrowings)	137,826	138,363
– 1–5 years	383,220	454,776
– > 5 years	200,074	245,014
Total floating rate borrowings	**721,120**	**838,153**
Total borrowings	**827,222**	**944,675**

Borrowings by pricing period (considering the effect of derivative financial instruments)

	31/12/2014	31/12/2013
	EUR'000	EUR'000
– < 1 year	482,528	542,974
– 1–5 years	230,124	252,211
– > 5 years	114,570	149,490
Total borrowings:	**827,222**	**944,675**

At 31st of December 2014 and at 31st of December 2013 all of the Group's borrowings were denominated in euros.

The fair value of current and non–current borrowings with floating rates equals their carrying amount, as their actual floating interest rates approximate the market price of similar financial instruments available to the Group, and the effect of fair value revaluation is not significant. The fair value of current and non–current borrowings with fixed rates (excluding the effect of derivative financial instruments) exceeds their carrying amounts by EUR 32.55 thousand (2013: EUR 63.25 thousand). The fair value calculations are based on discounted cash flows using discount factor of respective EUR swap rates increased by the Group's credit risk margin. The average interest rate for discounting cash flows of non–current borrowings was 1.1 % (2013: 2.2 %).

I) Pledges

As at 31st of December 2014 the Group's assets are not pledged to secure the borrowings, except the pledge on assets of Liepājas Enerģija SIA of maximum secured claims in the amount of EUR 33.5 million (31/12/2013: EUR 30.2 million) to secure its current and non–current borrowings. As at the end of the reporting year there has been pledged the property, plant and equipment in the net book amount of EUR 30.2 million and the claims on the receivables accounts in the amount of EUR 3.3 million (31/12/2013: EUR 26.5 million and EUR 2.1 million, respectively).

II) Un–drawn borrowing facilities

As at 31st of December 2014 the un–drawn portion of committed non–current credit facilities amounts to EUR 320 million (31/12/2013: EUR 90 million).

As at 31st of December 2014 the Group had entered into three overdraft agreements with total notional amount of EUR 34.2 million (31/12/2013: EUR 34.2 million) and in respect of those all conditions precedent had been met. At the end of the reporting year overdrafts were not used.

III) Weighted average effective interest rate

During the reporting year the weighted average effective interest rate (including interest rate swaps) on non–current borrowings was 2.47 % (2013: 2.53 %), weighted average effective interest rate for current borrowings was 1.06 % (2013: 1.18 %). At 31st of December 2014 interest rates for non-current borrowings in euros were 3 and 6 month EURIBOR+1.09 % (31/12/2013: +0.97 %). At 31st of December 2014 the total notional amount of interest rate swap agreements concluded by the Group amounts to EUR 320.0 million (31/12/2013: EUR 347.7 million) and the interest rate was fixed for the initial periods from 6 to 10 years.

IV) Bonds issued

The Parent company (Latvenergo AS) in 2012 and 2013 issued bonds in the amount of EUR 70 million with the maturity date – 15th of December 2017 (ISIN code – LV0000801090) and in the amount of EUR 35 million with maturity date – 22nd of May 2020 (ISIN code – LV0000801165). Thus the total nominal amount of issued bonds amounts to EUR 105 million. The annual coupon rate for issued bonds is 2.8 %. All issued bonds are quoted in NASDAQ Baltic Stock Exchange. At the end of reporting year the issued debt securities (bonds) are measured at amortized cost.

In 2014 the fair value of issued debt securities (bonds) exceeds their carrying amount by EUR 4,899 thousand (2013: the fair value less than EUR 265 thousand). The fair value of debt securities (bonds) issued is calculated by discounting their future cash flows and using the banks' quoted prices of the financial instruments at the end of the reporting year as discount factor.

c) Derivative financial instruments

I) Outstanding fair values of derivatives and their classification

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

	Notes	31/12/2014		31/12/2013	
		EUR'000		EUR'000	
		Assets	Liabilities	Assets	Liabilities
Interest rate swaps	21 c, II	–	18,441	(617)	13,506
Electricity forwards and futures	21 c, III	–	2,112	–	9,912
Forward foreign currencies exchange contracts	21 c, IV	–	–	–	16
Total outstanding fair values of derivatives:		**–**	**20,553**	**(617)**	**23,434**

	31/12/2014		31/12/2013	
	EUR'000		EUR'000	
	Assets	Liabilities	Assets	Liabilities
Non–current	-	11,698	–	6,238
Current	-	8,855	(617)	17,196
Total fair values of derivative financial instruments	**-**	**20,553**	**(617)**	**23,434**

(Gains) / Losses on Fair Value Changes as a Result of Realised Hedge Agreements

	Notes	2014	2013
		EUR'000	EUR'000
Included in the Consolidated Statement of Profit or Loss			
Interest rate swaps	11	(943)	(1,917)
Electricity forwards and futures	8	(7,800)	4,447
Forward foreign currencies exchange contracts	11	(16)	16
		(8,759)	**2,546**
Included in the Statement of Other Comprehensive Income			
Interest rate swaps	20	6,495	(9,006)
Electricity forwards and futures	20	–	103
Forward foreign currencies exchange contracts	20	–	59
		6,495	**(8,844)**

According to amendments to *IAS 1* a financial liability or asset that is not held for trading purposes should be presented as current or non–current on the basis of its settlement date. Derivatives that have a maturity of more than twelve months and are expected to be held for more than twelve months after the end of the reporting period have been classified as non–current assets or liabilities.

II) Interest rate swaps

As at 31st of December 2014 the Group had interest rate swap agreements with total notional amount of EUR 320.0 million (31/12/2013: EUR 347.7 million).

Interest rate swaps are concluded with 6 to 10 year initial maturities and hedged floating rates are 6 month EURIBOR. As at 31st of December 2014 fixed interest rates vary from 0.7725 % to 4.4925 % (31/12/2013: from 1.548 % to 4.4925 %).

At the end of the year 88% of all outstanding interest rate swap agreements or agreements with notional amount of EUR 280.0 million are designated to comply with hedge accounting and were re-measured prospectively and retrospectively to test whether they are effective within the hedging period (31/12/2013: EUR 307.7 million). All contracts are designed as cash flow hedges. It was established that they are fully effective and therefore there is no ineffective portion to be recognised within profit or loss in the Consolidated Statement of Profit or Loss.

The main interest rate hedging criteria stated in the Financial Risk Management policy is to ensure average fixed rate duration from 2 to 4 years and fixed rate portion at more than 35 % of borrowings. As at 31st of December 2014 42 % (31/12/2013: 43 %) of the Group's borrowings had fixed interest rates (taking into account the effect from the interest rate swaps), and average remaining time to interest re–pricing was 2.2 years (2013: 2.1 years).

Fair Value Changes of Interest Rate Swaps

	2014		2013	
	EUR'000		EUR'000	
	Assets	Liabilities	Assets	Liabilities
Outstanding fair value at the beginning of the year	**(617)**	**13,506**	**–**	**23,812**
Included in the Consolidated Statement of Profit or Loss, net (Note 11 a)	–	(943)	–	(1,917)
Included in other comprehensive income (Note 20 a)	617	5,878	(617)	(8,389)
Outstanding fair value at the end of the year	**–**	**18,441**	**(617)**	**13,506**

III) Electricity forwards and futures

As at 31st of December 2014 the Group has entered into electricity forward and future contracts with total outstanding volume of 1,144,162 MWh (31/12/2013: 1,073,417 MWh) and notional value of EUR 38.0 million (31/12/2013: EUR 44.4 million). Electricity forward and future contracts are concluded for the maturities from one quarter to one year during the period from 1st of January 2015 to 31st of December 2018.

In 2014 the Parent company (Latvenergo AS) became a member of NASDAQ OMX Commodities Exchange and started to conclude future contracts in NASDAQ OMX Commodities Exchange, in addition continuing to conclude forward contracts with other counterparties. Electricity forward and future contracts are agreed for electricity price hedging purposes by using the Nord Pool Spot pricing. All purchased forward and future contracts were contracts with fixed amount of electricity and price in euros.

As at 31st of December 2014 none of the electricity forward and future contracts are designated to comply with hedge accounting treatment (31/12/2013: no contracts) and consequently as at 31st of December 2014 all outstanding fair value changes of valid electricity forward and future contracts are included in the Consolidated Statement of Profit or Loss (see Note 8). In 2013 for some of concluded contracts was not recognised significant ineffectiveness, that must be recorded through profit or loss in the Consolidated Statement of Profit or Loss, and fair value gains and losses are recognised in the hedging reserve in 'Other comprehensive income' (Note 20a).

Fair Value Changes of Electricity Forward and Future Contracts

	2014		2013	
	EUR'000		EUR'000	
	Assets	Liabilities	Assets	Liabilities
Outstanding fair value at the beginning of the year	**–**	**9,912**	**(5,969)**	**11,331**
Included in the Consolidated Statement of Profit or Loss (Note 8)	–	(7,800)	–	4,447
Included in other comprehensive income (Note 20 a)	–	–	5,969	(5,866)
Outstanding fair value at the end of the year	**–**	**2,112**	**–**	**9,912**

IV) Forward foreign currencies exchange contracts

As at 31st of December 2014 the Group has no outstanding forward foreign currencies exchange contracts (for valid contracts at 31/12/2013: one EUR/USD contract with the notional principal amount EUR 0.4 million (USD 0.6 million)).

The terminated during 2014 EUR/USD forward foreign currencies exchange contract was designed as cash flow hedge for USD transactions of Riga TEC-2 combined heat and power plant second power generation unit reconstruction contract.

Fair value changes of EUR/USD forward foreign currencies exchange contract during 2014 are included in the Consolidated Statement of Profit or Loss (see Note 11). In 2013 fair value gains and losses on this contract until commissioning of reconstruction project of Riga TEC-2 second power generation unit in September 2013 are recognised in the hedging reserve in 'Other comprehensive income' (Note 20 a) as it qualified under IAS 39 requirements of hedge accounting.

Fair Value Changes of Forward Foreign Currencies Exchange Contracts

	2014		2013	
	EUR'000		EUR'000	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Outstanding fair value at the beginning of the year	**–**	**16**	**(59)**	**–**
Included in the Consolidated Statement of Profit or Loss (Note 11 a, b)	–	(16)	–	16
Included in other comprehensive income (Note 20 a)	–	–	59	–
Outstanding fair value at the end of the year	**–**	**–**	**–**	**16**

d) Fair values and fair value measurement

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

Quantitative Disclosures of Fair Value Measurement Hierarchy for Assets at the End of the Year

	Date of valuation	Fair value measurement using			
		Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
		EUR'000	EUR'000	EUR'000	**EUR'000**
Assets measured at fair value					
Derivative financial instruments, including:					**5,514,872**
Interest rate swaps	31/12/2014	–	–	–	**–**
	31/12/2013	–	617	–	**617**
Assets for which fair values are disclosed					
Investment property	31/12/2014	–	–	1,904	**1,904**
	31/12/2013	–	–	2,990	**2,990**
Held-to-maturity financial assets	31/12/2014	–	34,931	–	**34,931**
	31/12/2013	–	33,275	–	**33,275**
Current financial investments (Note 15)	31/12/2014	–	–	–	**–**
	31/12/2013	–	–	8,060	**8,060**

There have been no transfers for assets between Level 1 and Level 2 during the reporting period.

Quantitative Disclosures of Fair Value Measurement Hierarchy for Liabilities at the End of the Year

	Date of valuation	Fair value measurement using: Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
		EUR'000	EUR'000	EUR'000	**EUR'000**
Liabilities measured at fair value					
Derivative financial instruments, including:					
Interest rate swaps	31/12/2014	–	18,441	–	**18,441**
	31/12/2013	–	13,506	–	**13,506**
Electricity forwards and futures	31/12/2014	–	2,112	–	**2,112**
	31/12/2013	–	9,912	–	**9,912**
Forward foreign currencies exchange contracts	31/12/2014	–	–	–	**–**
	31/12/2013	–	16	–	**16**

	Date of valuation	Fair value measurement using: Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
		EUR'000	EUR'000	EUR'000	**EUR'000**
Liabilities for which fair values are disclosed					
Issued debt securities (bonds)	31/12/2014	–	110,395	–	**110,395**
	31/12/2013	–	105,762	–	**105,762**
Floating rate borrowings	31/12/2014	–	721,120	–	**721,120**
	31/12/2013	–	838,171	–	**838,171**
Fixed rate borrowings	31/12/2014	–	633	–	**633**
	31/12/2013	–	1,063	–	**1,063**

There have been no transfers for liabilities between Level 1 and Level 2 during the reporting period.

The fair value hierarchy for the Group's financial instruments that are measured at fair value, by using specific valuation methods, is disclosed in Note 4 c.

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

	Carrying amount		Fair value	
	31/12/2014	31/12/2013	31/12/2014	31/12/2013
	EUR'000	EUR'000	EUR'000	EUR'000
Financial assets				
Current financial investments	–	8,060	–	8,060
Held–to–maturity financial assets	28,528	28,588	34,931	33,275
Derivative financial instruments used for hedging	–	617	–	617
Financial liabilities				
Interest–bearing liabilities, including:				
– issued debt securities (bonds)	105,496	105,497	110,395	105,762
– floating rate borrowings	721,120	838,171	721,120	838,171
– fixed rate borrowings	605	1,007	633	1,063
Derivative financial instruments not designated for hedging, including:				
– electricity forwards and futures	2,112	9,912	2,112	9,912
– interest rate swaps	2,108	3,051	2,108	3,051
Derivative financial instruments used for hedging, including:				
– interest rate swaps	16,333	10,455	16,333	10,455
– forward foreign currencies exchange contracts	–	16	–	16

The management assessed that cash and short–term deposits, trade receivables, trade payables, bank overdrafts and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments. The fair value of the financial assets and liabilities is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

a) The fair values of borrowings with floating interest rates are equal their carrying amount, as their actual floating interest rates approximate the market price of similar financial instruments available to the Group
b) The borrowings with fixed interest rates had the fixed repayment period and the financial instrument is not traded in the active market; the financial instrument, which is not traded in the active market, the fair value is measured, using valuation techniques. The Groups uses various methods and models and make assumptions, which are based on the market conditions regarding the interest rates and other market conditions, existing at the end of reporting period. The fair value calculations are based on discounted cash flows using discount factor of respective EUR swap rates increased by the Group`s credit risk margin;
c) The Group enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. The derivative financial instruments are determined by using various valuation methods and models with market observable inputs. The models incorporate the credit quality of counterparties, foreign exchange spot and forward rates; the fair value of interest rate swaps is calculated as the present value of the estimated future cash flows, by discounting their future contractual cash flows at current market interest rates for similar financial instruments. The fair value of electricity forward and future contracts is calculated as discounted difference between actual market and settlement prices for the volume set in the agreements. If counterparty is a bank, calculated fair values of financial instruments are compared to bank's revaluation reports and the bank's calculated fair values of the financial instruments are used in the financial reports;
d) The fair value of the bonds issued and held–to–maturity financial assets are calculated, based on the bank's quoted prices of the financial instruments at the end of the reporting period.

22. Provisions

a) Provisions for post–employment benefits

	2014	2013
	EUR'000	EUR'000
At the beginning of the year	**12,195**	**11,042**
Current service cost	507	484
Past service cost	9	–
Interest cost	459	579
Post–employment benefits paid	(361)	(217)
(Income) / losses as a result of changes in actuarial assumptions	(159)	307
At the end of the year	**12,650**	**12,195**

Total charged/credited provisions are included in the Consolidated Statement of Profit or Loss position 'Personnel expenses' within state social insurance contributions and other benefits defined in the Collective agreement (Note 9), while losses as a result of changes in actuarial assumptions according to IAS 19 "Employee Benefits" are included in the Consolidated Statement of Comprehensive Income:

	2014	2013
	EUR'000	EUR'000
At the beginning of the year	**12,195**	**11,042**
Charged to the Consolidated Statement of Comprehensive Income	(159)	307
Charged to the Consolidated Statement of Profit or Loss	614	846
At the end of the year	**12,650**	**12,195**

Discount rate used for discounting benefit obligations was 3.63 % (2013: 4.75 %), considering the market yields on government bonds at the end of the reporting year. The Group's Collective Agreement provides indexation of employees' wages at least at the level of inflation. Long–term inflation determined at the level of 2.5 % (2013: 2.5 %) when calculating long–term post–employment benefits. In calculation of these liabilities also the probability, determined on the basis of previous experience, of retirement in different employees' aging groups was also considered.

A quantitative sensitivity analysis for significant assumptions as at the end of the year is as shown below:

Assumptions		Date of valuation	Discount rate		Future salary changes		Retirement probability changes	
			1 % increase	1 % decrease	1 % increase	1 % decrease	1 % increase	1 % decrease
Impact on provisions for post–employment benefits	EUR'000	31/12/2014	1,981	(1,588)	1,984	(1,617)	1,361	(1,143)
	EUR'000	31/12/2013	1,841	(1,488)	1,840	(1,511)	2,097	(1,689)

The sensitivity analysis above have been determined based on a method that extrapolates the impact on defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

b) Environmental provisions

	2014	2013
	EUR'000	EUR'000
At the beginning of the year	**3,402**	**3,910**
Charged to the Consolidated Statement of Profit or Loss	(464)	(508)
At the end of the year	**2,938**	**3,402**

The environmental provision in the amount of EUR 2,938 thousand (31/12/2013: EUR 3,402 thousand) represents the estimated cost of cleaning up Riga TEC–1 combined heat and power plant ash–fields in accordance with the requests made by the regional Environmental Authority of Riga and feasibility study on this project in the amount of EUR 1,205 thousand (31/12/2013: EUR 1,472 thousand) and Liepājas Enerģija SIA provision for the environmental recovery measures in the amount of EUR 1,733 thousand (31/12/2013: EUR 1,930 thousand). The amount of the provisions is calculated taking into account the construction cost index (data from the Central Statistical Bureau of the Republic of Latvia).

23. Other Liabilities and Deferred Income

	2014	2013
	EUR'000	EUR'000
Deferred non–current income from connection fees	145,591	139,191
Deferred income on financing from European Union funds	48,515	30,580
Deferred income from plant and equipment received free of charge	368	381
TOTAL other liabilities and deferred income	**194,474**	**170,152**

Movement in Deferred Connection Fees (Non–current and Current part)

	2014	2013
	EUR'000	EUR'000
At the beginning of the year	**149,131**	**141,086**
Received fees	18,178	17,923
Credited to the Consolidated Statement of Profit or Loss (Note 6 "Other Revenue")	(10,927)	(9,878)
At the end of the year	**156,382**	**149,131**

24. Trade and other payables

	2014	2013
	EUR'000	EUR'000
Financial liabilities:		
Payables for materials and services	60,231	55,384
Payables for electricity	26,205	28,507
Accrued expenses	7,564	9,129
Other financial current payables	7,940	2,602
Total financial liabilities	**101,940**	**95,622**
Non–financial liabilities:		
Value added tax payable	–	50
State social security contributions and other taxes	12,351	10,314
Advances received	8,852	9,430
Deferred income from connection fees	10,792	9,940
Deferred income on financing from European Union funds:		
– The European Energy Development Program – 330 kV *Kurzeme Ring*	1,130	480
– The EU Cohesion Fund – reconstruction of Liepājas enerģija SIA heat source	320	320
– The EU Cohesion Fund – construction of Liepājas enerģija SIA biomass boiler house	196	196
– The EU Cohesion Fund – reconstruction of Liepājas enerģija SIA heating network	244	232
– The EU's Climate change financial instrument – introduction of smart technologies	23	23
– The EU Regional Development Fund – woodchip boiler house construction in Ķegums	16	12
Other non–financial current payables	4,045	4,048
TOTAL non–financial liabilities	**37,969**	**35,045**
TOTAL trade and other current payables	**139,909**	**130,667**

The carrying amounts of trade and other payables are assumed to approximate their fair values.

25. 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 controls 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
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 / (loss):		
– Received dividends from associates	1,924	-
– Net loss from disposal of non-current financial investments in associates	(1,567)	-
TOTAL finance income	**357**	**-**

Balances at the End of the Year Arising from Sales/ Purchases

	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:		
– Other related parties	354	161
TOTAL payables	**354**	**161**

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

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

Remuneration to the key management personnel that is defined as Members of the Management Boards of the Group entities and Supervisory body is disclosed in Note 9.

Dividend payments to Shareholder of the Parent Company and share capital contributions are disclosed in Note 20 b and Note 19, respectively.

26. Capital Commitments and Contingent Liabilities

As at 31st of December 2014 the Group had commitments amounting to EUR 152.2 million (31/12/2013: EUR 64.9 million) for capital expenditure contracted but not delivered at the end of the reporting period.

Latvenergo AS has issued support letters to its subsidiaries Sadales tīkls AS, Latvijas elektriskie tīkli AS and Liepājas enerģija SIA acknowledging that its position as shareholders is to ensure that subsidiaries are managed so that they have sufficient financial resources and are able to carry their operations and settle their obligations.

27. Events after the Reporting Period

In accordance with Directive 2009/72/EC of the European Parliament and of the Council, dated 13th of July 2009, concerning common rules for the internal market of electricity and the Electricity Market Law, Latvijas elektriskie tīkli AS at 1st of 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 of February 2015, the credit rating of the Parent Company – 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 Group's Consolidated Financial Statements for the year ended 31st of December 2014.

28. Financial Information on the Parent Company

Financial information disclosed on the Parent Company includes the primary separate Financial Statements of the Parent Company, the disclosure of which is required by the Annual Accounts Law of the Republic of Latvia. The primary Financial Statements of the Parent Company have been prepared using the same accounting policies that have been used in the preparation of the Consolidated Financial Statements. Investments in subsidiaries are reported at cost less any impairment charge in the separate Financial Statements of the Parent Company.

Statement of Profit or Loss

	2014	2013
	EUR'000	EUR'000
Revenue	**741,108**	**944,464**
Other income	3,277	3,263
Raw materials and consumables used	(419,144)	(513,961)
Personnel expense	(35,032)	(34,638)
Depreciation, amortisation and impairment of property, plant and equipment	(86,894)	(93,129)
Other operating expenses	(185,157)	(278,119)
Operating profit	**18,158**	**27,880**
Income from investments in subsidiaries	25,562	9,106
Finance income	12,829	11,300
Finance costs	(21,504)	(18,358)
Profit before tax	**35,045**	**29,928**
Income tax	(246)	(4,268)
Profit for the year	**34,799**	**25,660**

Statement of Financial Position

	31/12/2014	31/12/2013
	EUR'000	EUR'000
ASSETS		
Intangible assets	18,687	17,913
Property, plant and equipment	1,429,916	1,469,574
Investment property	1,136	1,197
Financial investment	1,184,411	1,189,758
Total non-current assets	**2,634,150**	**2,678,442**
Inventories	8,742	5,592
Trade and other receivables	372,734	296,270
Derivative financial instruments	-	617
Current financial investments	-	5,494
Cash and cash equivalents	88,966	244,754
Total current assets	**470,442**	**552,727**
TOTAL ASSETS	**3,104,592**	**3,231,169**
EQUITY		
Share capital	1,288,446	1,288,011
Non-current assets revaluation reserve	662,146	662,782
Hedge reserve	(16,333)	(9,838)
Other reserves	78,524	75,901
Retained earnings	34,799	25,660
Total equity	**2,047,582**	**2,042,516**
LIABILITIES		
Provisions	5,799	5,736
Borrowings	673,817	789,935
Deferred income tax liabilities	123,102	122,871
Derivative financial instruments	11,698	6,238
Other non-current liabilities	749	804
Total non-current liabilities	**815,165**	**925,584**
Borrowings	136,864	131,436
Trade and other payables	82,911	100,850
Derivative financial instruments	8,855	17,196
Other current liabilities	13,215	13,587
Total current liabilities	**241,845**	**263,069**
TOTAL EQUITY AND LIABILITIES	**3,104,592**	**3,231,169**

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INDEPENDENT AUDITORS' REPORT

To the shareholder of AS Latvenergo

Report on the financial statements

We have audited the accompanying consolidated financial statements of AS Latvenergo and its subsidiaries (the "Group"), set out on pages 86 through 141 of the accompanying 2014 Consolidated Annual Report, which comprise the consolidated statement of financial position as at 31 December 2014, and consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of AS Latvenergo and its subsidiaries as of 31 December 2014, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Report on other legal and regulatory requirements

Furthermore, we have read the management report for the year ended 31 December 2014 (set out on pages 84 through 85 of the accompanying 2014 Consolidated Annual Report) and have not noted any material inconsistencies between the financial information included in it and the consolidated financial statements for the year ended 31 December 2014.

We have assured ourselves that the Group has prepared the corporate management report for the year 2014 and verified information presented in the report according to requirements listed in the section 56.1 first paragraph clauses 3, 4, 6, 8 and 9 and the section 56.2 second paragraph clause 5 in the Law on Financial Instruments Market of Republic of Latvia.

SIA Ernst & Young Baltic
Licence No. 17

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

Riga,
14th of April 2015