

# Public Limited Company Latvenergo Annual Report 2014



PREPARED IN ACCORDANCE WITH  
THE ANNUAL ACCOUNTS LAW  
OF THE REPUBLIC OF LATVIA

(TRANSLATED FROM LATVIAN)

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Prepared in accordance with the Annual Accounts Law of the Republic of Latvia  
and Independent auditor's report

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[www.latvenergo.lv](http://www.latvenergo.lv)

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## INFORMATION ON THE COMPANY

|                                             |                                                                                                                                                                                                     |
|---------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Name of the Company                         | Latvenergo                                                                                                                                                                                          |
| Legal status of the Company                 | Public Limited Company                                                                                                                                                                              |
| Number, place and date of registration      | 40003032949<br>8 October 1991<br>Reregistered in Commercial Register<br>on 12th November 2002                                                                                                       |
| Legal address                               | Pulkveža Brieža street 12, Riga, LV-1230, Latvia                                                                                                                                                    |
| Shareholder                                 | Republic of Latvia                                                                                                                                                                                  |
| Representative of State capital shareholder |                                                                                                                                                                                                     |
| - from 3 December 2013                      | Jurijs Spiridonovs<br>Deputy state secretary of the Ministry of Economics of<br>Republic of Latvia                                                                                                  |
| - from 28 August 2014                       | Mārtiņš Lazdovskis<br>State secretary of the Ministry of Economics of Republic<br>of Latvia                                                                                                         |
| - from 27 February 2015                     | Jurijs Spiridonovs<br>Deputy state secretary of the Ministry of Economics of<br>Republic of Latvia                                                                                                  |
| Names of the members of Management Board    | Āris Žīgurs - Chairman of the Board<br>Zane Kotāne - Member of the Board<br>Uldis Bariss - Member of the Board<br>Māris Kuņickis - Member of the Board<br>Arnis Kurgs - Member of the Board         |
| Financial year                              | 1 January - 31 December 2014                                                                                                                                                                        |
| The certified auditor                       | Ernst & Young Baltic, SIA<br>Licence No. 17<br>Muitas street 1A,<br>Riga, LV-1010, Latvia<br><br>Certified auditor in charge:<br>Diāna Krišjāne<br>Latvian Certified Auditor<br>Certificate No. 124 |

## KEY PERFORMANCE INDICATORS

### Operational figures

### Financial figures

|                                           | 2014      | 2013      | 2012      | 2011      | 2010      |
|-------------------------------------------|-----------|-----------|-----------|-----------|-----------|
|                                           |           | EUR'000   | EUR'000   | EUR'000   | EUR'000   |
| Revenue                                   | 741,108   | 944,464   | 932,572   | 997,311   | 932,332   |
| Including electricity supply***           | 586,099   | 775,122   | 758,185   | 770,633   | 683,243   |
| heat supply                               | 96,812    | 104,161   | 113,387   | 84,948    | 86,525    |
| Result from transfer of business activity | -         | -         | -         | 822,404   | -         |
| EBITDA <sup>1)</sup>                      | 106,273   | 122,579   | 127,772   | 268,651   | 291,343   |
| Operating profit <sup>2)</sup>            | 19,379    | 29,452    | 53,639    | 124,742   | 89,099    |
| Profit before tax                         | 36,266    | 31,500    | 55,142    | 115,099** | 73,548    |
| Profit                                    | 34,977    | 26,228    | 45,131    | 114,555** | 63,406    |
| Dividends                                 | 31,479    | 23,605    | 40,617    | 56,773    | 49,801    |
| Non-current assets                        | 2,634,150 | 2,678,442 | 2,718,671 | 2,624,493 | 2,745,923 |
| Total assets                              | 3,104,592 | 3,231,169 | 3,217,674 | 3,049,865 | 3,230,379 |
| Equity                                    | 2,047,666 | 2,042,434 | 2,047,660 | 1,987,896 | 1,907,180 |
| Net Borrowings                            | 721,715   | 676,617   | 603,727   | 588,477   | 442,374   |
| Cash flow from operating activities       | 94,604    | 9,097     | 90,653    | 235,656   | 233,332   |
| Capital expenditure                       | 52,465    | 66,627    | 140,874   | 256,870   | 172,560   |

### Financial ratios\*

|                                            |     | 2014  | 2013  | 2012  | 2011  | 2010  |
|--------------------------------------------|-----|-------|-------|-------|-------|-------|
| EBITDA margin <sup>3)</sup>                | %   | 14    | 13    | 14    | 27    | 31    |
| Operating margin <sup>4)</sup>             | %   | 2,6   | 3,1   | 5,8   | 12,5  | 9,6   |
| Profit before tax margin <sup>5)</sup>     | %   | 4,9   | 3,3   | 5,9   | 11,5  | 7,9   |
| Profit margin <sup>6)</sup>                |     | 4,7   | 2,8   | 4,8   | 11,5  | 6,8   |
| Return on assets (ROA) <sup>7)</sup>       | %   | 1,1   | 0,8   | 1,4   | 3,6   | 2,3   |
| Return on equity (ROE) <sup>8)</sup>       | %   | 1,7   | 1,3   | 2,2   | 5,9   | 4,0   |
| Retail electricity supply                  | GWh | 5,636 | 5,873 | 6,708 | 6,685 | 6,920 |
| Electricity generation                     | GWh | 3,577 | 4,811 | 5,039 | 5,252 | 5,851 |
| Aggregate heat supply                      | GWh | 2,241 | 2,310 | 2,451 | 2,320 | 2,679 |
| Number of employees at the end of the year |     | 1,439 | 1,426 | 1,380 | 1,323 | 1,324 |

\* on 1 October 2011 Latvenergo AS invested distribution system assets in the share capital of Sadales Tīkls AS and on 1 April 2011 transmission system assets in the share capital of Latvijas elektriskie tīkli AS, excluding real estate connected and related to distribution system network and transmission infrastructure, and hereafter those assets are managed by Sadales tīkls AS and Latvijas elektriskie tīkli AS, that had the most effect on Latvenergo AS profitability ratios and amount of capital expenditure

\*\* not included revenues from transfer of business activity

\*\*\* since 1 April 2014 Latvenergo AS has transferred electricity mandatory procurement administration functions to subsidiary Enerģijas publiskais tirgotājs AS, and in revenue from electricity supply has not been included income from collected mandatory procurement PSO fee payments from all Latvian electricity end users and from electricity distribution services provided to market participants

<sup>1)</sup> EBITDA – earnings before interest, corporate income tax, share of profit or loss of associates, depreciation and amortisation, and impairment of intangible and property, plant and equipment and result from transfer of business activity

<sup>2)</sup> Operating profit – earnings before income tax, finance income and costs and result from transfer of business activity

<sup>3)</sup> EBITDA margin – EBITDA / revenue

<sup>4)</sup> Operating margin – operating profit / revenue

<sup>5)</sup> Profit before tax margin – profit before tax / revenue

<sup>6)</sup> Profit for the year margin – profit for the year / revenue

<sup>7)</sup> Return on assets (ROA) – profit for the year / average value of assets (assets at the beginning of the year + assets at the end of the year/2)

<sup>8)</sup> Return on equity (ROE) – profit for the year / average value of equity (equity at the beginning of the year + equity at the end of the year/2)

Latvenergo AS is a power supply utility operating in generation and supply of electricity and thermal energy in Latvia. In 2014, the revenue of Latvenergo AS is EUR 741.1 million (2013: 944.5 million). The decrease in revenue was due to change in financial accounting principles along with the establishment of Enerģijas publiskais tirgotājs AS as of 1 April 2014 as mandatory procurement revenues are no longer included in revenue of Latvenergo AS.

In 2014, EBITDA is 106.3 million (2013: 122.6 million). The decrease in EBITDA was 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. While profit has increased to EUR 35.0 million (2013: EUR 26.2 million), which was positively influenced by revenue increase from investment in subsidiaries.

### MORE THAN 1/3 OF RETAIL ELECTRICITY SUPPLY IN LITHUANIA AND ESTONIA

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). 5,636 GWh supplied to retail customers in Latvia (2013: 5,873 GWh), while in Lithuania and Estonia it increased almost by a half

compared to the previous year and reached 3,053 GWh, which is almost twice as much as the amount provided by competing electricity suppliers in Latvia. The change in supplied volume in Latvia is due to decrease in electricity consumption by 2 % and increased competition in the market.

In 2014, the total amount of electricity generated by the power plants of Latvenergo AS was 3,577 GWh (2013: 4,811 GWh). Compared to 2013, electricity output at Daugava HPPs decreased by 32 % or 926 GWh due to uncommonly low water inflow in the Daugava River – the lowest since 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 costs, thus Riga CHPPs operated in market conjuncture effectively planning operating modes and fuel consumption. In 2014, the total amount of thermal energy generated was 2,241 GWh (2013: 2,310). The decrease was determined by warmer weather conditions during the heating season.

In 2014, the total amount of investments of Latvenergo Group was EUR 177.6 million (2013: EUR 224.9 million), of those EUR 52.5 million (2013: EUR 66.6 million) were invested in Latvenergo AS assets. Taking care for the environmentally safe business practices and effective use of water resources, Latvenergo AS pursues gradual reconstruction of 11 unreconstructed Daugava HPPs hydropower units. In 2014, almost EUR 10 million were invested in the reconstruction of Daugava HPPs hydropower units.

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

### FUNDING OF EUR 250 MILLION HAS BEEN RAISED

The net borrowings of Latvenergo AS was EUR 721.7 million as at 31 December 2014 (31/12/2013: EUR 676.6 million). Latvenergo AS maintains stable capital structure and at the end of 2014 the equity is 66 % of total assets, which is considered to be an appropriate rate within the industry.

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 AS are exposed to a variety of financial risks: market risk, credit risk and liquidity risk. The Risk Management Policy of the Latvenergo AS focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Latvenergo AS. In order to maintain financial stability the Latvenergo AS used various financial risk control and limiting activities, as well it 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 – market share of more than 1/3 in the Baltics, completion of Riga CHPPs reconstruction programme and reconstruction of HPPs hydropower units according to the plan indicate successful progress towards achieving Latvenergo Group's strategic goals for 2016 - strengthening of the market position in the Baltics and diversification of electricity generation sources. The accomplishment of the strategic goals will be continued also in the following two years of the strategic period.

### Events after the reporting period

In accordance with the Electricity Market Law, the electricity market for households in Latvia is open since 1 January 2015. Until that, Latvenergo AS ensured electricity supply for households in Latvia at the regulated tariff, which was below 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 Company are disclosed in Note 31 of the Financial Statements.

### Statement of management responsibility

Based on the information available to the Management Board of Latvenergo AS in all material aspects Latvenergo AS 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 and profit and loss of Latvenergo AS.

### Profit distribution

Fulfilling the requirements of the Law on State and Municipality Owned Shares and Companies, Regulations of the Cabinet of Ministers of the Republic of Latvia 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 of the year 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.

### Management Board of Latvenergo AS:

\_\_\_\_\_(signed by)

**Āris Žigurs**

Chairman of the Management Board

\_\_\_\_\_(signed by)

**Zane Kotāne**

Member of the Management Board

\_\_\_\_\_(signed by)

**Uldis Bariss**

Member of the Management Board

\_\_\_\_\_(signed by)

**Māris Kuņickis**

Member of the Management Board

\_\_\_\_\_(signed by)

**Arnīs Kurgs**

Member of the Management Board

14 April 2015

## FINANCIAL STATEMENTS

### Statement of profit or loss

|                                                                                                  | Notes  | 2014           | 2013           |
|--------------------------------------------------------------------------------------------------|--------|----------------|----------------|
|                                                                                                  |        | EUR'000        | EUR'000        |
| <b>Revenue</b>                                                                                   | 5      | <b>741,108</b> | <b>944,464</b> |
| Costs (capitalised) attributable to non-current assets                                           | 13     | -              | 9,573          |
| Other income                                                                                     | 6      | 3,370          | 3,913          |
| Raw materials and consumables used                                                               | 7      | (419,144)      | (523,534)      |
| Personnel expenses                                                                               | 8      | (34,948)       | (34,721)       |
| Depreciation, amortisation and impairment of intangible assets and property, plant and equipment | 12, 13 | (86,894)       | (93,128)       |
| Other operating expenses                                                                         | 9      | (184,113)      | (277,115)      |
| <b>Operating profit</b>                                                                          |        | <b>19,379</b>  | <b>29,452</b>  |
| Income from investments in subsidiaries and associates                                           | 14 b)  | 25,562         | 9,106          |
| Finance income                                                                                   | 10 a)  | 12,829         | 11,300         |
| Finance costs                                                                                    | 10 b)  | (21,504)       | (18,358)       |
| <b>Profit before taxes</b>                                                                       |        | <b>36,266</b>  | <b>31,500</b>  |
| Real estate tax                                                                                  |        | (1,044)        | (1,004)        |
| Corporate income tax                                                                             | 11     | (245)          | (4,268)        |
| <b>Profit for the year</b>                                                                       |        | <b>34,977</b>  | <b>26,228</b>  |

Notes on pages 12 to 45 form an integral part of these financial statements.

#### The Management Board of Latvenergo AS:

\_\_\_\_ (signed by)

**Āris Žigurs**

Chairman of the Management Board

\_\_\_\_ (signed by)

**Zane Kotāne**

Member of the Management Board

\_\_\_\_ (signed by)

**Uldis Bariss**

Member of the Management Board

\_\_\_\_ (signed by)

**Māris Kuņickis**

Member of the Management Board

\_\_\_\_ (signed by)

**Arnīs Kurgs**

Member of the Management Board

14 April 2015

## Balance sheet

|                                                                          | Notes     | 31/12/2014       | 31/12/2013       |
|--------------------------------------------------------------------------|-----------|------------------|------------------|
|                                                                          |           | EUR'000          | EUR'000          |
| <b>ASSETS</b>                                                            |           |                  |                  |
| <b>Non-current assets</b>                                                |           |                  |                  |
| <i>Intangible assets</i>                                                 | 12        | 18,687           | 17,913           |
| <i>Property, plant and equipment and investment properties</i>           |           |                  |                  |
| Land and buildings                                                       | 13        | 876,738          | 878,851          |
| Equipment and machinery                                                  | 13        | 429,276          | 462,470          |
| Other property, plant and equipment                                      | 13        | 34,015           | 34,212           |
| Assets under construction and advances for property, plant and equipment | 13        | 20,634           | 26,689           |
| Investment properties                                                    | 13        | 69,253           | 67,352           |
| Investment properties held for sale                                      | 13 d)     | 1,136            | 1,197            |
| <b>Total property, plant and equipment and investment properties</b>     |           | <b>1,431,052</b> | <b>1,470,771</b> |
| <i>Non-current financial investments</i>                                 |           |                  |                  |
| Investments in subsidiaries                                              | 14        | 817,009          | 816,969          |
| Investments in associates and other non-current investments              | 14 a)     | 40               | 40               |
| Loans to subsidiaries                                                    | 27 f)     | 338,834          | 344,161          |
| Investments in held-to-maturity financial assets                         | 28        | 28,528           | 28,588           |
| <b>Total non-current financial investments</b>                           |           | <b>1,184,411</b> | <b>1,189,758</b> |
| <b>Total non-current assets:</b>                                         |           | <b>2,634,150</b> | <b>2,678,442</b> |
| <b>Current assets</b>                                                    |           |                  |                  |
| <i>Inventories</i>                                                       | 15        | 8,742            | 5,592            |
| <i>Receivables</i>                                                       |           |                  |                  |
| Trade receivables                                                        | 16 a)     | 70,351           | 62,133           |
| Loans to subsidiaries                                                    | 27 f), g) | 241,334          | 133,076          |
| Receivables from subsidiaries                                            | 27 c), d) | 40,302           | 36,322           |
| Corporate income tax overpayment                                         | 25        | 4,565            | 10,956           |
| Other receivables                                                        | 16 b)     | 16,182           | 53,783           |
| <b>Total receivables</b>                                                 |           | <b>372,734</b>   | <b>296,270</b>   |
| Derivative financial instruments                                         | 26 a)     | -                | 617              |
| Available-for-sale financial investments                                 | 14 b)     | -                | 5,494            |
| Cash and cash equivalents                                                | 17        | 88,966           | 244,754          |
| <b>Total current assets:</b>                                             |           | <b>470,442</b>   | <b>552,727</b>   |
| <b>TOTAL ASSETS</b>                                                      |           | <b>3,104,592</b> | <b>3,231,169</b> |

Notes on pages 12 to 45 form an integral part of these financial statements.



## Balance sheet (continued)

|                                                   | Notes | 31/12/2014       | 31/12/2013       |
|---------------------------------------------------|-------|------------------|------------------|
|                                                   |       | EUR'000          | EUR'000          |
| <b>EQUITY AND LIABILITIES</b>                     |       |                  |                  |
| <b>Equity</b>                                     |       |                  |                  |
| Share capital                                     | 18    | 1,288,446        | 1,288,011        |
| Non-current assets revaluation reserve            | 19    | 662,052          | 662,132          |
| Hedge reserve                                     | 19    | (16,333)         | (9,838)          |
| Other reserves                                    | 19    | 78,524           | 75,901           |
| Retained earnings                                 |       | 34,977           | 26,228           |
| <b>Total equity:</b>                              |       | <b>2,047,666</b> | <b>2,042,434</b> |
| <b>Provisions</b>                                 |       |                  |                  |
| Provisions for post-employment benefits           | 21 a) | 4,510            | 4,347            |
| Environmental provisions                          | 21 b) | 1,205            | 1,471            |
| <b>Total provisions</b>                           |       | <b>5,715</b>     | <b>5,818</b>     |
| <b>Non-current liabilities</b>                    |       |                  |                  |
| Borrowings from credit institutions               | 20    | 569,015          | 685,133          |
| Issued debt securities (bonds)                    | 20    | 104,802          | 104,802          |
| Deferred income tax liabilities                   | 11    | 123,102          | 122,871          |
| Derivative financial instruments                  | 26    | 11,698           | 6,238            |
| Other non-current payables and deferred income    |       | 749              | 804              |
| <b>Total non-current liabilities:</b>             |       | <b>809,366</b>   | <b>919,848</b>   |
| <b>Current liabilities</b>                        |       |                  |                  |
| Borrowings from credit institutions               | 20    | 136,170          | 130,742          |
| Issued debt securities (bonds)                    | 20    | 694              | 694              |
| Trade payables                                    | 22    | 31,352           | 54,725           |
| Accounts payable to subsidiaries                  | 27 c) | 51,559           | 46,125           |
| Taxes and the state social security contributions | 25    | 5,917            | 4,865            |
| Other payables                                    | 24    | 2,882            | 3,503            |
| Accrued liabilities                               | 23    | 4,416            | 5,219            |
| Derivative financial instruments                  | 26    | 8,855            | 17,196           |
| <b>Total current liabilities:</b>                 |       | <b>241,845</b>   | <b>263,069</b>   |
| <b>TOTAL EQUITY AND LIABILITIES</b>               |       | <b>3,104,592</b> | <b>3,231,169</b> |

Notes on pages 12 to 45 form an integral part of these financial statements.

### The Management Board of Latvenergo AS:

\_\_\_\_\_(signed by)  
**Āris Žigurs**  
Chairman of the Management Board

\_\_\_\_\_(signed by)  
**Zane Kotāne**  
Member of the Management Board

\_\_\_\_\_(signed by)  
**Uldis Bariss**  
Member of the Management Board

\_\_\_\_\_(signed by)  
**Māris Kuņickis**  
Member of the Management Board

\_\_\_\_\_(signed by)  
**Arnīs Kurgs**  
Member of the Management Board

14 April 2015

## Statement of Changes in Equity

|                                              | Share capital    | Reserves       | Retained earnings | Total            |
|----------------------------------------------|------------------|----------------|-------------------|------------------|
|                                              | EUR'000          | EUR'000        | EUR'000           | EUR'000          |
| <b>Balance as at 31 December 2012</b>        | <b>1,287,137</b> | <b>715,392</b> | <b>45,131</b>     | <b>2,047,660</b> |
| Increase of share capital                    | 874              | -              | -                 | 874              |
| Dividends for 2012                           | -                | -              | (40,619)          | (40,619)         |
| Transfer to reserves                         | -                | 4,512          | (4,512)           | -                |
| Cash flow hedge                              | -                | 8,844          | -                 | 8,844            |
| Revaluation of property, plant and equipment | -                | (553)          | -                 | (553)            |
| Profit for the year                          | -                | -              | 26,228            | 26,228           |
| <b>Balance as at 31 December 2013</b>        | <b>1,288,011</b> | <b>728,195</b> | <b>26,228</b>     | <b>2,042,434</b> |
| Increase of share capital                    | 435              | -              | -                 | 435              |
| Dividends for 2013                           | -                | -              | (23,605)          | (23,605)         |
| Transfer to reserves                         | -                | 2,623          | (2,623)           | -                |
| Cash flow hedge                              | -                | (6,495)        | -                 | (6,495)          |
| Revaluation of property, plant and equipment | -                | (80)           | -                 | (80)             |
| Profit for the year                          | -                | -              | 34,977            | 34,977           |
| <b>Balance as at 31 December 2014</b>        | <b>1,288,446</b> | <b>724,243</b> | <b>34,977</b>     | <b>2,047,666</b> |

Notes on pages 12 to 45 form an integral part of these financial statements.

## Statement of Cash Flows

|                                                                                | Notes     | 31/12/2014       | 31/12/2013      |
|--------------------------------------------------------------------------------|-----------|------------------|-----------------|
|                                                                                |           | EUR'000          | EUR'000         |
| <b>Cash flows from operating activities</b>                                    |           |                  |                 |
| Profit before taxation                                                         |           | 36,266           | 31,500          |
| Adjustments for:                                                               |           |                  |                 |
| - amortisation and depreciation                                                | 12, 13    | 87,438           | 75,410          |
| - (gains) / losses on impairment of non-current assets                         | 13        | (544)            | 17,718          |
| - losses / (gains) from disposal of non-current assets                         |           | 216              | (1,128)         |
| - interest expenses                                                            | 10 b)     | 21,536           | 21,926          |
| - interest income                                                              | 10 a)     | (11,870)         | (8,924)         |
| - (gains) / losses from changes in the fair value of the financial instruments | 7, 10     | (8,759)          | 2,261           |
| - (decrease) / increase in provisions                                          | 21        | (103)            | 408             |
| - income from investments in subsidiaries                                      | 14 b)     | (25,562)         | (9,106)         |
| - losses / (gains) from exchange rate fluctuations                             | 10 b)     | 58               | (138)           |
| <b>Operating profit before working capital adjustments</b>                     |           | <b>98,676</b>    | <b>129,927</b>  |
| Decrease in inventories                                                        |           | 244              | 1,083           |
| Decrease / (increase) in receivables                                           |           | 25,531           | (26,713)        |
| (Decrease) / increase in payables                                              |           | (13,515)         | (66,986)        |
| <b>Cash generated from operating activities</b>                                |           | <b>110,936</b>   | <b>37,311</b>   |
| Interest paid                                                                  |           | (22,077)         | (24,621)        |
| Interest received                                                              |           | 11,358           | 8,382           |
| Corporate income tax and real estate tax paid                                  |           | (5,613)          | (11,975)        |
| <b>Net cash generated from operations</b>                                      |           | <b>94,604</b>    | <b>9,097</b>    |
| <b>Cash flows from investing activities</b>                                    |           |                  |                 |
| Investment in subsidiary                                                       |           | (40)             | -               |
| Loans issued to subsidiaries                                                   |           | (175,583)        | (407,271)       |
| Received repayment of the issued loans                                         |           | 73,035           | 394,818         |
| Proceeds from sale of non-current assets                                       |           | 811              | 1,098           |
| Acquisition of intangible assets and property, plant and equipment             |           | (56,737)         | (56,107)        |
| Proceeds from the disposal of shares and bonds                                 |           | 60               | 60              |
| Received/ (repaid) European Union and other funding                            |           | -                | 152             |
| Proceeds from investments in subsidiaries and associates                       | 14 b)     | 31,056           | 9,106           |
| <b>Net cash used in investing activities</b>                                   |           | <b>(127,398)</b> | <b>(50,558)</b> |
| <b>Cash flows from financing activities</b>                                    |           |                  |                 |
| Proceeds on issued debt securities                                             |           | -                | 84,835          |
| Proceeds on borrowings from financial institutions                             | 20        | 20,000           | 110,001         |
| Repayment of borrowings from financial institutions                            | 20        | (130,345)        | (102,941)       |
| Dividends paid*                                                                |           | (12,649)         | (30,644)        |
| <b>Net cash generated from financing activities</b>                            |           | <b>(122,994)</b> | <b>53,665</b>   |
| <b>Net (decrease) / increase in cash and cash equivalents</b>                  |           | <b>(155,788)</b> | <b>12,204</b>   |
| Cash and cash equivalents at the beginning of the reporting year               |           | 244,754          | 232,550         |
| <b>Cash and cash equivalents at the end of reporting year</b>                  | <b>17</b> | <b>88,966</b>    | <b>244,754</b>  |

\* dividends for the year 2013 in amount of EUR 10 956 thousand are covered by corporate income tax overpayment

Notes on pages 12 to 45 form an integral part of these financial statements.

## Notes to the Financial statements

### 1. GENERAL INFORMATION ON THE COMPANY

All of the shares of public limited company Latvenergo (hereinafter – Latvenergo AS or the Company) are owned by the State of Latvia and are held by the Latvian Ministry of Economics. The registered address of the Company is 12 Pulkveža Brieža St., Riga, LV-1230, Latvia. Pursuant to the Latvian Energy Law, Latvenergo AS is designated as national economy object of state importance and, therefore, is not subject to privatisation. Latvenergo AS is engaged in the generation and supply of electricity and thermal energy in the Baltic states. Latvenergo AS is one of the largest corporate entities in the territory of Latvia.

The Annual report for the year 2014 include the financial information in respect of Latvenergo AS for the annual period ending 31 December 2014 and comparative information for year ending 31 December 2013.

Latvenergo AS Management Board has approved Annual report on 14 April 2014.

The Company's auditor is the certified audit company Ernst & Young Baltic SIA and certified auditor in charge Diāna Krišjāne.

### 2. ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these Financial Statements are set out below. These policies have been consistently applied to all the years presented.

#### 2.1. Financial statements preparation basis

Financial Statements are prepared in accordance with the Annual Accounts Law of the Republic of Latvia and are prepared under the historical cost convention, except for certain property, plant and equipment group revaluation and revaluation of derivative instruments at fair value.

The Statement of profit or loss is prepared in accordance with the period costs method.

The cash flow statement is prepared using indirect cash flow method.

Financial Statements are in compliance with comparability of indicators. In cases if presentation of financial statement information has been changed during the reporting period, comparative figures have been also reclassified and are comparable.

All amounts shown in these Financial Statements are presented in thousands of euros (EUR), if not stated otherwise. Comparative figures for year 2013 are translated from Latvian lats (LVL) into euros using official currency rate of the Bank of Latvia EUR 1 = LVL 0.702804, 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 9 July 2013.

These are standalone financial statements of the Company. The Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards as adopted by the European Union and in accordance with Article No.16 of the Law on Consolidated Annual Reports of the Republic of Latvia.

#### 2.2. Financial investments

Investments in subsidiary undertakings and associated companies are accounted for at cost net of accumulated impairment loss. The Company recognises the income only if the share of the profit accumulated after the acquisition date is received from the respective subsidiary or associated company. Received distributions in excess of such profit are regarded as recovery of the investment and are booked as a decrease of the cost of investment.

When there is objective evidence that the carrying amount of the investment in subsidiary undertaking or associated company has impaired, the impairment loss is calculated as a difference between the carrying amount of the investment and its recoverable amount. The recoverable amount is determined as the higher of its fair value less costs to sell and its value in use. An impairment loss recognised in prior periods can be reversed only if there has been a change in the estimates used to determine the investment's recoverable amount since the last impairment loss was recognised.

## 2.3. Transactions in foreign currency

### a) *Functional and presentation currency*

All amounts in these Financial Statements are presented in euros (EUR), which is the Company's functional currency or the currency of the primary economic environment in which the Company operates.

### b) *Transactions and balances*

All transactions denominated in foreign currencies are translated into euros (EUR) according to European Central bank (ECB) exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into euros using the exchange rate of Central European bank at the last day of the reporting year. The resulting gain or loss from the settlement of transaction denominated in foreign currencies and monetary assets and liabilities denominated in foreign currencies is charged to the Statement of profit or loss.

## 2.4. Intangible assets

Intangible assets are shown at historical cost net of accumulated amortisation.

### a) *Connection usage rights*

Connection usage rights are shown at historical cost, based on methodology determined by the Public Utilities Commission, net of accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of connection usage rights to the residual value over the estimated period of relationship with a customer (connection user) – 20 years.

### b) *Licenses and software*

Licenses and software, if meets an asset recognition criteria, 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.

### c) *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. Emission rights are recognised at cost when the Company is able to exercise the control. If the quantity of emitted greenhouse gases exceeds the quantity of allowances allocated by the state free of charge, the Company 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'.

## 2.5. Property, plant and equipment

All property, plant and equipment (PPE) are stated at historical cost or revalued amount (see point 2.6), 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 Company and the cost of an item can be measured reliably. Such costs are depreciated over the remaining useful life of the related asset. Repairs and maintenance are charged to the Statement of profit or loss during the period in which they are incurred. Borrowing costs are capitalised proportionally to the part of the cost of asset under construction over the period of construction.

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 |
|--------------------------------------------|------------------------------|
| <b>Buildings and facilities:</b>           |                              |
| - hydropower plants, thermal power plants  | 15 – 100                     |
| - power plant constructions                | 50                           |
| - other buildings and constructions        | 20 – 80                      |
| <b>Technology equipment and machinery:</b> |                              |
| - hydropower plants                        | 10 – 40                      |
| - thermal power plants                     | 3 – 25                       |
| - other technology equipment               | 10 – 20                      |
| <b>Other property, plant and equipment</b> | 2 – 10                       |

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 or losses on property, plant and equipment disposals are determined by comparing carrying amount with proceeds and gains from related asset's revaluation reserve write-off and are charged to the Statement of profit or loss.

## 2.6. 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:

- buildings and facilities of hydropower plants,
- technology equipment and machinery of hydropower plants,
- other property, plant and equipment of hydropower plants.

Increase in the carrying amount arising on revaluation net of deferred tax is credited to "Long-term investments revaluation reserve" in equity. Decreases that offset previous increases of the same asset are charged against the revaluation reserve directly in equity; all other decreases are charged to the current year's 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.

Long-term investments 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 capital or other reserves, or used for other purposes.

## 2.7. Leases

### a) The Company is the lessee

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

### b) The Company is the lessor

Assets leased out under operating leases are recorded within property, plant and equipment at historic cost less depreciation. 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 Statement of profit or loss on a straight-line basis over the period of the lease.



## 2.8. Impairment of non-financial 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 Statement of profit or loss within depreciation of property, plant and equipment, amortisation of intangible assets and impairment charge expenses.

The key assumptions used in determining recoverable amounts of the assets are based on the 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 Company's management for a maximum period of 10 years. Assets are reviewed for possible reversal of the impairment at each reporting date. Gain on such reversal is recognised in Statement of profit or loss (for property, plant and equipment within depreciation, for other assets – within other operating expenses).

## 2.9. Inventories

Inventories are stated at the lower of cost and 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.

During the reporting year at least each month has revaluation of the inventories been performed with 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:

- inventories that have not turned over during last 12 months are fully impaired,
- 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%,
- inventories that have not turned over during last 6 months are impaired in amount of 50%,
- 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%,
- Allowances are not calculated for the inventory of heating materials necessary to ensure uninterrupted operations of Riga CHPPs.

## 2.10. Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less allowances for impairment. An allowance for impairment of trade receivables is established when there is objective evidence that the Company 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.

An allowance for impairment of doubtful debts is calculated on the basis of trade receivables aging analysis according to estimates defined by the 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%. Individual impairment assessments are performed for the debtors if their debt balance exceeds EUR 710 thousand and debt repayment schedule has been individually agreed. The level of allowance for such type of debtors is based on the individual risk assessment of insolvency probability (see Note 16 a).

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 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 Statement of profit or loss.

Income occurred in the reporting period, but for what no invoice has been issued to the customers is disclosed in 'Accrued income'.

## **2.11. 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.

If the Company has overdraft arrangement and it has been used, creating negative balance in bank account at the end of the period, amount of overdraft in full amount should be included in Company's liabilities as borrowings from credit institution.

## **2.12. Dividend distribution**

Dividend distribution to the Shareholder of the Company is recognised as a liability in the Financial Statements in the period in which the dividends are approved by the Company's shareholder.

## **2.13. Pensions and employment benefits**

### **a) Pension obligations**

The Company 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 AS, with the participation of the Company amounting for 46.30% of its share capital. A defined contribution plan is a pension plan under which the Company pays contributions into the plan. The Company 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 Company recognises 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 Company 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 qualified actuaries. The expected costs of these benefits are accrued over the period of employment using the same accounting principles as used for defined benefit pension plans.

The liability recognised in the Balance Sheet in respect of post-employment benefit plan is the present value of the defined benefit obligation at the end of the reporting period less accrued costs or revenue referring to employment relationships until the change of benefit conditions. The defined obligation is calculated annually using the projected unit credit method.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows. According to projected unit credit method it has been stated that each period of work makes benefit obligation extra unit and the sum of those units comprises total Company's obligations of post-employment benefits. The Company uses objective and mutually compatible actuarial assumptions on variable demographic factors and financial factors (including expected remuneration increase and determined changes in benefit amounts).

The Company's net total of current service cost, interest cost, actuarial gains and losses arising from changes in assumptions, past service costs, and the effect of any settlements is recognised as expense or income in the Statement of profit or loss.

## **2.14. Corporate income tax**

Income tax expense for the period comprises current income tax and deferred income tax. Income tax is calculated in accordance with Latvian tax regulations and is based on the taxable income reported for the taxation period.

Deferred income tax is calculated 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 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 rate (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 will be available against which the temporary differences can be utilised.

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the Company 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.

## **2.15. 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 1 January 2014, which applies to state support for generators of subsidised electricity. The SET applies both to income from electricity supplied under the mandatory procurement process as well as to mandatory procurement capacity payments for installed capacity at cogeneration plants. The tax is differentiated according to the type of energy sources used. For 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 below 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.

## **2.16. Borrowings and loans**

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the Statement of profit or loss over the period of the borrowings using the effective interest method, except for the capitalised part.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability at least for 12 months after the end of reporting period.

The Company capitalises the borrowing costs related with new capital expenditure funding (see point 2.5).

Issued loans are recognised initially at fair value and subsequently measured at amortised cost. The amount between loans issued and loans repayment value is gradually recognised in the Statement of profit or loss during the period of the loan. Loans are classified as current receivables and non-current receivables if the Company has an unconditional right to defer settlement of the liability at least for 12 months after the end of reporting period.

## **2.17. Provisions**

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

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

Provisions are measured at the present value of the expenditures expected to be required 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.

#### **2.18. Provision for unused vacations**

Provision for unused vacations is formed to reflect precisely company's liability to employees depending on unused vacation, if any. Amount for provision has been reviewed once per year at the balance sheet date.

#### **2.19. 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.

Property, plant and equipment received at nil consideration are accounted for as grants.

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

Accounting of the transactions related to the projects financed is ensured using separately identifiable accounts. The Company ensures separate accounting of financed projects with detailed income and expense, non-current investments and value added tax in the relevant positions of the Company's Statement of profit or loss and Balance Sheet.

#### **2.20. Derivative financial instruments and hedging activities**

The Company uses derivatives such as interest rate swaps, forward foreign exchange contracts and electricity swaps to hedge risks associated with the interest rate, currency exposures 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 3.3).

The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, what is position of highly probable forecasted (for example, concluded agreement) or certain (for example, received or issued invoice) revenue or capital expenditure, inventories or operating expenses. The Company designates certain derivatives as either:

- hedges of a particular risk associated with a recognised liability or highly probable forecast transactions denominated in foreign currency (cash flow hedge),
- derivatives are accounted for at fair value through Statement of profit or loss.

The Company 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 Company 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 values of derivative instruments used for hedging purposes are disclosed in Note 26. Movements on the hedging reserve in shareholders' equity are shown in Note 19. The fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Those 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 equity within 'Hedging reserve'. The gain or loss relating to the ineffective portion, if such arise, would be recognised immediately in the Statement of profit or loss.

Amounts accumulated in equity are recycled in the 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 swaps hedging variable electricity prices is recognised in the Statement of profit or loss position 'Raw materials and consumables used' (see Note 7). The gain or loss relating to the ineffective portion of interest rate swaps hedging variable rate borrowings is recognised in the 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 Statement of profit or loss.

#### **b) Financial assets at fair value through profit and loss**

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short 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.

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 Statement of profit or loss, are classified according to the purpose of the derivatives – gains/losses from electricity SWAP agreements and CO2 forward 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'.

### **2.21. Revenue recognition**

Revenue comprises the value of goods sold and services rendered in the ordinary course of the Company's activities. Revenue is shown at net value excluding value-added tax, estimated returns, rebates and discounts. The Latvian regulatory authority (Public Utilities Commission) determines tariffs for electricity and heat.

Revenue is recognised as follows:

#### **a) Electricity sales**

The Company 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 information provided by distribution system operators on 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 Company recognises revenue from sales of thermal energy at the end of each month on the basis of the meter readings.

#### **c) 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.

#### **d) Other revenue**

Revenue derived from assets lease and maintenance, management, vehicle fleet management, customer service, credit control and other services are recognised according to invoices issued to customers in accordance to mutual agreements.

**e) Interest income**

Interest income is recognised using the effective interest method. Interest income is recorded in the Statement of profit or loss as 'Finance income'.

**f) Dividend income**

Revenue is recognised when the Company's right to receive the payment is established, which is generally when shareholders approve the dividend (Note 14 b).

**g) Accrued income on mandatory procurement public service obligation fee**

Revenue is recognised as 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 Company with collected mandatory procurement public service obligation fees from electricity end users.

Income is calculated as difference between mandatory procurement expenses above the electricity market price and collected mandatory procurement PSO fee payments from all end users of electricity.

Reimbursable accrued mandatory procurement PSO fee income for the period from 1st January 2013 till 31st March 2014 is covered by Enerģijas publiskais tirgotājs AS in accordance with requirements of point 37 of Electricity market law transition rules.

## **2.22. Expenses recognition**

Expenses are recognised based on accruals basis. Calculating expenses for the reporting period, should be taken into account all of the estimated and potential expenses that are incurred in the reporting period or in previous years, even if those expenses become aware in the period from balance sheet date and date of financial statement preparation, regardless the date of invoice received as the Company's operating transactions are recognised in the reporting period based on economical substance and nature, not only legal form.

Operating and other expenses disclosed in the Statement of profit or loss notes are shown detailed according to its nature.

## **2.23. Non-current and current liabilities**

Liability is an obligation of an entity arising from past transactions or events, the settlement of which may result in the transfer or use of assets, provision of services or other yielding of economic benefits in the future. For example, as a result of goods purchased or services acquired states debts to creditors, or after bank loan acquirement there is an obligation to repay particular loan.

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

Accrued liabilities are expenses occurred in reporting period, certain of amount in the reporting period, but for what no invoice has been received. Such expenses are disclosed in 'Accrued liabilities'.

Income received prior balance sheet date, but that refers to next 12 months (current) or refers to period after 12 months (non-current) – is disclosed as next period income in current or non-current creditors.

## **2.24. Related parties**

Related parties are subsidiaries and associates, Shareholder of the Company who could control or who has significant influence over the Company in accepting operating business decisions. Key management personnel of the Company and close family members of any above-mentioned persons, as well as companies over which those persons have control or significant influence.

## **2.25. Non-current assets held for sale**

The Company classifies non-current assets as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use, and sale will be 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.



## **2.26. Investment property**

Investment properties are land or a building or part of a building held by the Company as the owner to earn rentals or for capital appreciation, rather than for use in the production of goods or supply of services or for administrative purposes, or sale in the ordinary course of business. The investment properties are initially recognised 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.

## **2.27. Share capital**

The Company's share capital consists of ordinary shares.

## **2.27. Held-to-maturity investments**

Held-to-maturity financial assets are non-derivative financial assets, quoted on an active market, with fixed or determinable payments and fixed maturities that the Company's Management has the positive intention and ability to hold to maturity. If the Company 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 Company 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 Company evaluates its intention and ability to hold such investments to maturity.

If the Company 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 Company 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 Statement of profit or loss in the period in which they arise.

## **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.

# **3. FINANCIAL RISK MANAGEMENT**

## **3.1. Financial risk factors**

The Company'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 Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance. The Company uses derivative financial instruments to hedge certain risk exposures.

Risk management (except for pricing risk) is carried out by the Treasury department according to the Financial Risk Management Policy approved by the Company's Management Board. Treasury identifies, evaluates and hedges financial risks in close co-operation with the Company's operating units and subsidiaries. The 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 Electricity Trading department according to Electricity Wholesale Regulation approved by the Management Board.



## **a) Market risk**

### **I) Foreign exchange risk**

The introduction of euro in Latvia as at 1 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 31 December 2014 the Company had borrowings denominated only in euros (see Note 20).

The Company's management has set up a Financial Risk Management Policy inter alia to manage the Company's foreign currencies exchange risk against functional currency. To manage the Company's foreign currencies exchange risk arising from future transactions and recognised assets and liabilities, the Company uses forward contracts, transacted by the Treasury. Foreign currencies exchange risk arises when future transactions or recognised assets or liabilities are denominated in a currency that is not the Company's functional currency.

The 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 Company had not committed any capital expenditure project whose expected transactions would create significant currency risk (Note 26 d).

The Company has certain investment in subsidiary, which are exposed to foreign currency risks. Nevertheless currency exposure arising from the net assets of the Company's foreign operations in Lithuania is limited as subsidiary have insignificant amount of assets and Lithuania has fixed currency peg to Euro. The introduction of euro in Lithuania as at 1 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 Company has significant floating interest-bearing assets and liabilities exposed to interest rate fluctuations (loans issued to subsidiaries and borrowings received from credit institutions and subsidiaries), the Company's financial income and operating cash flows are dependent on changes in market interest rates. The Group's internal financing is organised on mutual loan bases, which occasionally creates receivable balances to the benefit of the Company. Such loans issued have floating interest rates based on market rates; therefore the intra-group loans have some impact on profit or loss of the Company.

During 2014, if Euro interest rates had been 50 basis points higher or lower with all other variables held constant, the Company's interest income from the cash reserves held at bank would have been EUR 265 thousand higher or lower (2013: EUR 276 thousand).

The Company's cash flow interest rate risk mainly arises from long-term borrowings at variable rates. They expose the Company to a risk that finance costs might increase significantly when interest rates rise up. The Company's Financial Risk Management 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.

To hedge a cash flow risk, the Company has entered into interest rate swap agreements with the total notional amount EUR 320.0 million (2013: EUR 347.7 million) (see Note 26 b). 43% of the Company's borrowings as at 31 December 2014 (31/12/2013: 46%) 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).

The Company 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 Company calculates the impact on profit and loss as well as on cash flows of a defined interest rate shift.

Based on the various scenarios, the Company 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. Generally, the Company raises long-term borrowings at floating rates and swaps them into fixed rates that are lower than those available if the Company borrowed at fixed rates directly. Under the interest rate swaps, the Company 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.

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 Company's post-tax profit for the year would have been EUR 2,080 thousand (2013: EUR 1,897 thousand) lower or higher.

The Company'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 31 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 the Company's Statement of profit or loss and EUR 5,112 thousand (2013: EUR 5,156 thousand) to the Company's equity 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 Company under the free market conditions, as well as the purchases of resources used in production is impacted by the price risk.

The most significant price risk is related to purchase of electricity. To hedge the risk related to changes in the price of electricity the Company has purchased electricity swap contracts (Note 26 c).

### 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 Company's customers. The Company has no significant concentration of credit risk with any single counterparty or group of counterparties having similar characteristics (Note 16), however regarding to subsidiaries concentration of the Company's credit risk reached 57% from the maximum exposure of credit risk on financial assets. Impairment loss has been deducted from gross accounts receivable (Note 16).

The maximum credit risk exposure related to financial assets comprises of carrying amounts of cash and cash equivalents (see table below and Note 17) and trade and other receivables (Note 16).

#### **Assessment of maximum possible exposure to credit risk:**

|                                     | Notes             | 31/12/2014     | 31/12/2013     |
|-------------------------------------|-------------------|----------------|----------------|
|                                     |                   | EUR'000        | EUR'000        |
| External trade receivables          | 16 a)             | 70,351         | 62,133         |
| Receivables from subsidiaries       | 27 c), d), f), g) | 620,332        | 513,559        |
| Accrued income                      | 16 b)             | 15,362         | 52,579         |
| Other current financial receivables | 16 b)             | 848            | 380            |
| Cash and cash equivalents           | 17                | 88,966         | 244,754        |
| Derivative financial instruments    | 26                | -              | 618            |
| Held-to-maturity financial assets   | 28                | 28,528         | 28,588         |
|                                     |                   | <b>824,387</b> | <b>902,611</b> |

Maximum credit risk related to the issued guaranties amounts to the outstanding loan balances as at the end of the year (Note 28). 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        |
| With investment level credit rating       | 63,280        | 207,867        |
| Without investment level or credit rating | 25,686        | 36,887         |
|                                           | <b>88,966</b> | <b>244,754</b> |

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

### c) Liquidity risk

The Company'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 (Note 20) to meet commitments according to the Company's strategic plans as well as to compensate the fluctuations in the cash flows due to occurrence of variety of financial risks.

The Company's management is monitoring rolling forecasts of the Company's liquidity reserve, which comprises of undrawn borrowing facilities (Note 20), and cash and cash equivalents (Note 17).

The table below analyses the Company's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the Company's Balance Sheet to the contractual maturity date. 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 reporting period.

#### Liquidity analysis (contractual undiscounted cash flows):

|                                  | Less than<br>1 year | From<br>1 to 2<br>years | From<br>3 to 5<br>years | Over<br>5 years | TOTAL            |
|----------------------------------|---------------------|-------------------------|-------------------------|-----------------|------------------|
|                                  | EUR'000             | EUR'000                 | EUR'000                 | EUR'000         | EUR'000          |
| <b>As at 31 December 2014</b>    |                     |                         |                         |                 |                  |
| Borrowings from banks            | 145,876             | 94,580                  | 303,461                 | 207,390         | <b>751,307</b>   |
| Issued debt securities (bonds)   | 2,940               | 2,940                   | 74,900                  | 35,980          | <b>116,760</b>   |
| Derivative financial instruments | 10,704              | 5,351                   | 7,029                   | 3,146           | <b>26,230</b>    |
| Trade and other payables*        | 85,618              | -                       | -                       | -               | <b>85,618</b>    |
|                                  | <b>245,138</b>      | <b>102,871</b>          | <b>385,390</b>          | <b>246,516</b>  | <b>979,915</b>   |
| <b>As at 31 December 2013</b>    |                     |                         |                         |                 |                  |
| Borrowings from banks            | 138,439             | 223,445                 | 241,747                 | 262,960         | <b>866,591</b>   |
| Issued debt securities (bonds)   | 2,940               | 2,940                   | 76,861                  | 39,960          | <b>119,701</b>   |
| Derivative financial instruments | 22,386              | 6,870                   | 6,653                   | 1,841           | <b>37,750</b>    |
| Trade and other payables*        | 104,123             | -                       | -                       | -               | <b>104,123</b>   |
|                                  | <b>267,888</b>      | <b>233,255</b>          | <b>325,261</b>          | <b>307,761</b>  | <b>1,128,165</b> |

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

## 3.2. Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern as well as to ensure necessary financing for investment program and to avoid breaches of covenants, 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 Company may evaluate the amount and timing of raising new debt due to investment programs or initiate new investments in the share capital by shareholder. Also asset revaluation directly influences the capital structure. To comply with loan covenants, the Company 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 Company's strategy and defined loan covenants as per loan agreements the capital ratio shall be maintained at least at 30% level.

|                                                          | 31/12/2014  | 31/12/2013  |
|----------------------------------------------------------|-------------|-------------|
|                                                          | EUR'000     | EUR'000     |
| Total equity                                             | 2,047,666   | 2,042,434   |
| Total assets and outstanding financial guarantees issued | 3,104,592   | 3,231,169   |
| <b>Capital Ratio (%)</b>                                 | <b>66 %</b> | <b>63 %</b> |

### 3.3. Fair value estimation of financial instruments

The fair value of financial instruments is defined as 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 (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 Company 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 Company uses 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 swap agreements is calculated as discounted difference between actual market and settlement prices multiplied by the volume of the agreement.

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.

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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 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 Company 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.

#### ***II) Recoverable amount of property, plant and equipment***

When the events and circumstances indicate a potential impairment, the Company 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 13 b.

#### ***III) Revaluation of property, plant and equipment***

External, certified valuers have performed revaluation of the Company'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 revaluation, depreciated replacement cost was determined for each asset. Depreciated replacement cost is calculated as land's instant market value at its current use, increased by the replacement cost of existing buildings and refinements on the said land plot and decreased by the depreciation expenses and other impairment losses. Last revaluation was performed for assets of Daugava hydropower plants as at 1 January 2012 and results of revaluation are disclosed in Note 13 a.

#### ***IV) Useful lives of spare parts for emergency repair***

The Company makes estimates concerning the expected useful lives of spare parts for emergency repair and considering past experience including evaluation of future events, it has been determined on the basis of useful life of the equipment.

#### ***b) Recoverable amount of trade receivables***

The estimated collectability of accounts receivable is assessed on an individual basis for each customer. 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 (Note 2.10.). 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 16).

#### ***c) Fair values of financial instruments***

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. In valuation models is used only observable data, however in such factors as credit risk (both own and counterparty's), volatility and correlation requires the management's estimates.

The Company uses a variety of methods and make assumptions that are based on market conditions existing at each end of reporting period. However, changes in assumptions about these factors could not affect fair value of financial instruments as disclosed in financial statements, as for the accounting has been used fair values of the financial instruments respectively disclosed in the corresponding banks' reports (Note 26).

#### ***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. The estimated customer relationship period is based on the Company's Management estimate.

#### ***e) Evaluation of effectiveness of hedging instruments***

The Company has concluded swap agreements to hedge the risk of the interest rate fluctuations to which cash flow hedge risk accounting is applied. 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 the Company's Management estimates with regard to signed variable interest loan agreements. When hedging instruments turn out to be ineffective, gains/losses from the changes in the fair value is recognised in the Company's Statement of profit or loss (Note 26).

## 5. REVENUE

|                    | 2014           | 2013           |
|--------------------|----------------|----------------|
|                    | EUR'000        | EUR'000        |
| Electricity sales* | 586,099        | 775,122        |
| Heat sales         | 96,812         | 104,161        |
| Lease of assets    | 16,561         | 15,950         |
| Other revenue      | 41,636         | 49,231         |
|                    | <b>741,108</b> | <b>944,464</b> |

\*since 1 April 2014 Latvenergo AS has transferred electricity mandatory procurement administration functions to subsidiary Energijas publiskais tirgotājs AS, and revenues from collected mandatory procurement PSO fee payments from electricity end users in Latvia are not included in electricity sales revenue. For the period from 1 January 2014 till 31 March 2014 in revenue from electricity sales included revenue of mandatory procurement public service obligation fee in amount of EUR 48,097 thousand (2013: EUR 164,944 thousand). Since 1 April 2014 revenues from electricity distribution services provided to market participants in amount EUR 90,982 thousand are excluded from revenue and recognised as expenses in net amount (Note 9).

### Geographical distribution of revenues

|                                | 2014           | 2013           |
|--------------------------------|----------------|----------------|
|                                | EUR'000        | EUR'000        |
| Latvia*                        | 717,375        | 874,344        |
| Lithuania                      | 3,100          | 9,849          |
| Estonia                        | 7,405          | 30,755         |
| Other European Union countries | -              | 966            |
| Other countries                | 13,228         | 28,550         |
|                                | <b>741,108</b> | <b>944,464</b> |

## 6. OTHER INCOME

|                                                                             | 2014         | 2013         |
|-----------------------------------------------------------------------------|--------------|--------------|
|                                                                             | EUR'000      | EUR'000      |
| Net gain from sale of investment property and property, plant and equipment | 351          | 918          |
| Gain from disposal of non-current assets revaluation reserve (Note 19)      | 94           | 650          |
| Gain from sale of current assets and recovered inventories                  | 1,731        | 1,147        |
| Compensation of losses, fines and penalties and other income                | 1,194        | 1,198        |
|                                                                             | <b>3,370</b> | <b>3,913</b> |

## 7. RAW MATERIALS AND CONSUMABLES USED

|                                                                            | 2014           | 2013           |
|----------------------------------------------------------------------------|----------------|----------------|
|                                                                            | EUR'000        | EUR'000        |
| <b>Electricity:</b>                                                        |                |                |
| Purchased electricity*                                                     | 244,774        | 300,326        |
| Fair value loss / (income) on electricity forwards and futures (Note 26 c) | (7,800)        | 4,447          |
|                                                                            | <b>236,974</b> | <b>304,773</b> |
| Fuel expense                                                               | 170,297        | 203,398        |
| Raw materials, spare parts and maintenance costs                           | 11,212         | 15,035         |
| Allowance for slow moving inventories                                      | 661            | 328            |
|                                                                            | <b>419,144</b> | <b>523,534</b> |

\* since 1 April 2014 Latvenergo AS has transferred electricity mandatory procurement administration functions to subsidiary Energijas publiskais tirgotājs AS, and costs of purchased electricity under the mandatory procurement from electricity generators is not included in purchased electricity costs. For the period from 1 January 2014 till 31 March 2014 in purchased electricity costs included costs from mandatory procurement in amount EUR 57,890 thousand (2013: EUR 194,183 thousand).

## 8. PERSONNEL EXPENSES

|                                                                                               | 2014          | 2013          |
|-----------------------------------------------------------------------------------------------|---------------|---------------|
|                                                                                               | EUR'000       | EUR'000       |
| Wages and salaries                                                                            | 26,729        | 26,089        |
| Expenditure of employment termination                                                         | 649           | 1047          |
| Pension costs – defined contribution plan                                                     | 1,167         | 1137          |
| State social insurance contributions and other benefits defined in the Collective Agreement   | 6,403         | 6,448         |
| <b>Total (including remuneration to the management):</b>                                      | <b>34,948</b> | <b>34,721</b> |
| <b>Remuneration to the management:</b>                                                        |               |               |
| - wages and salaries                                                                          | 530           | 552           |
| - pension costs – defined contribution plan                                                   | 26            | 27            |
| - state social insurance contributions and other benefits defined in the Collective Agreement | 68            | 132           |
|                                                                                               | <b>624</b>    | <b>711</b>    |
|                                                                                               |               |               |
|                                                                                               | <b>2014</b>   | <b>2013</b>   |
| Number of employees at the end of the year                                                    | 1,439         | 1,428         |
| Average number of employees during the year                                                   | 1,440         | 1,426         |

Remuneration to the management includes remuneration to the members of the Management Board of the Company and Supervisory body – Audit Committee.

## 9. OTHER OPERATING EXPENSES

|                                                                   | 2014           | 2013           |
|-------------------------------------------------------------------|----------------|----------------|
|                                                                   | EUR'000        | EUR'000        |
| Selling expenses and customer service costs <sup>1)</sup>         | 5,871          | 17,883         |
| Transmission system service costs                                 | 2,295          | 2,503          |
| Distribution system service costs <sup>2)</sup>                   | 135,451        | 228,325        |
| Telecommunication and information technology maintenance expenses | 5,563          | 5,546          |
| Transportation expenses                                           | 2,405          | 2,568          |
| Environment protection and work safety expenses                   | 3,416          | 3,310          |
| Rent, maintenance and other utilities and service costs           | 6,145          | 5,942          |
| Electricity transit and capacity utilisation costs                | 4              | 3,711          |
| Public utilities regulation fee                                   | 611            | 956            |
| Subsidised energy tax <sup>3)</sup>                               | 15,039         | -              |
| Other expenses                                                    | 7,313          | 6,371          |
|                                                                   | <b>184,113</b> | <b>277,115</b> |

1) Selling expenses and customer service costs has decreased due to decrease in allowances for impaired electricity trade receivables (Note 16a)

2) Since 1 April 2014 costs for electricity distribution services provision to market participants in amount EUR 90,982 has been recognised in net amount as decrease in revenue from electricity sales (Note 5).

3) Subsidised energy tax (SET) has been introduced since 1 January 2014, which applies to state support for generators of subsidised electricity, 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.

## 10. FINANCE INCOME AND COSTS

### a) Finance income

|                                                                       | 2014          | 2013          |
|-----------------------------------------------------------------------|---------------|---------------|
|                                                                       | EUR'000       | EUR'000       |
| Interest income                                                       | 10,325        | 7,383         |
| Coupon interest income from held-to-maturity financial assets         | 1,545         | 1,541         |
| Fair value gain on interest rate swaps (Note 26 b)                    | 943           | 1,917         |
| Fair value gain on issued guarantees (Note 26 d)                      | 16            | -             |
| Net gain on redemption of held-to-maturity financial assets (Note 28) | -             | 285           |
| Net gain on issued debt securities (bonds)                            | -             | 36            |
| Net gain from currency exchange rate fluctuations                     | -             | 138           |
|                                                                       | <b>12,829</b> | <b>11,300</b> |



## b) Finance costs

|                                                                              | 2014          | 2013          |
|------------------------------------------------------------------------------|---------------|---------------|
|                                                                              | EUR'000       | EUR'000       |
| Interest expense on borrowings                                               | 13,980        | 12,720        |
| Interest expense on interest rate swaps                                      | 7,556         | 9,206         |
| Management commission on borrowings                                          | 17            | 33            |
| Fair value loss on forward foreign currencies exchange contracts (Note 26 e) | -             | 16            |
| Capitalised borrowing and finance costs (Note 13)                            | (167)         | (3,677)       |
| Net losses on redemption of held-to-maturity financial assets                | 60            | 60            |
| Net losses on currency exchange rate fluctuations                            | 58            | -             |
|                                                                              | <b>21,504</b> | <b>18,358</b> |

## 11. INCOME TAX

|                     | 2014       | 2013         |
|---------------------|------------|--------------|
|                     | EUR'000    | EUR'000      |
| Current income tax  | -          | -            |
| Deferred income tax | 245        | 4,268        |
|                     | <b>245</b> | <b>4,268</b> |

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

|                                                  | 2014          | 2013          |
|--------------------------------------------------|---------------|---------------|
|                                                  | EUR'000       | EUR'000       |
| <b>Profit before tax</b>                         | <b>36,266</b> | <b>31,500</b> |
| Corporate income tax at the statutory rate 15%   | 5,440         | 4,725         |
| Real estate tax                                  | (157)         | (151)         |
| Expenses non-deductible for tax purpose          | 484           | 203           |
| Income from dividends                            | (3,792)       | (1,366)       |
| Allowances for trade receivables                 | 130           | 2,087         |
| Tax losses transferred to subsidiaries           | -             | 3,874         |
| Other expenses                                   | (64)          | (71)          |
| Tax incentives for new technological equipment * | (1,796)       | (5,033)       |
|                                                  | <b>245</b>    | <b>4,268</b>  |

\* increase in the amount of depreciation of property, plant and equipment applying coefficients for additions of property, plant and equipment 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

In accordance with section 14.<sup>1</sup> of the Law Of Corporate Income Tax of the Republic of Latvia, in 2013 Latvenergo AS transferred its tax losses to subsidiaries free of charge in the amount of EUR 25,829 thousand.

Deferred income tax assets and liabilities are offset in the Company 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 is as follows:

|                                                                  | 2014           | 2013           |
|------------------------------------------------------------------|----------------|----------------|
|                                                                  | EUR'000        | EUR'000        |
| <b>At the beginning of the year</b>                              | <b>122,871</b> | <b>118,700</b> |
| Expenses charged to the Statement of profit or loss              | 245            | 4,268          |
| Attributable to non-current assets revaluation reserve in equity | (14)           | (97)           |
| <b>Deferred tax liabilities at the end of the year</b>           | <b>123,102</b> | <b>122,871</b> |

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

|                                                                  | 2014                                | 2014           |
|------------------------------------------------------------------|-------------------------------------|----------------|
|                                                                  | EUR'000                             | EUR'000        |
| <b>Deferred tax liabilities:</b>                                 | <b>Accelerated tax depreciation</b> |                |
| <b>At the beginning of the year</b>                              | <b>126,508</b>                      | <b>121,856</b> |
| Expenses charged to the Statement of profit or loss              | 4,482                               | 4,750          |
| Attributable to non-current assets revaluation reserve in equity | (14)                                | (98)           |
| <b>At the end of the year</b>                                    | <b>130,976</b>                      | <b>126,508</b> |
| <b>Deferred tax assets:</b>                                      | <b>Accruals/accrued expenses</b>    |                |
| <b>At the beginning of the year</b>                              | <b>(3,637)</b>                      | <b>(3,156)</b> |
| Income credited to the Statement of profit or loss               | (4,237)                             | (481)          |
| <b>At the end of the year</b>                                    | <b>(7,874)</b>                      | <b>(3,637)</b> |
| <b>Deferred tax liabilities at the end of the year</b>           | <b>123,102</b>                      | <b>122,871</b> |

## 12. INTANGIBLE ASSETS

|                                    | Connection<br>usage rights<br>and licenses | Software      | Assets under<br>construction<br>and advance<br>payments | TOTAL           |
|------------------------------------|--------------------------------------------|---------------|---------------------------------------------------------|-----------------|
|                                    | EUR'000                                    | EUR'000       | EUR'000                                                 | EUR'000         |
| <b>At 31 December 2012</b>         |                                            |               |                                                         |                 |
| Cost                               | 5,683                                      | 28,251        | 3,678                                                   | <b>37,612</b>   |
| Accumulated amortisation           | (1,559)                                    | (23,725)      | -                                                       | <b>(25,284)</b> |
| <b>Net book amount</b>             | <b>4,124</b>                               | <b>4,526</b>  | <b>3,678</b>                                            | <b>12,328</b>   |
| <b>Year ended 31 December 2013</b> |                                            |               |                                                         |                 |
| Opening net book amount            | 4,124                                      | 4,526         | 3,678                                                   | <b>12,328</b>   |
| Additions                          | 3,051                                      | 3,170         | 1,826                                                   | <b>8,047</b>    |
| Disposals*                         | (426)                                      | -             | -                                                       | <b>(426)</b>    |
| Amortisation charge                | -                                          | (2,036)       | -                                                       | <b>(2,036)</b>  |
| <b>Closing net book amount</b>     | <b>6,749</b>                               | <b>5,660</b>  | <b>5,504</b>                                            | <b>17,913</b>   |
| <b>At 31 December 2013</b>         |                                            |               |                                                         |                 |
| Cost                               | 8,735                                      | 29,617        | 5,504                                                   | <b>43,856</b>   |
| Accumulated amortisation           | (1,986)                                    | (23,957)      | -                                                       | <b>(25,943)</b> |
| <b>Net book amount</b>             | <b>6,749</b>                               | <b>5,660</b>  | <b>5,504</b>                                            | <b>17,913</b>   |
| <b>Year ended 31 December 2014</b> |                                            |               |                                                         |                 |
| Opening net book amount            | 6,749                                      | 5,660         | 5,504                                                   | <b>17,913</b>   |
| Additions                          | 1                                          | 262           | 3,708                                                   | <b>3,971</b>    |
| Transfers                          | -                                          | 6,750         | (6,750)                                                 | <b>-</b>        |
| Disposals*                         | (553)                                      | -             | -                                                       | <b>(553)</b>    |
| Amortisation charge                | -                                          | (2,644)       | -                                                       | <b>(2,644)</b>  |
| <b>Closing net book amount</b>     | <b>6,197</b>                               | <b>10,028</b> | <b>2,462</b>                                            | <b>18,687</b>   |
| <b>At 31 December 2014</b>         |                                            |               |                                                         |                 |
| Cost                               | 8,737                                      | 36,545        | 2,462                                                   | <b>47,744</b>   |
| Accumulated amortisation           | (2,540)                                    | (26,517)      | -                                                       | <b>(29,057)</b> |
| <b>Net book amount</b>             | <b>6,197</b>                               | <b>10,028</b> | <b>2,462</b>                                            | <b>18,687</b>   |

\* Amortisation charge of connection usage rights is included in the Company's Statement of profit or loss position 'Other operating expenses'.

### a) Greenhouse gas emission allowances:

|                                     | 2014                    | 2013                    |
|-------------------------------------|-------------------------|-------------------------|
|                                     | Number of<br>allowances | Number of<br>allowances |
| <b>At the beginning of the year</b> | <b>2,377,774</b>        | <b>2,950,301</b>        |
| Received emission allowances        | 442,778                 | 502,865                 |
| Used emission allowances            | (938,345)               | (1,075,392)             |
| <b>At the end of the year</b>       | <b>1,882,207</b>        | <b>2,377,774</b>        |

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 the end of reporting year the number of allowances in the Company received in 2014 from the Government free of charge was 442,778 (2013: 502,865). Therefore their carrying amount as at the end of reporting year was nil (31/12/2013: nil). The fair value of greenhouse gas emission allowances as at 31 December 2014 was EUR 13,740 thousand (31/12/2013: EUR 11,936 thousand). For estimation of the fair value of allowances were used closing market prices of NASDAQ OMX Commodities exchange on the last trade date on 30 December 2014 – 7.30 EUR/t (30/12/2013: 5.02 EUR/t).

### 13. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

|                                                     | Revalued Daugava hydropower plants' buildings and facilities | Non-revalued buildings and facilities | Land, buildings and facilities, total | Revalued Daugava hydropower plants' technology equipment, machinery | Non-revalued technology equipment, machinery | Technology equipment and machinery, total | Revalued Daugava hydropower plants' other PPE | Non-revalued other property, plant and equipment | Other property, plant and equipment, total | Assets under construction and advance payments |                 | Property, plant and equipment, TOTAL |
|-----------------------------------------------------|--------------------------------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------------------------------------|----------------------------------------------|-------------------------------------------|-----------------------------------------------|--------------------------------------------------|--------------------------------------------|------------------------------------------------|-----------------|--------------------------------------|
|                                                     | EUR'000                                                      | EUR'000                               | EUR'000                               | EUR'000                                                             | EUR'000                                      | EUR'000                                   | EUR'000                                       | EUR'000                                          | EUR'000                                    | EUR'000                                        | EUR'000         | EUR'000                              |
| <b>As at 31 December 2012</b>                       |                                                              |                                       |                                       |                                                                     |                                              |                                           |                                               |                                                  |                                            |                                                |                 |                                      |
| Cost or valuation                                   | 1,496,525                                                    | 220,742                               | <b>1,717,267</b>                      | 324,134                                                             | 307,238                                      | <b>631,372</b>                            | 13,657                                        | 110,455                                          | <b>124,112</b>                             | <b>376,994</b>                                 | <b>94,124</b>   | <b>2,943,869</b>                     |
| Accumulated depreciation and impairment             | (847,470)                                                    | (55,485)                              | <b>(902,955)</b>                      | (204,213)                                                           | (204,787)                                    | <b>(409,000)</b>                          | (7,702)                                       | (87,480)                                         | <b>(95,182)</b>                            | <b>(6,396)</b>                                 | <b>(28,129)</b> | <b>(1,441,662)</b>                   |
| <b>Net book amount</b>                              | <b>649,055</b>                                               | <b>165,257</b>                        | <b>814,312</b>                        | <b>119,921</b>                                                      | <b>102,451</b>                               | <b>222,372</b>                            | <b>5,955</b>                                  | <b>22,975</b>                                    | <b>28,930</b>                              | <b>370,598</b>                                 | <b>65,995</b>   | <b>1,502,207</b>                     |
| <b>Year ended 31 December 2013</b>                  |                                                              |                                       |                                       |                                                                     |                                              |                                           |                                               |                                                  |                                            |                                                |                 |                                      |
| Opening net book amount                             | <b>649,055</b>                                               | <b>165,257</b>                        | <b>814,312</b>                        | <b>119,921</b>                                                      | <b>102,451</b>                               | <b>222,372</b>                            | <b>5,955</b>                                  | <b>22,975</b>                                    | <b>28,930</b>                              | <b>370,598</b>                                 | <b>65,995</b>   | <b>1,502,207</b>                     |
| Additions                                           | -                                                            | 1                                     | <b>1</b>                              | -                                                                   | 10                                           | <b>10</b>                                 | -                                             | 8,806                                            | <b>8,806</b>                               | <b>48,881</b>                                  | <b>9</b>        | <b>57,707</b>                        |
| Invested in share capital                           | -                                                            | 344                                   | <b>344</b>                            | -                                                                   | -                                            | <b>-</b>                                  | -                                             | -                                                | <b>-</b>                                   | <b>-</b>                                       | <b>530</b>      | <b>874</b>                           |
| Transfers                                           | 3,362                                                        | 83,833                                | <b>87,195</b>                         | 6,484                                                               | 288,832                                      | <b>295,316</b>                            | -                                             | 7,124                                            | <b>7,124</b>                               | <b>(392,640)</b>                               | <b>3,005</b>    | <b>-</b>                             |
| Disposals                                           | -                                                            | (7)                                   | <b>(7)</b>                            | -                                                                   | -                                            | <b>-</b>                                  | -                                             | (24)                                             | <b>(24)</b>                                | <b>(86)</b>                                    | <b>(5)</b>      | <b>(122)</b>                         |
| Impairment charge                                   | -                                                            | -                                     | <b>-</b>                              | -                                                                   | (17,654)                                     | <b>(17,654)</b>                           | -                                             | -                                                | <b>-</b>                                   | <b>(64)</b>                                    | <b>-</b>        | <b>(17,718)</b>                      |
| Depreciation                                        | (15,694)                                                     | (7,300)                               | <b>(22,994)</b>                       | (10,377)                                                            | (27,197)                                     | <b>(37,574)</b>                           | (507)                                         | (10,117)                                         | <b>(10,624)</b>                            | <b>-</b>                                       | <b>(2,182)</b>  | <b>(73,374)</b>                      |
| <b>Closing net book amount</b>                      | <b>636,723</b>                                               | <b>242,128</b>                        | <b>878,851</b>                        | <b>116,028</b>                                                      | <b>346,442</b>                               | <b>462,470</b>                            | <b>5,448</b>                                  | <b>28,764</b>                                    | <b>34,212</b>                              | <b>26,689</b>                                  | <b>67,352</b>   | <b>1,469,574</b>                     |
| <b>As at 31 December 2013</b>                       |                                                              |                                       |                                       |                                                                     |                                              |                                           |                                               |                                                  |                                            |                                                |                 |                                      |
| Cost or valuation                                   | 1,499,501                                                    | 304,927                               | <b>1,804,428</b>                      | 329,450                                                             | 581,532                                      | <b>910,982</b>                            | 13,657                                        | 120,485                                          | <b>134,142</b>                             | <b>33,147</b>                                  | <b>97,394</b>   | <b>2,980,093</b>                     |
| Accumulated depreciation and impairment             | (862,778)                                                    | (62,799)                              | <b>(925,577)</b>                      | (213,422)                                                           | (235,090)                                    | <b>(448,512)</b>                          | (8,209)                                       | (91,721)                                         | <b>(99,930)</b>                            | <b>(6,458)</b>                                 | <b>(30,042)</b> | <b>(1,510,519)</b>                   |
| <b>Net book amount</b>                              | <b>636,723</b>                                               | <b>242,128</b>                        | <b>878,851</b>                        | <b>116,028</b>                                                      | <b>346,442</b>                               | <b>462,470</b>                            | <b>5,448</b>                                  | <b>28,764</b>                                    | <b>34,212</b>                              | <b>26,689</b>                                  | <b>67,352</b>   | <b>1,469,574</b>                     |
| <b>Year ended 31 December 2014</b>                  |                                                              |                                       |                                       |                                                                     |                                              |                                           |                                               |                                                  |                                            |                                                |                 |                                      |
| Opening net book amount                             | <b>636,723</b>                                               | <b>242,128</b>                        | <b>878,851</b>                        | <b>116,028</b>                                                      | <b>346,442</b>                               | <b>462,470</b>                            | <b>5,448</b>                                  | <b>28,764</b>                                    | <b>34,212</b>                              | <b>26,689</b>                                  | <b>67,352</b>   | <b>1,469,574</b>                     |
| Additions                                           | -                                                            | 13                                    | <b>13</b>                             | -                                                                   | 7                                            | <b>7</b>                                  | -                                             | 6 707                                            | <b>6,707</b>                               | <b>41,332</b>                                  | <b>-</b>        | <b>48,059</b>                        |
| Invested in share capital                           | -                                                            | -                                     | <b>-</b>                              | -                                                                   | -                                            | <b>-</b>                                  | -                                             | -                                                | <b>-</b>                                   | <b>-</b>                                       | <b>435</b>      | <b>435</b>                           |
| Transfers                                           | 13,266                                                       | 10,424                                | <b>23,690</b>                         | 714                                                                 | 16,763                                       | <b>17,477</b>                             | 1                                             | 2,940                                            | <b>2,941</b>                               | <b>(47,930)</b>                                | <b>3,822</b>    | <b>-</b>                             |
| Reclassified to investment properties held for sale | -                                                            | (386)                                 | <b>(386)</b>                          | -                                                                   | -                                            | <b>-</b>                                  | -                                             | -                                                | <b>-</b>                                   | <b>-</b>                                       | <b>(48)</b>     | <b>(434)</b>                         |
| Disposals                                           | -                                                            | (40)                                  | <b>(40)</b>                           | -                                                                   | (22)                                         | <b>(22)</b>                               | -                                             | (3)                                              | <b>(3)</b>                                 | <b>-</b>                                       | <b>(9)</b>      | <b>(74)</b>                          |
| Impairment charge                                   | -                                                            | -                                     | <b>-</b>                              | -                                                                   | -                                            | <b>-</b>                                  | -                                             | -                                                | <b>-</b>                                   | <b>544</b>                                     | <b>-</b>        | <b>544</b>                           |
| Reclassified depreciation for emergency equipment   | -                                                            | -                                     | <b>-</b>                              | -                                                                   | (3,394)                                      | <b>(3,394)</b>                            | -                                             | -                                                | <b>-</b>                                   | <b>-</b>                                       | <b>-</b>        | <b>(3,394)</b>                       |
| Depreciation                                        | (15,904)                                                     | (9,486)                               | <b>(25,390)</b>                       | (8,958)                                                             | (38,304)                                     | <b>(47,262)</b>                           | (503)                                         | (9,339)                                          | <b>(9,842)</b>                             | <b>-</b>                                       | <b>(2,300)</b>  | <b>(84,794)</b>                      |
| <b>Closing net book amount</b>                      | <b>634,085</b>                                               | <b>242,653</b>                        | <b>876,738</b>                        | <b>107,784</b>                                                      | <b>321,492</b>                               | <b>429,276</b>                            | <b>4,946</b>                                  | <b>29,069</b>                                    | <b>34,015</b>                              | <b>20,635</b>                                  | <b>69,252</b>   | <b>1,429,916</b>                     |
| <b>As at 31 December 2014</b>                       |                                                              |                                       |                                       |                                                                     |                                              |                                           |                                               |                                                  |                                            |                                                |                 |                                      |
| Cost or valuation                                   | 1,512,382                                                    | 314,766                               | <b>1,827,148</b>                      | 330,151                                                             | 598,242                                      | <b>928,393</b>                            | 13,657                                        | 125,254                                          | <b>138,911</b>                             | <b>26,549</b>                                  | <b>101,472</b>  | <b>3,022,473</b>                     |
| Accumulated depreciation and impairment             | (878,297)                                                    | (72,113)                              | <b>(950,410)</b>                      | (222,367)                                                           | (276,750)                                    | <b>(499,117)</b>                          | (8,711)                                       | (96,185)                                         | <b>(104,896)</b>                           | <b>(5,914)</b>                                 | <b>(32,220)</b> | <b>(1,592,557)</b>                   |
| <b>Net book amount</b>                              | <b>634,085</b>                                               | <b>242,653</b>                        | <b>876,738</b>                        | <b>107,784</b>                                                      | <b>321,492</b>                               | <b>429,276</b>                            | <b>4,946</b>                                  | <b>29,069</b>                                    | <b>34,015</b>                              | <b>20,635</b>                                  | <b>69,252</b>   | <b>1,429,916</b>                     |

\* In accordance with the Regulations No. 496 of the Cabinet of Ministers of the Republic of Latvia, dated 16 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 436 thousand was invested in the share capital of Latvenergo AS (2013: real estate in the amount of EUR 874 thousand).

According to The State Land Service data the cadastral value of Latvenergo AS real estate in 2014 amounted to EUR 95,941 thousand (2013: EUR 93,648 thousand).

In 2014 the Company has capitalised borrowing and finance costs in the amount of EUR 167 thousand (2013: EUR 3,677 thousand) (Note 10b). Capitalised fuel costs in 2014: 0 (2013: EUR 9,573 thousand) during the adjustment of new power unit for Riga second combined heat and power plant (Riga TEC-2)

#### **a) Property, plant and equipment revaluation**

Latvenergo AS revalued assets of Daugava hydropower plants as at 1 January 2012. Valuation have been done by independent certified valuers 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 is used current acquisition or purchase cost.

The carrying amounts of revalued property, plant and equipment of Daugava hydropower plants assets at revalued amounts and their cost basis are as follows:

|                                 | <b>Buildings and facilities</b> | <b>Technology equipment and machinery</b> | <b>Other property, plant and equipment</b> | <b>TOTAL</b>       |
|---------------------------------|---------------------------------|-------------------------------------------|--------------------------------------------|--------------------|
|                                 | EUR'000                         | EUR'000                                   | EUR'000                                    | EUR'000            |
| <b>As at 31 December 2013</b>   |                                 |                                           |                                            |                    |
| Revalued                        | 1,499,501                       | 329,450                                   | 13,657                                     | <b>1,842,608</b>   |
| Accumulated depreciation        | (862,778)                       | (213,422)                                 | (8,209)                                    | <b>(1,084,409)</b> |
| <b>Revalued net book amount</b> | <b>636,723</b>                  | <b>116,028</b>                            | <b>5,448</b>                               | <b>758,199</b>     |
| <b>As at 31 December 2014</b>   |                                 |                                           |                                            |                    |
| Revalued                        | 1,512,382                       | 330,151                                   | 13,657                                     | <b>1,856,190</b>   |
| Accumulated depreciation        | (878,297)                       | (222,367)                                 | (8,711)                                    | <b>(1,109,375)</b> |
| <b>Revalued net book amount</b> | <b>634,085</b>                  | <b>107,784</b>                            | <b>4,946</b>                               | <b>746,815</b>     |
| <b>As at 31 December 2013</b>   |                                 |                                           |                                            |                    |
| Cost                            | 105,890                         | 150,038                                   | 10,754                                     | <b>266,682</b>     |
| Accumulated depreciation        | (34,664)                        | (103,439)                                 | (9,192)                                    | <b>(147,295)</b>   |
| <b>Net book amount</b>          | <b>71,226</b>                   | <b>46,599</b>                             | <b>1,562</b>                               | <b>119,387</b>     |
| <b>As at 31 December 2014</b>   |                                 |                                           |                                            |                    |
| Cost                            | 119,146                         | 150,990                                   | 10,754                                     | <b>280,890</b>     |
| Accumulated depreciation        | (36,549)                        | (108,020)                                 | (9,370)                                    | <b>(153,939)</b>   |
| <b>Net book amount</b>          | <b>82,597</b>                   | <b>42,970</b>                             | <b>1,384</b>                               | <b>126,951</b>     |

#### **b) Impairment**

As at the end of reporting period has been performed impairment evaluation in accordance with IAS 36 'Impairment of Assets' requirements. The cash-generating unit consists of the assets of Riga combined heat and power plant. During evaluation of impairment was calculated recoverable value of technological equipment and machinery of the Riga combined heat and power plant (disclosed in the category of property, plant and equipment "Non-revalued technology equipment and machinery"). Evaluation resulted with no additional impairment. The accumulated impairment as at 31 December 2014 amounted to EUR 93,770 thousand (31/12/2013: EUR 93,770 thousand). In 2014 there is no any impairment loss that must be recognised for Riga combined heat and power plants (2013: a one-off impairment loss of Riga combined heat and power plants in the amount EUR 17.7 million has been recognised).

Additional impairment in 2013 was recognised due to Subsidised Energy Tax (SET) Law adopted by the Saeima (the Parliament of the Republic of Latvia) in late 2013, accordingly implemented subsidised energy tax (hereinafter - SEN). Law came into force from 1 January 2014 and tax will be applied for taxable income from 1 January 2014 until 31 December 2017. For Riga combined heat and power plants, which use fossil energy resources for electricity generation, estimated tax rate is 15%. 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%).

#### **c) Operating lease of assets (the Company as lessor):**

Assets leased to subsidiaries *Latvijas elektriskie tīkli AS* and *Sadales tīkls AS*:

|                                     | <b>Latvijas elektriskie tīkli AS</b> | <b>Sadales tīkls AS</b> | <b>TOTAL</b>  |
|-------------------------------------|--------------------------------------|-------------------------|---------------|
|                                     | EUR'000                              | EUR'000                 | EUR'000       |
| <b>As at 31 December 2014</b>       |                                      |                         |               |
| Investment properties for lease     | 27,005                               | 42,248                  | <b>69,253</b> |
| Other property, plant and equipment | 18                                   | 8,613                   | <b>8,631</b>  |
| <b>Total</b>                        | <b>27,023</b>                        | <b>50,861</b>           | <b>77,884</b> |

In order to provide its operating activities Latvenergo AS on 1 April 2011 entered into agreement with subsidiary Latvijas elektriskie tīkli AS for lease of the real estate related to transmission system network infrastructure with duration of five years. Real estate and non-current assets rent for the 2014 is calculated on the basis of the Company's management estimates for the foreseeable value changes of leased assets.

On 1 October 2011 Latvenergo AS invested most of the distribution system assets in its subsidiary Sadales tīkls AS, which continues the management and maintenance of assets. Lease of the real estate related to distribution system network infrastructure for 2014 is calculated on the basis of the Company's management estimates as at the date of preparation of financial statements for the foreseeable value changes of assets as a result of capital investment projects realised by the Company.

#### d) Investment property

Property, plant and equipment had not used in operating activities in 2012 were reclassified to investment property.

| Type of property, plant and equipment                                  | Land       |            | Buildings  |              | TOTAL land and buildings |              |
|------------------------------------------------------------------------|------------|------------|------------|--------------|--------------------------|--------------|
|                                                                        | 31/12/2014 | 31/12/2013 | 31/12/2014 | 31/12/2013   | 31/12/2014               | 31/12/2013   |
|                                                                        | EUR'000    | EUR'000    | EUR'000    | EUR'000      | EUR'000                  | EUR'000      |
| <b>At the beginning of the year</b>                                    | <b>238</b> | <b>266</b> | <b>959</b> | <b>1,009</b> | <b>1,197</b>             | <b>1,275</b> |
| Reclassified from property, plant and equipment to investment property | 80         | -          | 354        | -            | 434                      | -            |
| Released                                                               | (44)       | (28)       | (387)      | (50)         | (431)                    | (78)         |
| Depreciation                                                           | -          | -          | (64)       | -            | (64)                     | -            |
| <b>At the end of the year</b>                                          | <b>274</b> | <b>238</b> | <b>862</b> | <b>959</b>   | <b>1,136</b>             | <b>1,197</b> |

Based on fair value estimations for real estate assets prepared by external, certified valuers the fair value of the investment property at the end of 2013 assessed in the amount of EUR 1,903 thousand (2013: EUR 2,624 thousand). As the estimated fair value is higher than assets closing net book amount, investment property is recognised and accounted at acquisition cost, less accumulated depreciation and impairment loss.

## 14. INVESTMENTS

### The Company's participating interest in (%) in subsidiaries, associates and other non-current financial investments:

|                                                   |           |                                                      | 31/12/2014 | 31/12/2013 |
|---------------------------------------------------|-----------|------------------------------------------------------|------------|------------|
| <b>Subsidiaries</b>                               |           |                                                      |            |            |
| Latvijas elektriskie tīkli AS                     | Latvia    | Management of transmission system assets             | 100%       | 100%       |
| Sadales tīkls AS                                  | Latvia    | Electricity distribution                             | 100%       | 100%       |
| Enerģijas publiskais tirgotājs AS                 |           | 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 and electricity generation and supply | 51%        | 51%        |
| <b>Associates</b>                                 |           |                                                      |            |            |
| Nordic Energy Link, AS – investment held for sale | Estonia   | Electricity transmission                             | -          | 25 %       |
| <b>Other non-current financial investments</b>    |           |                                                      |            |            |
| Pirmais Slēgtais Pensiju Fonds AS                 | Latvia    | Management of pension plans                          | 46,30 %    | 46,30 %    |
| Rīgas siltums AS                                  | Latvia    | Thermal energy and electricity generation and supply | 0,0051 %   | 0,0051 %   |

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

### Investments in subsidiaries

On 25 February 2014, a new subsidiary of Latvenergo AS was established - Enerģijas publiskais tirgotājs AS (100%), with investment in share capital in amount of EUR 40 thousand, based on amendments in Electricity market law of the Republic of Latvia, providing separation of public supplier functions in order to ensure fulfilment of public supplier duties stated per electricity industry regulatory legislation.

### Movement on investments in subsidiaries:

|                                         | 2014           | 2013           |
|-----------------------------------------|----------------|----------------|
|                                         | EUR'000        | EUR'000        |
| <b>At the beginning of the year</b>     | <b>816,969</b> | <b>816,969</b> |
| Increase of subsidiaries' share capital | 40             | -              |
| <b>At the end of the year</b>           | <b>817,009</b> | <b>816,969</b> |

### a) Other non-current financial investments

|                                                  | 31/12/2014   | 31/12/2013   |
|--------------------------------------------------|--------------|--------------|
|                                                  | EUR'000      | EUR'000      |
| <b>Other non-current financial investments:</b>  |              |              |
| Investment in Pirmais Slēgtais Pensiju Fonds AS  | 36           | 36           |
| Investment in Rīgas siltums AS                   | 4            | 4            |
|                                                  | <b>40</b>    | <b>40</b>    |
| <b>Financial investments held for sale*:</b>     |              |              |
| Reclassified investment in Nordic Energy Link AS | -            | 5,494        |
|                                                  | <b>5,534</b> | <b>5,534</b> |

\* On 26 September 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 13 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 31 December 2013 it would not be owner of the electricity transmission infrastructure. As at 31 December 2013 investment in Nordic Energy Link AS is presented as the current asset held for sale and measured at lower carrying amount or net recoverable amount. On 12 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”.

### b) Income on the Company's participating interest in subsidiaries

|                                                       | 2014          | 2013         |
|-------------------------------------------------------|---------------|--------------|
|                                                       | EUR'000       | EUR'000      |
| <b>Dividends received:</b>                            |               |              |
| Latvijas elektriskie tīkli AS                         | 10,771        | 7,028        |
| Sadales tīkls AS                                      | 10,812        | 709          |
| Elektrum Lietuva, UAB                                 | 307           | 609          |
| Elektrum Eesti OÜ                                     | 216           | 434          |
| Liepājas enerģija SIA                                 | 1,247         | 326          |
| Nordic Energy Link AS                                 | 1,924         | -            |
|                                                       | <b>25,277</b> | <b>9,106</b> |
| Income on sale of investment in Nordic Energy Link AS | 5,779         | -            |
| Sold investment in Nordic Energy Link AS              | (5,494)       | -            |
|                                                       | <b>285</b>    | <b>-</b>     |

| Name of the Company               | Equity         |                | Net profit / (loss) for the year |               | Net share of interest from investment |                |
|-----------------------------------|----------------|----------------|----------------------------------|---------------|---------------------------------------|----------------|
|                                   | 31/12/2014     | 31/12/2013     | 2014                             | 2013          | 31/12/2014                            | 31/12/2013     |
|                                   | EUR'000        | EUR'000        | EUR'000                          | EUR'000       | EUR'000                               | EUR'000        |
| <b>Subsidiaries:</b>              |                |                |                                  |               |                                       |                |
| Latvijas elektriskie tīkli AS     | 199,849        | 198,774        | 11,846                           | 11,968        | 185,624                               | 185,624        |
| Sadales tīkls AS                  | 575,299        | 580,305        | 5,806                            | 12,013        | 627,656                               | 627,656        |
| Enerģijas publiskais tirgotājs AS | 40             | -              | -                                | -             | 40                                    | -              |
| Elektrum Eesti OÜ                 | 945            | 858            | 304                              | 240           | 36                                    | 36             |
| Elektrum Lietuva, UAB             | 761            | 643            | 426                              | 341           | 98                                    | 98             |
| Liepājas enerģija SIA             | 13,327         | 13,170         | 2,603                            | 3,763         | 3,556                                 | 3,556          |
|                                   | <b>790,221</b> | <b>793,750</b> | <b>20,985</b>                    | <b>28,325</b> | <b>817,010</b>                        | <b>816,970</b> |
| Nordic Energy Link AS             | -              | 32,241         | -                                | 4,014         | -                                     | 5,494          |
|                                   | -              | <b>32,241</b>  | -                                | <b>4,014</b>  | -                                     | <b>5,494</b>   |

## 15. INVENTORIES

|                                                              | 31/12/2014   | 31/12/2013   |
|--------------------------------------------------------------|--------------|--------------|
|                                                              | EUR'000      | EUR'000      |
| Raw materials and spare parts                                | 1,375        | 4,628        |
| Technological fuel, petrol, oils and lubricants              | 8,250        | 4,570        |
| Advance payments for inventories                             | -            | 10           |
| Allowance for raw materials, spare parts, technological fuel | (883)        | (3,616)      |
|                                                              | <b>8,742</b> | <b>5,592</b> |

In 2014, considering past experience including evaluation of future events, has been reviewed estimate concerning expected useful lives of spare parts for emergency repair, that has been determined on the basis of useful life of the equipment.

### Movements on allowances for inventories:

|                                               | 2014         | 2013         |
|-----------------------------------------------|--------------|--------------|
|                                               | EUR'000      | EUR'000      |
| <b>At the beginning of the year</b>           | <b>3,616</b> | <b>3,288</b> |
| Inventories written off                       | -            | (6)          |
| Reclassified to property, plant and equipment | (3,394)      | -            |
| Charged to the Statement of profit or loss    | 661          | 334          |
| <b>At the end of the year</b>                 | <b>883</b>   | <b>3,616</b> |

## 16. TRADE RECEIVABLES AND OTHER CURRENT RECEIVABLES

### a) Trade receivables

|                                            | 31/12/2014      | 31/12/2013      |
|--------------------------------------------|-----------------|-----------------|
|                                            | EUR'000         | EUR'000         |
| <b>Receivables</b>                         |                 |                 |
| - Electricity customers                    | 87,797          | 82,303          |
| - Heating customers                        | 14,835          | 15,432          |
| - Other trade receivables                  | 8,996           | 5,684           |
|                                            | <b>111,628</b>  | <b>103,419</b>  |
| <b>Allowances for impaired receivables</b> |                 |                 |
| - Electricity customers                    | (40,573)        | (40,417)        |
| - Heating customers                        | (363)           | (326)           |
| - Other trade receivables                  | (341)           | (543)           |
|                                            | <b>(41,277)</b> | <b>(41,286)</b> |
| <b>Receivables, net</b>                    |                 |                 |
| - Electricity customers                    | 47,224          | 41,887          |
| - Heating customers                        | 14,472          | 15,106          |
| - Other trade receivables                  | 8,655           | 5,140           |
|                                            | <b>70,351</b>   | <b>62,133</b>   |

The Company's Management has estimated allowances for impaired receivables on the basis of aging of trade receivables and by evaluating liquidity and history of previous payments of each significant debtor (see point 2.10). The carrying amount of trade receivables, less provision for impairment, is assumed to approximate their fair values.

The Company's Management assumptions and methodology for estimation of recoverable amount of trade receivables and evaluation of impairment risk are described in Note 4 b.

### Movements on allowances for impairment of trade receivables are as follows:

|                                          | 2014          | 2013          |
|------------------------------------------|---------------|---------------|
|                                          | EUR'000       | EUR'000       |
| <b>At the beginning of the year</b>      | <b>41,286</b> | <b>27,427</b> |
| Receivables written off as uncollectible | (895)         | (1,361)       |
| Allowances for impaired receivables      | 886           | 15,220        |
| <b>At the end of the year</b>            | <b>41,277</b> | <b>41,286</b> |

The charge and release of allowance for impaired trade receivables due to delayed payments have been recorded in the Company's Statement of profit or loss position 'Other operating expenses' as selling expenses and customer services costs (Note 9).



#### **b) Other current receivables**

|                                                                       | <b>31/12/2014</b> | <b>31/12/2013</b> |
|-----------------------------------------------------------------------|-------------------|-------------------|
|                                                                       | EUR'000           | EUR'000           |
| Accrued income on coupon interest from issued debt securities (bonds) | 1,148             | 1,148             |
| Accrued income on mandatory procurement PSO fee*                      | -                 | 44,953            |
| Other accrued income                                                  | 14,214            | 6,478             |
| Overpaid taxes (Note 25)                                              | 7                 | -                 |
| Deferred expenses                                                     | 608               | 824               |
| Other receivables                                                     | 205               | 380               |
|                                                                       | <b>16,182</b>     | <b>53,783</b>     |

\* Accrued income from mandatory procurement public service obligation (PSO) fee is calculated as difference between procurement expenditure above electricity market price and collected mandatory procurement PSO fee payments from electricity end users in 2013. According to the conditions included in the article No. 37 of transition terms of the amendments to the Electricity Market Law of the Republic of Latvia, approved on 6 November 2013, uncollected difference for the year 2013 will be compensated by newly established subsidiary in 12 months period starting from overtake of public supplier obligations as at 1 April 2014, using government grant implicit for mandatory procurement PSO fee reduction, stated per Law on the State Budget for 2014, as part of compensation.

### **17. CASH AND CASH EQUIVALENTS**

|                                       | <b>31/12/2014</b> | <b>31/12/2013</b> |
|---------------------------------------|-------------------|-------------------|
|                                       | EUR'000           | EUR'000           |
| Cash at bank                          | 35 360            | 78 154            |
| Short-term bank deposits              | 52 000            | 166 600           |
| Restricted cash and cash equivalents* | 1 606             | -                 |
|                                       | <b>88 966</b>     | <b>244 754</b>    |

\*Restricted cash and cash equivalents consist 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 for the Company mostly based on floating interbank deposit rates. Short-term deposits are placed by the Company for different periods between several days and three months depending on the immediate cash needs of the Company and cash flow forecasts. During 2014 the average annual effective interest rate earned on short-term cash deposits was 0.33% (2013: 0.36%), see also Note 3.1.b.

### **18. SHARE CAPITAL**

As at 31 December 2014 the registered share capital of Latvenergo AS is EUR 1,288,446 thousand (31/12/2013: EUR 1,288,011 thousand).

In October 2014, in accordance with the Directive No. 496 of the Cabinet of Ministers of the Republic of Latvia, dated 16 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 29 May 2014 and registered with the Commercial Register of the Republic of Latvia on 30 October 2014.

## 19. RESERVES AND DIVIDENDS

The Company cannot distribute the non-current assets revaluation reserve and hedge reserve into dividends.

|                                                                          | Non-current<br>assets<br>revaluation<br>reserve | Hedge<br>reserve | Other<br>reserves* | TOTAL          |
|--------------------------------------------------------------------------|-------------------------------------------------|------------------|--------------------|----------------|
|                                                                          | EUR'000                                         | EUR'000          | EUR'000            | EUR'000        |
| <b>As at 31 December 2012</b>                                            | <b>662,685</b>                                  | <b>(18,682)</b>  | <b>71,389</b>      | <b>715,392</b> |
| Transfer from previous year profit                                       | -                                               | -                | 4,512              | 4,512          |
| Change of non-current assets revaluation reserve (Note 6)                | (650)                                           | -                | -                  | (650)          |
| Deferred tax related to non-current assets revaluation reserve (Note 11) | 97                                              | -                | -                  | 97             |
| Income from fair value changes in derivative financial instruments       | -                                               | 8,844            | -                  | 8,844          |
| <b>As at 31 December 2013</b>                                            | <b>662,132</b>                                  | <b>(9,838)</b>   | <b>75,901</b>      | <b>728,195</b> |
| Transfer from previous year profit                                       | -                                               | -                | 2,623              | 2,623          |
| Change of non-current assets revaluation reserve (Note 6)                | (94)                                            | -                | -                  | (94)           |
| Deferred tax related to non-current assets revaluation reserve (Note 11) | 14                                              | -                | -                  | 14             |
| Income from fair value changes in derivative financial instruments       | -                                               | (6,495)          | -                  | (6,495)        |
| <b>As at 31 December 2014</b>                                            | <b>662,052</b>                                  | <b>(16,333)</b>  | <b>78,524</b>      | <b>724,243</b> |

\* in accordance with the Shareholder's decisions previous year profit is transferred into other reserves for the Company's future development

The dividends paid in 2014 were EUR 23,605 thousand, in 2013 – EUR 40,619 thousand.

Management Board of Latvenergo AS is 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 (in force since 01/01/2015), Regulations of the Cabinet of Ministers of the Republic of Latvia No. 1471 dated 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 and the Law on state's budget.

The distribution of net profit for the 2014 is subject to a resolution of the Company's Shareholders meeting.

## 20. BORROWINGS

|                                                                       | 31/12/2014     | 31/12/2013     |
|-----------------------------------------------------------------------|----------------|----------------|
|                                                                       | EUR'000        | EUR'000        |
| Non-current borrowings from financial institutions                    | 569,015        | 685,133        |
| Issued debt securities (bonds)                                        | 104,802        | 104,802        |
| <b>Total non-current borrowings</b>                                   | <b>673,817</b> | <b>789,935</b> |
| Accrued coupon interest on issued debt securities (bonds)             | 694            | 694            |
| Current portion of non-current borrowings from financial institutions | 134,799        | 129,026        |
| Accrued interest on non-current borrowings                            | 1,371          | 1,716          |
| <b>Total current borrowings</b>                                       | <b>136,864</b> | <b>130,742</b> |
| <b>Total borrowings</b>                                               | <b>810,681</b> | <b>921,371</b> |

### Movement in borrowings:

|                                                                          | 2014           | 2013           |
|--------------------------------------------------------------------------|----------------|----------------|
|                                                                          | EUR'000        | EUR'000        |
| <b>At the beginning of the year</b>                                      | <b>921,371</b> | <b>828,692</b> |
| Borrowings received                                                      | 20,000         | 110,001        |
| Borrowings repaid                                                        | (130,345)      | (102,941)      |
| Change in accrued interest on borrowings and coupon interest liabilities | (345)          | 784            |
| Issued debt securities (bonds)                                           | -              | 84,835         |
| <b>At the end of the year</b>                                            | <b>810,681</b> | <b>921,371</b> |

### Borrowings by categories of lenders:

|                                | 31/12/2014     | 31/12/2013     |
|--------------------------------|----------------|----------------|
|                                | EUR'000        | EUR'000        |
| Foreign investment banks       | 482,869        | 538,497        |
| Commercial banks               | 222,316        | 277,378        |
| Issued debt securities (bonds) | 105,496        | 105,496        |
| <b>Total borrowings:</b>       | <b>810,681</b> | <b>921,371</b> |

**Borrowings by maturity (excluding the effect of derivative financial instruments):**

|                                                          | 31/12/2014     | 31/12/2013     |
|----------------------------------------------------------|----------------|----------------|
|                                                          | EUR'000        | EUR'000        |
| <b>Fixed rate non-current and current borrowings:</b>    |                |                |
| - < 1 year                                               | 1,099          | 1,101          |
| - 1- 5 years                                             | 70,432         | 70,912         |
| - > 5 years                                              | 34,570         | 34,490         |
|                                                          | <b>106,101</b> | <b>106,503</b> |
| <b>Floating rate non-current and current borrowings:</b> |                |                |
| - < 1 year (current portion of non-current borrowings)   | 135,765        | 130,334        |
| - 1- 5 years                                             | 372,612        | 442,512        |
| - > 5 years                                              | 196,203        | 242,022        |
|                                                          | <b>704,580</b> | <b>814,868</b> |
| <b>Total borrowings:</b>                                 | <b>810,681</b> | <b>921,371</b> |

**Borrowings by pricing period (considering the effect of derivative financial instruments):**

|                          | 31/12/2014     | 31/12/2013     |
|--------------------------|----------------|----------------|
|                          | EUR'000        | EUR'000        |
| - < 1 year               | 465,987        | 519,669        |
| - 1- 5 years             | 230,124        | 252,211        |
| - > 5 years              | 114,570        | 149,491        |
| <b>Total borrowings:</b> | <b>810,681</b> | <b>921,371</b> |

At 31 December 2014 and at 31 December 2013 the Company had all of its borrowings 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 Company, 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 Company's credit risk margin. The average interest rate for discounting cash flows of non-current borrowings was 1.1 % (2013: 2.2 %).

**a) Pledges**

The Company's assets are not pledged to secure the borrowings.

**b) Un-drawn borrowing facilities**

As at 31 December 2014 the un-drawn portion of committed non-current credit facilities amounts to EUR 320 million (31/12/2013: EUR 90 million). 320 million includes: 100 million from EIB, 150 million from banks (agreements concluded in 2014) and 70 million from EBRD (year 2010 agreement).

As at 31 December 2014 the Company 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.

**c) Weighted average effective interest rate**

During the reporting year the weighted average effective interest rate (including interest rate swaps) on non-current borrowings was 2.48% (2013: 2.5%), weighted average effective interest rate for current borrowings was 1.06% (2013: 1.18%). At 31 December 2014 interest rates for non-current borrowings in Euro were 3 and 6 month EURIBOR+1.04 % (31/12/2013: 3 and 6 month EURIBOR+0.92%).

**d) Issued debt securities (bonds)**

The Company in 2012 and 2013 issued bonds in the amount of EUR 70 million with the maturity date – 15 December 2017 (ISIN code – LV0000801090) and in the amount of EUR 35 million with maturity date – 22 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.

## 21. PROVISIONS

### a) Provisions for post-employment benefits

|                                                                  | 2014         | 2013         |
|------------------------------------------------------------------|--------------|--------------|
|                                                                  | EUR'000      | EUR'000      |
| <b>At the beginning of the year</b>                              | <b>4,347</b> | <b>3,987</b> |
| Current service cost                                             | 184          | 175          |
| Interest cost                                                    | 164          | 206          |
| Post-employment benefits paid                                    | (101)        | (104)        |
| (Losses)/ Income as a result of changes in actuarial assumptions | (84)         | 83           |
| <b>At the end of the year</b>                                    | <b>4,510</b> | <b>4,347</b> |

Total charged provisions are included in the Company's Statement of profit or loss position 'Personnel expenses' (Note 8):

|                                                                    | 2014         | 2013         |
|--------------------------------------------------------------------|--------------|--------------|
|                                                                    | EUR'000      | EUR'000      |
| <b>At the beginning of the year</b>                                | <b>4,347</b> | <b>3,987</b> |
| Provisions transferred to <i>Sadales tīkls AS</i>                  | (26)         | -            |
| Provisions transferred to <i>Enerģijas publiskais tirgotājs AS</i> | (10)         | -            |
| Charged to the Statement of profit or loss                         | 199          | 360          |
| <b>At the end of the year</b>                                      | <b>4,510</b> | <b>4,347</b> |

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 Company'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.

### b) Environmental provisions

|                                            | 2014         | 2013         |
|--------------------------------------------|--------------|--------------|
|                                            | EUR'000      | EUR'000      |
| <b>At the beginning of the year</b>        | <b>1,471</b> | <b>1,423</b> |
| Charged to the Statement of profit or loss | (266)        | 48           |
| <b>At the end of the year</b>              | <b>1,205</b> | <b>1,471</b> |

Total charged provisions are included in the Company's Statement of profit or loss position 'Other operating expenses'. The environmental provision in the amount of EUR 1,205 thousand (2013: EUR 1,471 thousand) represents the estimated cost of cleaning up Riga first combined heat and power plant (Riga TEC-1) ash-fields in accordance with the requests made by the regional Environmental Authority of Riga and feasibility study on this project. 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).

## 22. TRADE PAYABLES

|                                                             | 31/12/2014    | 31/12/2013    |
|-------------------------------------------------------------|---------------|---------------|
|                                                             | EUR'000       | EUR'000       |
| Payables for materials and services                         | 28,348        | 28,740        |
| Payables for electricity                                    | 2,811         | 25,754        |
| Advances received from deliveries of materials and services | 193           | 231           |
|                                                             | <b>31,352</b> | <b>54,725</b> |

The carrying amounts of trade payables are assumed to approximate their fair values.

## 23. ACCRUED LIABILITIES

|                                                              | 31/12/2014   | 31/12/2013   |
|--------------------------------------------------------------|--------------|--------------|
|                                                              | EUR'000      | EUR'000      |
| Accrued liabilities on expenses                              | 2,232        | 3,389        |
| Accrued liabilities on unpaid vacations                      | 1,337        | 1261         |
| Accruals for bonuses on financial results of previous years  | 755          | 498          |
| Accruals for benefits and post-employment plan contributions | 92           | 71           |
|                                                              | <b>4,416</b> | <b>5,219</b> |

## 24. OTHER PAYABLES

|                                            | 31/12/2014   | 31/12/2013   |
|--------------------------------------------|--------------|--------------|
|                                            | EUR'000      | EUR'000      |
| Payables to personnel                      | 1,313        | 1390         |
| Deferred income and other current payables | 1,569        | 2,113        |
|                                            | <b>2,882</b> | <b>3,503</b> |

## 25. TAXES AND STATE SOCIAL SECURITY CONTRIBUTIONS

|                                     | 31/12/2013     | Calculated      | Paid          | 31/12/2014     |
|-------------------------------------|----------------|-----------------|---------------|----------------|
|                                     | EUR'000        | EUR'000         | EUR'000       | EUR'000        |
| Corporate income tax*               | 10,956         | -               | (6,391)       | 4,565          |
| Value added tax**                   | (3,072)        | (41,924)        | 40,772        | (4,224)        |
| Energy tax                          | (34)           | (1,134)         | 1,026         | (142)          |
| Subsidised energy tax               | -              | (15,039)        | 15,039        | -              |
| State social security contributions | (1,087)        | (8,940)         | 9,097         | (930)          |
| Personal income tax                 | (645)          | (5,316)         | 5,385         | (576)          |
| Real estate tax                     | (4)            | (1,044)         | 1048          | -              |
| Natural resources tax               | (23)           | (122)           | 107           | (38)           |
|                                     | <b>6,091</b>   | <b>(73,519)</b> | <b>66,083</b> | <b>(1,345)</b> |
| <b>Tax receivables</b>              | <b>10,956</b>  | <b>-</b>        | <b>-</b>      | <b>4572</b>    |
| <b>Tax liabilities</b>              | <b>(4,865)</b> | <b>-</b>        | <b>-</b>      | <b>(5,917)</b> |

\* In 2014 paid corporate income tax in amount of EUR 4,565 thousand (2013: EUR 7,700 thousand);  
Corporate income tax overpayment in amount of EUR 10,956 thousand for the year 2013 was allocated to dividends payment for 2013.

\* Includes value added tax overpayment as at 31 December 2014 in the amount of EUR 7 thousand (Note 16b).

## 26. DERIVATIVE FINANCIAL INSTRUMENTS

### a) Outstanding fair values of derivatives and their classification

In the 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                                  | 26 b) | -          | 18,441        | (617)        | 13,506        |
| Electricity forwards and futures                     | 26 c) | -          | 2,112         | -            | 9,912         |
| Forward foreign currencies exchange contracts        | 26 d) | -          | -             | -            | 16            |
| <b>Total outstanding fair values of derivatives:</b> |       | <b>-</b>   | <b>20,553</b> | <b>(617)</b> | <b>23,434</b> |

|               | 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        |
| <b>Total:</b> | <b>-</b>   | <b>20,553</b> | <b>(617)</b> | <b>23,434</b> |

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. The Company implemented the above-mentioned amendments to IAS 1 in its Financial Statements from 2008. 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.

### b) Interest rate swaps

As at 31 December 2014 the Company 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 31 December 2014 fixed interest rates vary from 0.7725 % to 4.4925 % (31/12/2013: from 1.548 % to 4.4925 %).

88 % of all Company's 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 Statement of profit or loss.

Fair value changes of interest rate swaps are disclosed as follows:

|                                                            | 2014         |               | 2013         |               |
|------------------------------------------------------------|--------------|---------------|--------------|---------------|
|                                                            | EUR'000      |               | EUR'000      |               |
|                                                            | Assets       | Liabilities   | Assets       | Liabilities   |
| <b>Outstanding fair value at the beginning of the year</b> | <b>(618)</b> | <b>13,506</b> | <b>-</b>     | <b>23,812</b> |
| Included in the Statement of profit or loss, net (Note 10) | -            | (943)         | -            | (1,917)       |
| Included in hedge reserve (Note 19)                        | 618          | 5,877         | (618)        | (8,389)       |
| <b>Outstanding fair value at the end of the year</b>       | <b>-</b>     | <b>18,440</b> | <b>(618)</b> | <b>13,506</b> |

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 31 December 2014 43 % (31/12/2013: 44 %) of the Company's borrowings had fixed interest rates (taking into account the effect from the interest rate swaps), and average remaining time to interest re-pricing was 2.2 years (2013: 2.1 years).

#### **c) Electricity forwards and futures**

As at 31 December 2014 the Company 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 1 January 2015 to 31 December 2018.

In 2014 the Company 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.

At the end of reporting year 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 31 December 2014 all outstanding fair value changes of valid electricity forward and future contracts are included in the Statement of profit or loss (see Note 7).

Fair value changes of electricity forward and future contracts are disclosed as follows:

|                                                            | 2014     |              | 2013           |               |
|------------------------------------------------------------|----------|--------------|----------------|---------------|
|                                                            | EUR'000  |              | EUR'000        |               |
|                                                            | Assets   | Liabilities  | Assets         | Liabilities   |
| <b>Outstanding fair value at the beginning of the year</b> | <b>-</b> | <b>9,912</b> | <b>(5,969)</b> | <b>11,331</b> |
| Included in the Statement of profit or loss (Note 7)       | -        | (7,800)      | -              | 4,447         |
| Included in hedge reserve (Note 19)                        | -        | -            | 5,969          | (5,866)       |
| <b>Outstanding fair value at the end of the year</b>       | <b>-</b> | <b>2,112</b> | <b>-</b>       | <b>9,912</b>  |

#### **d) Forward foreign currencies exchange contracts**

As at the end of reporting period the Company has no outstanding forward foreign currencies exchange contracts (31/12/2013: one contract, USD 0.6 million). In 2014 the executed 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 Statement of profit or loss (see Note 10).

Fair value changes of forward foreign currencies exchange contracts are disclosed as follows:

|                                                            | 2014     |             | 2013        |             |
|------------------------------------------------------------|----------|-------------|-------------|-------------|
|                                                            | EUR'000  |             | EUR'000     |             |
|                                                            | Assets   | Liabilities | Assets      | Liabilities |
| <b>Outstanding fair value at the beginning of the year</b> | <b>-</b> | <b>16</b>   | <b>(59)</b> | <b>-</b>    |
| Included in the Statement of profit or loss (Note 10)      | -        | (16)        | -           | 16          |
| Included in hedge reserve (Note 19)                        | -        | -           | 59          | -           |
| <b>Outstanding fair value at the end of the year</b>       | <b>-</b> | <b>-</b>    | <b>-</b>    | <b>16</b>   |

## 27. RELATED PARTY TRANSACTIONS

The Company and, indirectly, its subsidiaries are controlled by the Latvian state. The Company's related parties, excluding subsidiaries, are associates, key management personnel of the Company and Supervisory body – Audit committee, as well as entities over which the Company has significant influence.

|                                                                                               | 2014           | 2013           |
|-----------------------------------------------------------------------------------------------|----------------|----------------|
|                                                                                               | EUR'000        | EUR'000        |
| <b>a) Income from transactions with related parties:</b>                                      |                |                |
| - subsidiaries                                                                                | 195,088        | 136,483        |
|                                                                                               | <b>195,088</b> | <b>136,483</b> |
| <b>b) Expenses from transactions with related parties:</b>                                    |                |                |
| - subsidiaries                                                                                | 363,531        | 277,767        |
| - associates                                                                                  | -              | 2,758          |
|                                                                                               | <b>363,531</b> | <b>280,525</b> |
| <b>c) Balances at the end of the year arising from sales/purchases of goods and services:</b> |                |                |
| Trade receivables:                                                                            |                |                |
| - subsidiaries                                                                                | 38 945         | 21 913         |
|                                                                                               | <b>38 945</b>  | <b>21 913</b>  |
| Trade payables:                                                                               |                |                |
| - subsidiaries                                                                                | 38 763         | 14 278         |
|                                                                                               | <b>38 763</b>  | <b>14 278</b>  |
| <b>d) Accrued income arising from transactions with related parties:</b>                      |                |                |
| - subsidiaries                                                                                | 1 357          | 14 409         |
|                                                                                               | <b>1 357</b>   | <b>14 409</b>  |
| <b>e) Accrued expenses arising from transactions with related parties:</b>                    |                |                |
| - subsidiaries                                                                                | 12 796         | 31 847         |
|                                                                                               | <b>12 796</b>  | <b>31 847</b>  |

The Company 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 Board of the Company and Supervisory body is disclosed in Note 8.

### f) Non-current loans to related parties

Concluded non-current borrowing agreements with Latvijas elektriskie tīkli AS

| Agreement conclusion date | Principal amount of the loan | Interest rate                 | Maturity date |
|---------------------------|------------------------------|-------------------------------|---------------|
|                           | EUR'000                      |                               |               |
| 01/04/2011                | 97 467                       | 6 months EURIBOR + fixed rate | 01/04/2025    |
| 03/09/2013                | 44 109                       | Fixed                         | 10/09/2023    |
| <b>Total</b>              | <b>141 576</b>               |                               |               |

Total non-current loans as at 31 December 2014 amounted to EUR 99,800 thousand (31/12/2013: EUR 93,087 thousand), including current portion of the loan repayable in 2015 – EUR 25,054 thousand (31/12/2013: EUR 14,596 thousand). As at 31 December 2014 for 56% (31/12/2013: 76%) of the loans issued to Latvijas elektriskie tīkli AS was set floating interest rate, which was influenced by 6 months EURIBOR interbank rate fluctuations. During 2014 the effective average interest rate of non-current loans was 2.42% (2013: 1.31%). Non-current loans are not secured with a pledge or otherwise.

### Non-current loans to Latvijas elektriskie tīkli AS by maturity:

|                                                     | 31/12/2014     | 31/12/2013    |
|-----------------------------------------------------|----------------|---------------|
|                                                     | EUR'000        | EUR'000       |
| <b>Non-current loan:</b>                            |                |               |
| - < 1 year (including accrued interest liabilities) | 25,778         | 15,070        |
| - 1 – 5 years                                       | 50,515         | 56,928        |
| - > 5 years                                         | 24,230         | 21,563        |
|                                                     | <b>100,523</b> | <b>93,561</b> |

Concluded non-current borrowing agreements with Sadales tīkls AS



| Agreement conclusion date | Principal amount of the loan | Interest rate                 | Maturity date |
|---------------------------|------------------------------|-------------------------------|---------------|
|                           | EUR'000                      |                               |               |
| 29/09/2011                | 316 271                      | 6 months EURIBOR + fixed rate | 01/09/2025    |
| 06/02/2013                | 42 686                       | Fiksēta                       | 10/09/2022    |
| 18/09/2013                | 42 686                       | Fiksēta                       | 10/08/2023    |
| 29/10/2014                | 90 000                       | Fiksēta                       | 10/09/2024    |
| <b>Total</b>              | <b>491 643</b>               |                               |               |

Total non-current loans as at 31 December 2014 amounted to EUR 355,670 thousand (31/12/2013: EUR 324,110 thousand), including current portion of the loan repayable in 2015 – EUR 91,581 thousand (31/12/2013: EUR 58,440 thousand). As at 31 December 2014 for 55% of the loans issued to subsidiary (31/12/2013: 76%) was set floating interest rate, which was influenced by 6 months EURIBOR interbank rate fluctuations. During 2014 the effective average interest rate of non-current loans was 1.90% (2013: 1.56%). Non-current loans are not secured with a pledge or otherwise.

#### Non-current loans to Sadales tīkls AS by maturity:

|                                                     | 31/12/2014     | 31/12/2013     |
|-----------------------------------------------------|----------------|----------------|
|                                                     | EUR'000        | EUR'000        |
| <b>Non-current loan:</b>                            |                |                |
| – < 1 year (including accrued interest liabilities) | 93,251         | 59,976         |
| – 1 – 5 years                                       | 173,445        | 199,608        |
| – > 5 years                                         | 90,644         | 66,062         |
|                                                     | <b>357,340</b> | <b>325,646</b> |

#### g) Current loans to related parties

|                                   | 31/12/2014     | 31/12/2013    |
|-----------------------------------|----------------|---------------|
|                                   | EUR'000        | EUR'000       |
| Latvijas elektriskie tīkli AS     | 10,711         | 11,862        |
| Sadales tīkls AS                  | 21,463         | 36,693        |
| Elektrum Eesti OÜ                 | 5,129          | 2,652         |
| Elektrum Lietuva, UAB             | 8,187          | 6,823         |
| Enerģijas publiskais tirgotājs AS | 76,815         | -             |
|                                   | <b>122,305</b> | <b>58,030</b> |

Financial transactions between related parties have been carried out by using current loans with a target to effectively and centrally manage Latvenergo Group companies' financial resources, using Group accounts. In the reporting period Latvenergo AS issued loans to subsidiaries in accordance with mutually concluded agreement On provision of mutual financial resources. In 2014 the effective average interest rate was 1.16 % (2013: 1.06 %)

In the reporting period Enerģijas publiskais tirgotājs AS received short-term loan from Latvenergo AS in accordance with mutually concluded agreement On provision of mutual financial resources, using Group accounts. In 2014 the effective average interest rate was 1.13%. On 21 May 2014 concluded agreement between Latvenergo AS and Enerģijas publiskais tirgotājs AS for issue of the loan in amount of EUR 120,000 to ensure Enerģijas publiskais tirgotājs AS financial resources for the fulfilment of public supplier duties and mandatory procurement process administration. Loan annual interest rate is fixed at 1.646 %. Maturity date of the loan is 31 March 2015. Latvenergo AS issued and the Company accepted loan or its part at the end of each month, reassigned Enerģijas publiskais tirgotājs AS current loan liabilities from Latvenergo AS at the end of last calendar day of the current calendar month. At 31 December 2014 issued, but not unpaid amount is EUR 76,815 thousand.

#### Interest received from related parties:

|                   | 2014         | 2013       |
|-------------------|--------------|------------|
|                   | EUR'000      | EUR'000    |
| Interest received | 1,076        | 608        |
|                   | <b>1,076</b> | <b>608</b> |

#### **h) Current borrowings from related parties**

Financial transactions between related parties have been carried out by using current loans with a target to effectively and centrally manage Latvenergo Group companies' financial resources, using Group accounts. In the reporting period Latvenergo AS has received borrowings from subsidiaries in accordance with mutually concluded agreement On provision of mutual financial resources. In 2014 the effective average interest rate was 1.16% (2013: 1.06%). At the end of the reporting period Latvenergo AS has no borrowings from related parties.

#### **Interest paid to related parties:**

|               | <b>2014</b> | <b>2013</b> |
|---------------|-------------|-------------|
|               | EUR'000     | EUR'000     |
| Interest paid | 47          | 9           |
|               | <b>47</b>   | <b>9</b>    |

## **28. HELD-TO-MATURITY FINANCIAL ASSETS**

It was not necessary to prepare and was not made reclassification for financial assets which are recognised at amortised cost during 2014 (2013: nil). 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.

As at 31 December 2014 the entire Company'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.

|                                                | <b>31/12/2014</b> | <b>31/12/2013</b> |
|------------------------------------------------|-------------------|-------------------|
|                                                | EUR'000           | EUR'000           |
| Held-to-maturity financial assets:             |                   |                   |
| - current                                      | -                 | -                 |
| - non-current                                  | 28,528            | 28,588            |
| <b>TOTAL held-to-maturity financial assets</b> | <b>28,528</b>     | <b>28,588</b>     |

## **29. COMMITMENTS AND CONTINGENT LIABILITIES**

As at 31 December 2014 the Company had commitments amounting to EUR 106.4 million (31/12/2013: EUR 19.6 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 100% shareholder is to ensure that subsidiaries are managed so that they have sufficient financial resources and are able to carry their operations and settle their obligations.

## **30. FEES TO CERTIFIED AUDITOR'S COMPANIES**

|                                   | <b>2014</b> | <b>2013</b> |
|-----------------------------------|-------------|-------------|
|                                   | EUR'000     | EUR'000     |
| Audit of the financial statements | 35          | 36          |
| Consultancy and training services | 30          | 44          |
|                                   | <b>65</b>   | <b>80</b>   |

### 31. EVENTS AFTER THE REPORTING PERIOD

In late 2014 the Company attracted funds in amount of EUR 250 million: in November was finalised procurement of bank loans, 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.

In accordance with Directive 2009/72/EC of the European Parliament and of the Council, dated 13 July 2009, concerning common rules for the internal market of electricity and the Electricity Market Law, Latvijas elektriskie tīkli AS at 1 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 16 February 2015, the credit rating of the Latvenergo AS has been upgraded to Baa2 (stable).

On 16 March 2015 shareholder of Latvenergo AS has adopted decision for extension of current short-term loan with Enerģijas publiskais tirgotājs AS for a one year – till 31 March 2016, corresponding to mandatory procurement public service obligation fee reassessment cycle.

There have been no other significant events subsequent to the end of the reporting year that might have a material effect on the Financial Statements for the year 2014.

## INDEPENDENT AUDITORS' REPORT

To the shareholder of AS Latvenergo

### Report on the financial statements

We have audited the accompanying financial statements of AS Latvenergo (the "Company"), set out on pages 7 through 45 of the accompanying 2014 Annual Report, which comprise the balance sheet as at 31 December 2014, and the statement of profit or loss, statement of changes in equity and 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 Law of the Republic of Latvia on Annual Reports 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 financial statements give a true and fair view of the financial position of AS Latvenergo as of 31 December 2014, and of its financial performance and its cash flows for the year then ended in accordance with the Law of the Republic of Latvia on Annual Reports.

### 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 5 through 6 of the accompanying 2014 Annual Report) and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2014.

SIA Ernst & Young Baltic  
Licence No. 17

/Signed by/

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

Rīga,  
14 April 2015