
Latvenergo
2017
SUSTAINABILITY
AND ANNUAL REPORT

Energy production starts with a relationship with nature. By using opportunities provided by the environment responsibly and ensuring an efficient and up-to-date energy supply, we achieve sustainable growth for the wellbeing of our environment and customers.

CONTENTS

ABOUT LATVENERGO GROUP

CORPORATE GOVERNANCE

OPERATING SEGMENTS

PERFORMANCE INDICATORS

ANNEXES TO THE SUSTAINABILITY REPORT

LATVENERGO GROUP CONSOLIDATED AND LATVENERGO AS ANNUAL REPORT

ABOUT LATVENERGO GROUP

Dear Readers,

102-14 Change and modernisation have been the key words of the first year of the Latvenergo Group Strategy (2017-2020). It has been full of events and new challenges that will play an important role in the further development of the energy industry. Our sector is undergoing dynamic change which is altering current business models quickly and radically. The technological leap of our time and the requirements of proactive users also bring new opportunities, and we are prepared to use them.

Therefore, as the period of the Latvenergo Group strategy continues, the modernisation process initiated in 2017 will be developed further by introducing completely new directions, such as e-mobility, micro network development, consumption management and, in production, development of zero emission generation capacities based on commercial principles. The smart meter programme will be completed in the near future and investments in transmission assets will be provided.

Nowadays, digitalisation, automation and robotization occur not only in such characteristic areas of the industry as energy production and distribution, but also in trade and customer service. This means that a company willing to succeed in the future needs to set a very high standard of technological development for itself. Technologies operated by skilled personnel will perform the majority of work in the future in the large modernisation projects that we implement at our production facilities and distribution networks.

Energy utilities worldwide are currently expanding and reviewing their scope of operation by offering innovative approaches and services. Changes in the energy sector also impact the national economy of Latvia; in particular, interconnections have expanded the possibilities of operating on the free market, daily electricity consumption includes smart services, and liberalisation of the energy market means increasing integration and mutual complementing among traditionally individual industries. The dynamic industry environment that presents the opportunities Latvenergo operational strategy is based on is developing now. The strategy provides for utilisation of the trends of the energy industry to further strengthen the leading positions of Latvenergo Group in the Baltics and development perspectives on the Nordic level by creating new products and encouraging synergy of production and trade. Today we can already see that the directions of development defined by Latvenergo strategy were gauged and justified accurately.

Andris Ozoliņš
Chairman of the Supervisory Board of Latvenergo AS

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

The year 2017 is most vividly characterised by events that made Latvenergo Group and Latvia visible internationally. Last year, Latvenergo Group was the first company in the Baltics to receive the Nasdaq Baltics exchange award for the Best Investor Relations among Bond Issuers, in addition to being invited by the exchange to ring the traditional trading session opening bell at Nasdaq MarketSite in New York's Times Square. The moment when both the logo of Latvenergo Group and the symbols of Latvia were displayed on the façade of the exchange building was very important not only in the business world, but also for every one of us as patriots of our country. The five years since Latvenergo AS issued bonds have passed quickly and on 15 December 2017 we made the first repayment, EUR 70 million, of the principal amount of the bonds issued by Latvenergo that had reached maturity.

In 2017, Latvenergo Group received the prize for the most valuable Latvian company for the tenth time, was ranked among the top three Baltic companies and was recognised as the most valuable Baltic power utility for the first time.

Latvenergo Group has attested its importance for the national economy as a responsible electricity generator whose decisions have helped in reducing the amount of the mandatory procurement component. Amendments to the Cabinet Regulations entered into force in October 2017 stipulating that cogeneration plants with installed capacity above 100 MW may partially decline support payments, receiving a one-off compensation instead. Latvenergo AS applied for the receipt of such a one-off compensation from the state by declining the receipt of 75% of the annual electricity capacity payment to cogeneration plants Riga CHPP-1 and Riga CHPP-2 in future.

In 2017, we are particularly satisfied with the high electricity output, generating 5.7 TWh of electricity. Productive electricity generation by the Daugava hydropower plants (HPPs) played the most important role; after several years of comparatively low water levels in the Daugava River, the water inflow was high last year and thus it was a very successful year for electricity generation. The relative share of renewable energy resource use in Latvia is among the highest in the European Union and this is mainly ensured by our large-scale HPPs. In 2017, 75% of the total electricity output was generated from renewable sources. In order to further improve the efficiency of utilising this indispensable resource, the Daugava HPP reconstruction project continues and the reconstruction of 13 hydropower units out of a total of 23 has been completed. Reconstruction work performed within the investment programme is scheduled to be completed in 2022 and the total investment is expected to amount to more than EUR 200 million.

In 2017, Latvenergo Group's retail sale of electricity amounted to 6.9 TWh and the Group's market share in the Baltics was 27%. The Elektrum brand is developing new products and services, expanding the traditional range of the electricity trade by adding conceptually new offers. Energy risk insurance is offered to household customers and the innovative services *Elektrum Smart House* and *Elektrum Solar* were introduced on the market. Our customers can use the opportunities presented by modern technologies on a daily basis through remote control of household devices and home heating systems or through solar panels installed at their properties for generation and use of green energy. We have verified that our customers justly appreciate these new services we offer.

The provisions of the Energy Law entered into force in 2017 and the natural gas market in Latvia was opened. In step with these new opportunities, Latvenergo Group fully satisfies its demand as the largest gas consumer in Latvia. Natural gas is also supplied from alternative sources, including the Klaipēda gas terminal, for the Group's energy production needs. At present, Latvenergo AS is the second largest gas consumer in the Baltics and the largest one in Latvia. At the same time, the Group successfully commenced sales of natural gas in Latvia and Estonia.

The financial indicators of Latvenergo Group have improved considerably in recent years; the value of assets was more than EUR 4.4 billion and equity exceeded EUR 2.8 billion at the end of 2017. The Group's profit amounted to EUR 322.0 million in 2017. It consisted of the result of economic activity in the amount of EUR 172.9 million and the deferred corporate income tax as a result of the tax reform in the amount of EUR 149.1 million. Overall, this year was among the most successful years in the Group's operations in recent years. The strong capital structure allows to pay out a significant share of the profit in dividends; the Group's strategy sets the dividend payout ratio at more than 80% of the profit. The international credit rating agency Moody's has maintained the credit rating of Latvenergo AS on the Baa2 level with a stable future assessment.

Large-scale modernisation measures are being implemented at Sadales tīkls AS. 78% of energy consumed was being metered by smart meters at the end of 2017. The operational efficiency programme is being implemented; it provides for development of a smart network based on digital technologies, improvement of company efficiency, and improvement of the power supply's quality and security.

The *Kurzeme Ring* project is developing successfully within Latvenergo Group's investment programme and approximately 50% of the total work scope has been completed. The total cost of the project is expected to amount to approximately EUR 220 million and its final stage is scheduled for completion in 2019. Construction of the third Latvia-Estonia interconnection, scheduled for completion by the end of 2020, will increase the maximum transmission capacity between the Latvian and Estonian power systems by 600 MW; thus, the maximum available throughput will increase to 1,750 MW. This will result in further levelling of electricity prices between the Baltic countries and the Nordic countries.

Our corporate social responsibility activities and the results achieved in this area have also been progressing. This was the fifth consecutive year in which Latvenergo AS received the Platinum category of the Latvian Sustainability Index, which is the highest evaluation according to international requirements regarding all the areas of corporate social responsibility. Through various projects we promote education in physics and encourage young people to focus on the exact sciences. Last year was also rich in voluntary environmental activities undertaken by the Group.

We are pleased to have received several high evaluations and awards and to have invested effort in making our offers even broader and more attractive.

Improvements in the corporate governance of the Group were successfully implemented during the report period. The first year of work for the Supervisory Board of Latvenergo was characterised by a highly dynamic and variable work environment. The capacity of the Audit Committee was strengthened through two Members of the Supervisory Board joining it. The Supervisory Board of Latvenergo AS established the Human Resources Committee, whose main tasks are related to the personnel selection process, wages, performance assessment and merging of positions.

Latvenergo Group is working to improve its operational efficiency and the internal control system. This will allow the Group to improve its competitiveness, thus providing higher quality services to our customers.

1.2. ABOUT THE REPORT

102-48	**Reporting period**	**1 January 2017 – 31 December 2017**
102-50	Reporting frequency	Annually, since 2009, in accordance with Global Reporting Initiative (GRI) guidelines.
102-51	Publication date	18 April 2018
102-52	Global Reporting Initiative	The Sustainability Report 2017 has been prepared in accordance with the GRI Standards Core option and includes non-financial information as stated by Directive 2014/95/EU of the European Parliament and of the Council and the Law on the Financial Instruments Market.
102-53	Scope of the report	The report discloses information about Latvenergo Group (see the section "About the Group")
102-54	Principles for defining report content	In the report, Latvenergo Group discloses information about the topics and indicators that are important for its operations and sustainable development. General Standard Disclosures about the operations of Latvenergo Group are fully covered in the report according to the Core option requirements. Based on the materiality assessment, 22 material sustainability topics and 33 Specific Standard Disclosure indicators are disclosed (see the GRI Index table). The report preparation process is described in the section "Materiality Assessment". The methods for measuring data included in this report have not been significantly altered compared to earlier reports.
	Independent auditor's assurance report	The assurance report on the Sustainability Report 2017 has been prepared by Ernst & Young Baltic SIA.
	Report format	A pdf version of the report is available: ▪ on the Latvenergo website, www.latvenergo.lv (in Latvian and English); ▪ in the GRI Sustainability Disclosure Database, http://database.globalreporting.org/ (in English).
	Contact information	Please send any questions or suggestions regarding the Sustainability Report to: sustainability@latvenergo.lv

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

1.3. ABOUT THE GROUP

Latvenergo Group – the most valuable energy company in the Baltics

102-1 102-2 102-3 Latvenergo Group is the largest power supplier in the Baltics. It operates in electricity and thermal energy generation and trade, electricity distribution services, and the leasing of transmission system assets.

102-4 102-5 102-6 Latvenergo Group comprises the parent company Latvenergo AS and seven subsidiaries. Information about subsidiaries and headquarters is disclosed in Notes 1 and 15 to the Financial Statements. All shares of Latvenergo AS are owned by the Republic of Latvia and held by the Ministry of Economics of the Republic of Latvia.

102-7 102-10 102-16 102-45 Latvenergo Group divides its operations into three operating segments: generation and trade, distribution, and lease of transmission system assets. More information on the operating segments of Latvenergo Group is disclosed in the section "Operating Segments".

Vision, mission and values of Latvenergo Group

Latvenergo Group

Headquarters

Generation and trade

Daugava hydropower plants

Riga combined heat and power plants

Ainazi wind power plant

Liepaja plants

Kegums boiler house

Aiviekste hydropower plant

Electricity trade

Distribution

Sadales tīkls AS

Lease of transmission system assets

Latvijas elektriskie tīkli AS

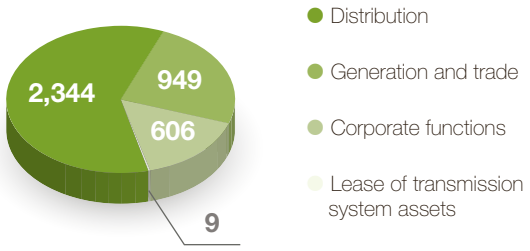
Facts 2017

Financial figures

	2017	2016
Revenue	925.6	931.6 MEUR
Profit	322.0	130.6 MEUR
Assets	4,415.7	3 901.2 MEUR
Investments	243.8	200.7 MEUR
Moody's credit rating	Baa2 (stable)	Baa2 (stable)

Employees

2017	2016
3,908	4,131



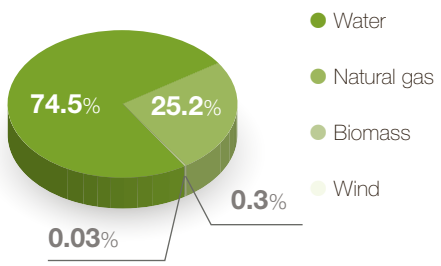
Generation and trade

	2017	2016
Retail electricity supply	6,923	7,666 GWh
Market share in the Baltics	27	30%
Retail customers	834	855 thsd.
Electricity output	5,734	4,707 GWh
Thermal energy output	2,612	2,675 GWh
Installed electrical capacity	2,569	2,569 MW
Installed thermal capacity	1,842	1,842 MW

Generation efficiency

	2017	2016
Daugavas HPPs	18.6	18.9 m^3/kWh
Rigas CHPPs	88%	83%

Resources used in electricity generation



Distribution

	2017	2016
SAIDI	261	286 min
SAIFI	2.8	3.1 number
Line length	93,560	93,813 km
Transformer capacity	5,913	5,892 MVA

Lease of transmission system assets

	2017	2016
Line length	5,240	5,237 km
Transformer capacity	9,021	8,950 MVA

Customer satisfaction index

	2017	2016
Business customers	3.7	3.7 (1–6)
Households	3.9	4.0 (1–6)

Highlights 2017

For the tenth time, Latvenergo AS has been acknowledged as the most valuable company in the Top 101 Most Valuable Companies of Latvia compiled by Prudentia AS and Nasdaq Riga. Latvenergo AS also ranks third on the list of Top 10 Most Valuable Companies in the Baltics.

In 2017, the total electricity output at the Daugava HPPs was 4,270 GWh, which is the third highest in the Group's history. Such an output level was last achieved in 1998.

Latvenergo AS is the first company in the Baltics to receive the Nasdaq exchange award "Best Investor Relations in the Baltics among Bond Issuers". Along with accepting the award on August 14, Āris Žīgurs, Chief Executive Officer of Latvenergo AS, rang the traditional Nasdaq MarketSite trading session opening bell at Times Square, New York.

Moody's has not revised the credit rating of Latvenergo AS at the Baa2 level with a stable future outlook. In their assessment, Moody's also took into account the planned changes in the support intensity for the Riga CHPPs and the planned Latvenergo AS capital release.

To achieve operational and financial targets set out in the Group's strategy 2017–2022, the Group has developed the Strategic Development and Efficiency Programme. While the strategic development section includes major strategic projects, the efficiency section provides for the revision, centralization and digitalization of the Group's processes. The programme aims to maintain the Group's profitability in the long term considering the increase in costs due to inflation.

After the opening of the gas market in 2017, Latvenergo Group, under the *Elektrum* brand, commenced natural gas sales to business customers in Latvia and Estonia. Also, two new products were introduced for the household segment – *Elektrum Smart House* and *Elektrum Solar.*

Compared to 2016, the System Average Interruption Duration Index (SAIDI) was reduced by 9% and the System Average Interruption Frequency Index (SAIFI) was reduced by 10%.

1.4. GROUP STRATEGY

Successful implementation of the objectives set in the strategy for 2017

The Group's strategic operational and financial goals and main development tasks for 2017–2022 are defined in the Latvenergo Group Strategy. The Organisation for Economic Cooperation and Development (OECD) Guidelines on Corporate Governance of State-Owned Enterprises were followed in the course of developing the strategy. The strategy is based on the overall strategic target set for Latvenergo AS by the Cabinet of Ministers of the Republic of Latvia.

Provision of goods and services within the energy sector in a sustainable, responsible and economically justified manner, which is important for the competitiveness and growth of the national economy and efficient management of the resources and infrastructure strategically important for national development and security, thus encouraging improvement of the security of the energy supply.

(The overall strategic objective set by the Cabinet of Ministers)

Considering the challenges expected in the energy industry and the business environment, the Latvenergo Group Strategy 2017–2022 defines three major objectives. In the reporting year, which was the first year of the strategy period, fulfilment of the objectives defined by the strategy was started successfully, thus making a considerable contribution to satisfying the needs of society while following the principles of sustainability.

The Group's strategic objectives

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

This objective envisages excellence in the Group's trade operations and cost efficiency. It includes commencement of retail gas sales on home markets and development of new products.

In 2017, Latvenergo Group, with a sales volume of 6.9 TWh, was among the leaders in electricity sales in the Baltics. Electricity sales outside Latvia amounted to 2.3 TWh and accounted for 1/3 of the total retail sales of electricity. In the reporting year, the Group also started sales of natural gas to corporate customers in Latvia and in Estonia.

In the household segment in Latvia, two new electricity products were introduced: *Elektrum Smart House*, which provides remote control of home heating and electrical appliances, and *Elektrum Solar*, which provides an opportunity to consume independently generated electricity using solar light.

2. Development of a generation portfolio suitable for synergy with trade and increasing the Group's value

This objective envisages completion of the reconstruction of the Daugava HPP generation facilities to ensure their sustainable and reliable operation. Furthermore, the aim is to move towards diversification of the existing generation capacities and the development of new ones in line with the criteria for diversification of primary generation resources and "low" emission projects.

Pillars of sustainability

In 2017, Latvenergo Group successfully continued the reconstruction programme for the Daugava HPP hydropower units by investing EUR 41.8 million. The programme is aimed at improving the efficiency, security and competitiveness of the Daugava HPPs. At the end of 2017, one reconstructed hydropower unit of the Plavinas HPP was put into operation. The hydropower unit reconstruction process is scheduled for completion in 2022.

Along with the above project, research is being conducted regarding projects for new power generation facilities compliant with the criteria of diversification of primary resources and low emissions.

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

This objective envisages increasing operational and cost efficiency of the distribution network, enhancing the quality and safety of distribution services, and continuing active implementation of the digitalisation of the distribution network.

A large-scale project for improvement of the operational efficiency of Sadales tikls AS was started in 2017. Restructuring of the company is being implemented in the first stage, which will be concluded in 2018. The strategic and operational asset management processes will be centralised and made more efficient.

By implementing the planned investment and organisational measures, a considerable improvement in the continuity of power supply was attained in 2017. In comparison to 2016, the aggregate System Average Interruption Duration Index (SAIDI) was reduced by 9% and the System Average Interruption Frequency Index (SAIFI) was reduced by 10%.

Considerable progress has also been achieved in network digitalisation. At the end of the reporting year, smart meters accounted for 36% of the total fleet of meters and were metering 78% of the total volume of electricity consumed by customers.

Overall in 2017, a high volume of work was done to focus further on the tasks defined by the strategy and plan them in detail. Taking into consideration the defined development directions, the Group has also approved the Strategic Development and Efficiency Programme.

The strategic development section of the programme contains major strategic projects. The efficiency section provides for review, centralisation and digitalisation of the Group's processes. The estimated gain of the efficiency programme is up to EUR 30 million, and this is the largest Group optimisation plan of the last decade. Implementation of the programme will allow the Group to maintain its competitiveness in the long term and also minimise the negative impact of the increase in competition and expected increase in costs on the Group's results in the coming years.

The Group's financial objectives

The 2017–2022 strategy also sets Latvenergo Group's financial objectives, which are divided into three groups: profitability, capital structure and dividend policy. The Group's financial results have improved considerably in recent years, which indicates its strong financial position and development.

The year 2017 should be assessed as among the most successful years in the Group's operations in recent years. Latvenergo Group's profit amounted to EUR 322.0 million in 2017. It consisted of the result of economic activity in the amount of EUR 172.9 million and the deferred corporate income tax as a result of the tax reform in the amount of EUR 149.1 million. The return on equity (ROE) of the profit before the deferred tax was 7.0%. This result exceeded the financial goal of 6% set for 2022 and can be considered a good achievement compared to industry profitability ratios.

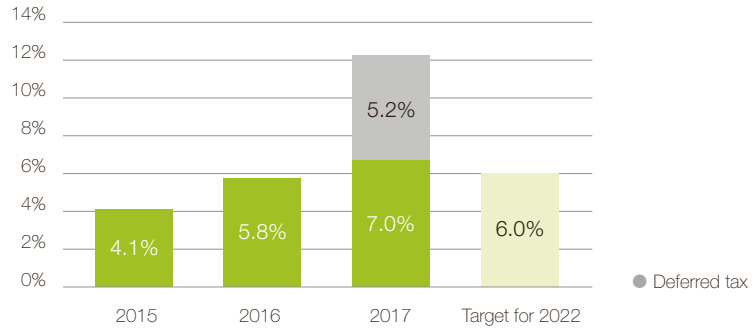
The 2017 financial indicators of the capital structure also ensured achievement of the set goals, exceeding average industry indicators as well. The strong capital structure provides for dividend payments larger than the industry average. The dividend policy defined in the strategy sets the dividend payout ratio at more than 80% of the profit, while each year's dividend payout is set by the Shareholder Meeting upon evaluation of the actual results.

The Group's financial objectives

Target group	Ratio	2016	2017	2022	Industry average ratio*
Profitability					
ambitious, yet achievable profitability, which is consistent with the average ratios of benchmark companies in the European energy sector and provides for an adequate return on the business risk	Return on equity (ROE)	5.8%	12.2%	> 6%	5 – 8%
Capital structure					
an optimal and industry-relevant capital structure that limits potential financial risks	Net debt to equity	25%	21%	< 50%	30 – 50%
	Net debt to EBITDA	1.7	1.1	< 3	2.5 – 3
Dividend policy					
a dividend policy that is consistent with the planned investment policy and capital structure targets	Dividend payout ratio**	77.4 MEUR	90.1 MEUR	> 80%	60 – 70%

* based on the data at the time of development of the strategy
** dividends are paid in compliance with the legislation of the Republic of Latvia

Return on equity



1.5. CORPORATE SOCIAL RESPONSIBILITY

Enhanced stakeholder engagement

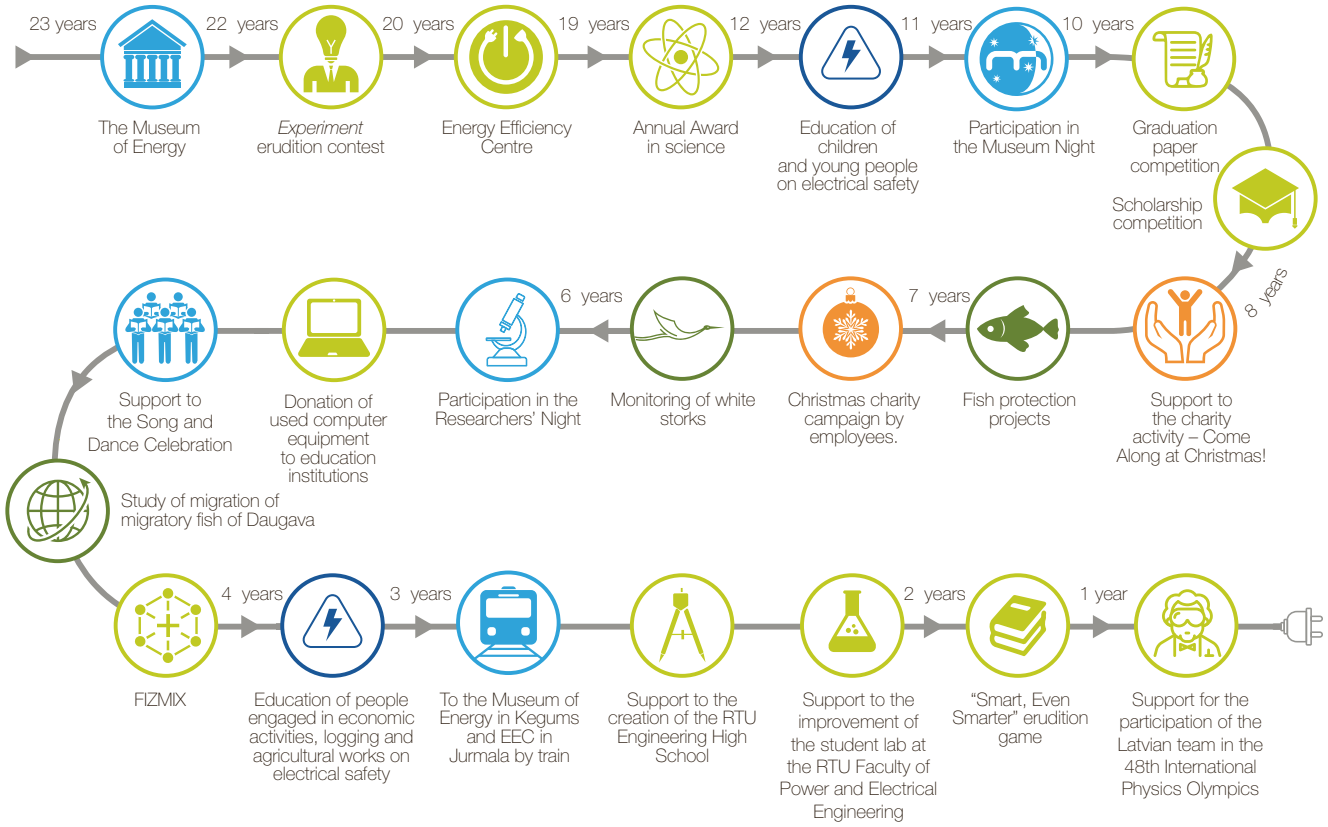
Latvenergo Group not only complies with statutory requirements, but also performs voluntary activities aimed at improving the public welfare and the environment and follows the principles of social responsibility in compliance with ISO 26000 in its daily operations.

Latvenergo Group Corporate Social Responsibility (CSR) Policy specifies the basic CSR forms, principles, directions and selection criteria for activities. The Group supports CSR activities in line with its operations and strategic goals, contributing to raising public awareness of responsible business conduct and the energy industry, making a substantial long-term impact and ensuring the involvement of large groups of society. CSR activities are implemented in the following areas:

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

In order to expand cooperation with stakeholders and to involve experts of the relevant fields in taking decisions on donations, Latvenergo AS donates funds in the cultural and social sphere via project tenders administered by collaborating organisations as of 2018. After evaluating the experience, administrative capacity, scope of operations, publicity, reputation and status of public benefit organisations, the foundation *Ziedot.lv* and the State Culture Capital Foundation was selected for collaboration in July 2017. At the end of 2017, project tenders for support of social assistance advancement and national culture events were announced in collaboration with the selected organisations.

CSR activities of Latvenergo Group in 2017 by the duration of Group's involvement



Areas of the CSR activities

- Science and education
- Raising public awareness of electrical safety
- Environmental protection
- Culture, sports and energy industry heritage
- Social support and responsibility towards employees

Science and education

Latvenergo Group implements science and education CSR projects with a view to:

- promoting young people's interest in science-related subjects and engineering professions;
- supporting young people's excellence in the exact sciences;
- supplementing teaching materials for teachers;
- supporting researchers' and teachers' scientific work in the field of energy that promotes the education of youth;
- raising public awareness of energy efficiency.

In cooperation with the Latvian Academy of Sciences, for more than 20 years Latvenergo Group has awarded its Annual Award for outstanding and significant contributions to the energy industry and achievements of young researchers in the field. Each year, the Group announces competitions for students of higher educational institutions, awarding the best graduation papers on topical issues in the energy sector, and organises a scholarship competition for students. The Group also provides students from various educational institutions with internship opportunities. Latvenergo Group employees participate in the bachelor's and master's thesis defence committees of Riga Technical University (RTU) and Latvia University of Agriculture (LUA) and also participate annually in publishing books related to the energy industry. In 2017, Latvenergo Group continued support for the Engineering High School of RTU and for improvement of the students' laboratory of the Faculty of Energy and Power Engineering of RTU.

For 22 years, Latvenergo Group has organised the knowledge contest "Experiment" for 8th and 9th-graders. It is aimed at encouraging young people's interest in learning physics and choosing engineering professions. Also, in order to teach physics to young people in an interesting and comprehensive way, provide teachers with an idea base and auxiliary materials and raise the prestige of mastering physics, Latvenergo AS has maintained the FIZMIX physics portal since 2013 (www.fizmix.lv). The FIZMIX team also presents physics experiments at workshops at schools in Latvia and at other events. In 2017, the knowledge contest "Experiment" was merged with the FIZMIX portal and is now referred to as "Fixmix Experiment".

To encourage young people's knowledgeability, as of 2016, Latvenergo Group participates in the production of the game show "Smart, Even Smarter" on Latvian national television (LTV1). In 2017, the Group also supported the participation of the Latvian team in the 48th International Physics Olympics and continued donating computer hardware to educational institutions in Latvia.

For 20 years, the *Elektrum* Energy Efficiency Centre has provided the opportunity for anyone to attend the events and educational workshops it organises, to participate in field trips free of charge and also to receive different recommendations for purchase and use of electrical appliances and smarter use of energy resources.

Raising public awareness of electrical safety

Raising public awareness of electrical safety is one of the CSR priorities of the Group's subsidiary Sadales tīkls AS. To reduce the number of electrical injuries due to insufficient knowledge, a number of projects aimed at electrical safety among children and young people are implemented each year in cooperation with educational institutions and experts. Particular attention is paid to ensuring that the information complies with the level of knowledge of each age group.

Since 2013, classes on electrical safety have been held at almost 700 educational institutions all over Latvia, educating more than 110 thousand children and young people on electrical safety matters. The main projects of 2017:

- continuing the electrical safety campaign "Don't take risks with electricity! Survive!" and improvement of the website www.arelektribuneriske.lv;
- the education and safety projects "One day for safety", cooperation with the music project "Brīnumskapis" ("Cabinet of Wonders"), and participation in various events, summer camps for children and regional safety days.

In 2017, Sadales tīkls AS continued to educate people engaged in economic activities, logging and agricultural work, encouraging them to take care of their own safety and the safety of those around them and to follow electrical safety rules while working near electricity lines.

Environmental protection

Latvenergo Group's care in preserving biodiversity and minimising the environmental impact of its operations is among the core principles of the Group's Environmental Policy. Protection of birds and replenishment of fish stock are important areas of action in this regard. The Group cooperates with the Latvian Ornithological Society in matters related to the protection and study of birds and with *Mēs zivīm*, a fish conservation society, to promote the replenishment of stock of fish breeds characteristic of the Daugava River basin. For more information on environmental protection activities implemented by the Group, see the section "Environmental Protection".

Culture, sports and energy industry heritage

By participating in nationwide cultural and sports events, Latvenergo Group promotes the development of Latvia's cultural traditions and the strengthening of its national identity and encourages an active lifestyle.

In 2017, Latvenergo AS started providing support to the XXVI Song and XVI Dance Celebration, which is among the central events of the celebration of the 100th Anniversary of the Latvian state. Latvenergo Group employees regularly participate in Lattelecom Riga Marathon and the Latvian Cycling Union Race in Sigulda. For several years, Latvenergo Group has taken part in the "Riga Carnival" event of the Riga Light Festival.

Latvenergo Group's Museum of Energy ensures research of the history of energy in Latvia and of Latvenergo Group and the collection and preservation of energy industry heritage and its availability. The museum offers exploratory tours and thematic educational classes for a variety of museum visitors and the possibility to watch the film "How the Kegums Power Plant Was Built. The Memoirs of Kārlis Dumbrājs".

In 2017, the museum restored the exhibition "Electricity does everything" by displaying the household appliances used in Latvia in the 20th century. The travelling exhibition of E. Kraucs's collection of glass plate photonegatives entitled "Construction of the Kegums Hydropower Plant (1936–1940)", which was created at the museum, is presented at educational establishments and at the National Library of Latvia. At the end of 2017, the cooperation agreement between Latvenergo AS and the UNESCO Latvian National Commission was signed again for the purpose of ensuring preservation of the documentary heritage included in the Latvian National Register of the UNESCO Memory of the World Programme.

Every year, the museum continues its participation in international and local events, including the Museum Night and the Researchers' Night. In cooperation with Pasažieru vilciens AS, the project "By Train to the Museum of Energy in Kegums and the Energy Efficiency Exhibition in Jūrmala!" was continued in 2017.

Social support and responsibility towards employees

Latvenergo Group regularly participates in charity activities. For the eighth year in a row, the Group supported the "Come Along at Christmas!" charity concert, promoting the artistic talents of children and young people with special needs. At this concert, children give performances together with the best Latvian artists.

Every year, the Group's employees donate a variety of useful everyday items to those in need.

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

1.6. AWARDS

Most Attractive Employer

For the sixth time, Latvenergo AS was ranked as the most attractive employer in Latvia by *cvmarket.lv* and, for the fifth time, as the top employer in the production sector and the third most popular employer in Latvia by CV-Online Latvia.

Leader in the electricity, gas and water supply sector

For the sixth year in a row, Latvenergo AS was the electricity, gas and water supply sector leader in the Latvian Corporate Reputation Ranking.

Most Beloved Employer and Most Beloved Brand

In the Latvian Ranking of Most Beloved Brands, Latvenergo AS was ranked as the fifth most beloved employer, while the Elektrum brand was ranked as the sixth most beloved brand in Latvia.

The most valuable company in Latvia

For the tenth time, Latvenergo AS was acknowledged as the most valuable company in the Top 101 Most Valuable Companies of Latvia.

The highest ranking in the Latvian Sustainability Index

For the fifth time, Latvenergo AS received the Platinum (highest) ranking in the Latvian Sustainability Index as well as a Family-Friendly Company Certificate from the Ministry of Welfare.

TOP 500 State-Owned Company, TOP 500 Most Valuable Company, TOP 500 Profitability, TOP 500 EBITDA

These awards were received by Latvenergo AS at an event honouring the largest, most profitable, most stable and most viable Latvian companies.

CORPORATE GOVERNANCE

2.1. CORPORATE GOVERNANCE MODEL

Corporate governance – for successful achievement of goals

102-16
102-18

The corporate governance model of Latvenergo Group has been developed in compliance with good governance practice on the basis of the regulatory framework and corporate governance guidelines. The model reflects the core elements that apply to the governance institutions of the capital companies of the Group. These elements serve as a precondition for successful achievement of the goals specified by the strategy and for increasing the value of the Group. A significant role in the maintenance of the elements of the Group's corporate governance system is assigned to the values of the Group and active communication, both within the Group and in cooperation with stakeholders.

Ethics and Compliance

Latvenergo Group follows high standards of professional ethics and ensures the compliance of its operation with legislative requirements. Regular information events to improve employee awareness of ethics and compliance standards are organised. The Group also continuously improves its internal regulations and takes other measures to prevent the possibility of corruptive or fraudulent activities.

Latvenergo Group supports fair business practices, follows fair competition rules, and does not engage in transactions that restrict competition or are corruptive or discriminatory. The Group also urges its contractual partners to adhere to similar ethical principles and to act in such a manner as to avoid conflict of interest situations in cooperation with the Group's companies, including honouring restrictions on acceptance of gifts defined by the Group and not offering the Group's employees any material valuables as an incentive or reward. Upon signing agreements, Latvenergo asks for confirmation that mutual cooperation will be based on the principles of fair business cooperation. Latvenergo Group's fundamental ethical principles are published on the Group's website.

Roles, Responsibilities and Accountability

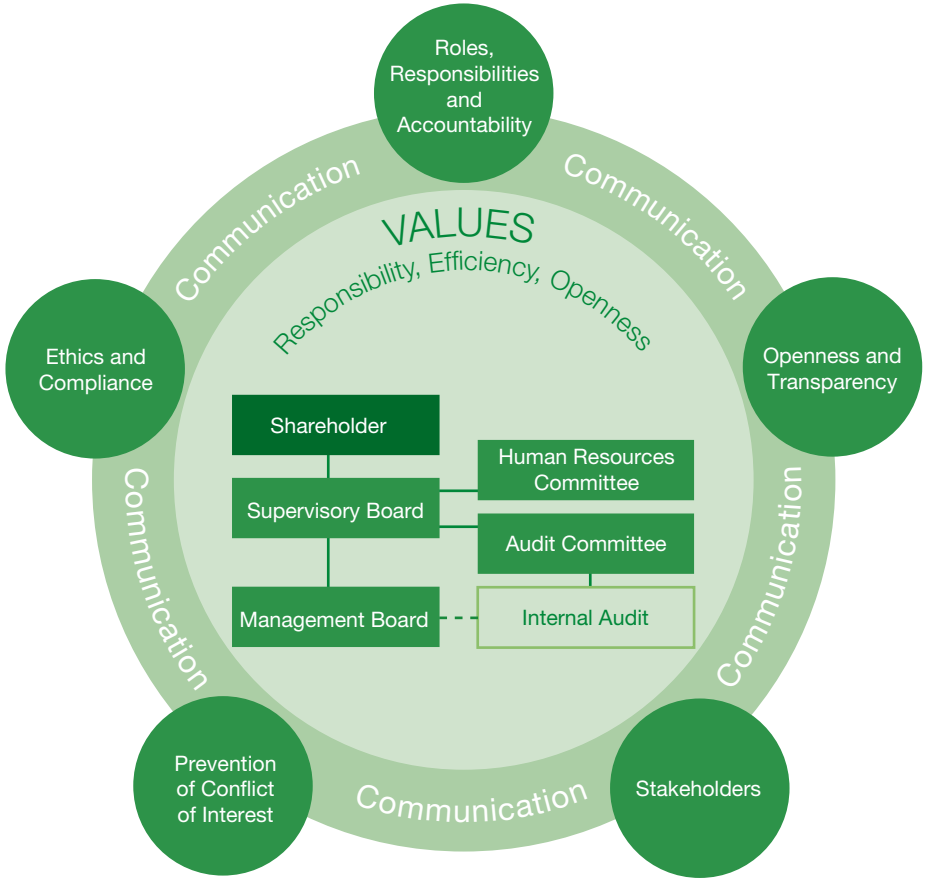
The roles, responsibilities and accountability of governance bodies are clearly defined by external laws and regulations and by the Group's internal documents. The most important of these are the companies' Articles of Association and regulations of the governance bodies. The Articles of Association of Latvenergo AS and the Regulations of the Management Board, the Supervisory Board, and the Audit and Human Resources Committees are published on the Group's website.

Openness and Transparency

Transparency of operation is ensured by Latvenergo Group through the publication of various financial and non-financial information on both the Latvenergo website and external sites, such as Nasdaq Baltic website.

- The Sustainability and Annual Report is published on a yearly basis. The Annual Report is prepared according to the International Financial Reporting Standards (IFRS) approved by the EU and the Sustainability Report is prepared according to the GRI guidelines.
- The Group's Interim Financial Reports are prepared on a quarterly basis in accordance with the information disclosure requirements for bond issuers stipulated by the Law on the Financial

Corporate Governance Model



Instruments Market. The Interim Financial Reports of Latvenergo AS and its subsidiaries are also published.

- The Latvenergo AS Corporate Governance Report is prepared on a yearly basis in compliance with the corporate governance principles of Nasdaq Riga AS.
- Regular virtual conferences on the Group's financial results and operational topicalities are also held.

The Group has been awarded for the openness and transparency of its operations. Latvenergo AS is the first company in the Baltics that has received a Nasdaq exchange award for the best investor relations in the Baltics among bond issuers.

Prevention of Conflicts of Interest

In accordance with the Law on the Prevention of Conflicts of Interest in the Activities of Public Officials, members of supervisory boards and management boards of state capital companies have the status of public officials. To prevent the influence of a personal or financial interest, the law restricts the activities of members of supervisory boards and management boards that fall outside the framework of their official powers. Members of supervisory boards and management boards are obliged to submit annual declarations of public officials, specifying income received, positions held, transactions performed, participation in commercial activities, and other information.

The Group's governance bodies ensure that principles for prevention of conflicts of interest are adhered to in the performance of official duties. Latvenergo Group's Code of Ethics defines the types of conflict of interest and the measures to prevent conflict of interest situations. Upon entering employment and signing the declaration, new employees must confirm their understanding of conflict of interest situations and their commitment to preventing their occurrence within their activities. In order to raise awareness of conflict of interest situations, training and informative events are organised by the Group.

For timely prevention of conflict of interest situations, the Group has introduced conflict of interest declarations, which are evaluated and controlled. In compliance with the Code of Ethics of Latvenergo Group, this declaration is annually submitted by managers and leading specialists of all levels, experts and other employees who, in the course of performing their official duties, participate in decision-making and have been or could find themselves in conflict of interest situations.

Stakeholders

Cooperation and communication with stakeholders is an important element of Latvenergo Group's corporate governance system. The Group is aware of its impact on stakeholders and vice versa and handles issues of material importance to its stakeholders with a sense of responsibility. More information on Latvenergo Group's cooperation with stakeholders is provided in the section "Stakeholder Engagement".

2.2. GOVERNANCE BODIES

The Supervisory Board has established the Human Resources Committee

Shareholder

100% of the shares of Latvenergo AS are owned by the state and held by the Ministry of Economics of the Republic of Latvia. The interests of the shareholder are represented at the Shareholder Meeting by the State Secretary of the Ministry of Economics or his/her authorised delegate. Shareholder Meetings are convened in accordance with the requirements and timelines stipulated by the Law on Governance of Capital Shares of a Public Person and Capital Companies.

According to the Energy Law, Latvenergo AS is designated as a national economy object of state importance, and its shares may not be privatised or alienated.

The principal duties of the Latvenergo AS Shareholder Meeting include:

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

Four Shareholder Meetings took place in 2017. The most important decisions passed in 2017 were the approval of the Annual Report 2016, distribution of dividends in the amount of EUR 90.1 million, appointment of the auditor, election of the members of the Audit Committee and the capital release of Latvenergo AS of EUR 454.4 million in relation to receipt of the compensation of CHPP support payments.

Supervisory Board

The Supervisory Board of Latvenergo AS was elected at the Shareholder Meeting on 16 December 2016 and its term of office is five years. The Supervisory Board is composed of five members: Andris Ozoliņš (Chairman of the Supervisory Board), Andris Liepiņš (Deputy Chairman), Baiba Anda Rubesa, Mārtiņš Bičevskis and Martin Sedlacky. All members of the Supervisory Board are independent experts who are not engaged in the operational activities of the Group.

The principal duties of the Latvenergo AS Supervisory Board include:

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

Fourteen meetings of the Supervisory Board took place in 2017. In addition to the principal duties, the following matters were reviewed:

- the Group's Strategic Development and Efficiency Programme until the year 2022;
- application for receipt of the compensation of CHPP support payments from the state and capital release of Latvenergo AS;
- amendments to the Regulations of the Audit Committee by including two members of the Supervisory Board in the Committee;
- establishment of the Human Resources Committee;
- improvement of the internal control environment.

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

Audit Committee

An independent Audit Committee operates at Latvenergo AS, which reports on its operations and performance to the Supervisory Board. Having evaluated necessary competencies, professional experience and compliance with the requirements of the Law on the Financial Instruments Market, the Shareholder Meeting elects five members to the Audit Committee for a term of office of three years. On 3 March 2017, Torben Pedersen (Chairman of the Audit Committee), Svens Dinsdorfs and Marita Salgrāve as well as Members of the Supervisory Board Andris Ozoliņš and Andris Liepiņš were elected to the Audit Committee. All members of the Audit Committee are independent experts who are not engaged in the operational activities of the Group.

The principal duties of the Audit Committee are to supervise:

- the financial reporting process;
- efficiency of the internal control and risk management systems;
- the work of the internal audit and the external auditor;
- implementation of the Fraud Risk Management Plan.

Eight meetings of the Audit Committee were held in 2017. In addition to its regular duties, the Audit Committee carried out the selection of the auditor for 2018–2020 and the selection of the Internal Audit Director.

The Regulations of the Audit Committee are available on the Latvenergo website.

Human Resources Committee

In compliance with the Regulations, the Supervisory Board of Latvenergo AS may form committees consisting of the members of the Supervisory Board for reviewing particular matters. On 8 March 2017, the Supervisory Board formed the Human Resources Committee for personnel management matters. The Committee consists of three members who are elected by the Supervisory Board from among the members of the Supervisory Board. Mārtiņš Bičevskis, Baiba Anda Rubesa and Andris Liepiņš were elected to the Committee.

The Human Resources Committee prepares proposals for the Supervisory Board regarding the selection, remuneration, performance evaluation and combining of positions of the personnel of the Management Board, Audit Committee and internal audit of Latvenergo AS. Two meetings of the Human Resources Committee were held in 2017.

The Regulations of the Human Resources Committee are available on the Latvenergo website.

Management Board

After evaluating compliance with the required competences, experience and the intended area of responsibility, the Supervisory Board elects five members to the Management Board of Latvenergo AS for a term of office of five years. The Management Board operates in compliance with the Articles of Association and the Regulations of the Management Board and reports to the Supervisory Board. All members of the Management Board are independent in their operation and hold no interest in the capital of cooperation partners or related companies.

The principal duties of the Latvenergo AS Management Board include:

- management and representation of the company;
- accountability for the business activities of the company and the legal compliance of accounting;
- management of the company's property;
- implementing the strategic direction of the Group, its development plans, goals and policies.

The Management Board of Latvenergo AS performs the functions of shareholder in subsidiaries where it is the only shareholder.

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

In 2017, 67 meetings of the Management Board were held. Number of meetings attended: Ā. Žīgurs (Chairman of the Management Board) – 67; G. Baļčūns – 62; U. Bariss – 63; M. Kuņickis – 61; G. Stafeckis – 52. The overall attendance rate was 91%.

After the end of the reporting period, as of 1 March 2018, Guntis Stafeckis, Member of the Management Board, has decided to retire from this position. As of report publication, the Management Board consists of four board members.

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

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

Remuneration of the Supervisory Board and the Management Board is regulated by the legislation of the Republic of Latvia – the Law on Governance of Capital Shares of a Public Person and Capital Companies as well as the Cabinet of Ministers Regulations based on that law. Legal acts provide for uniform regulation regarding remuneration of members of supervisory and management boards of the companies of a public person.

The monthly salary of the Chairman of the Supervisory Board and the Chairman of the Management Board is linked to the average monthly salary of employees in Latvia during the preceding year, as published in the Official Statistical Bulletin of the Central Statistical Bureau of the Republic of Latvia, multiplied by a ratio specified according to the capital company's reference criteria (turnover, assets, number of employees). The maximum ratio applicable to the monthly salary of the chairman of a supervisory board is 3, and in 2017 this was applied to the monthly salary of the Chairman of the Supervisory Board of Latvenergo AS. The ratio applied to the monthly salary of the Chairman of the Management Board in 2017 was 10 based on the capital company's reference criteria.

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

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

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

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

The remuneration paid for the year 2017 to A. Ozoliņš, Chairman of the Supervisory Board of Latvenergo AS, was EUR 29,905 and EUR 26,914 for the other members of the Supervisory Board. The remuneration paid to each member of the Audit Committee of Latvenergo AS for the year 2017 was EUR 10,222, except for the members who are simultaneously members of the Supervisory Board. Members of the Human Resources Committee do not receive remuneration for their work in the Committee.

The aggregate remuneration for the year 2017 for Ā. Žīgurs, Chairman of the Management Board and Chief Executive Officer of Latvenergo AS, was EUR 151,136; for G. Baļčūns, Member of the Management Board and Chief Financial Officer, it was EUR 135,068; for U. Bariss, Member of the Management Board and Chief Commercial Officer, it was EUR 134,637; for M. Kuņickis, Member of the Management Board and Chief Operating Officer, it was EUR 135,457; for G. Stafeckis, Member of the Management Board and Chief Technology and Support Officer, it was EUR 130,610.

Internal Audit

The Internal Audit is an independent unit of Latvenergo AS and its objective is to help the Group to achieve its goals by evaluating and improving the effectiveness of internal control, risk management and corporate governance processes. Internal audits are performed in compliance with the International Standards for the Professional Practice of Internal Auditing. The activities of the Internal Audit are supervised by the Audit Committee.

The annual internal audit plan is approved by the Audit Committee. Once a year, based on the audit results, the Internal Audit submits a comprehensive opinion on the effectiveness of the Group's internal control system and recommendations for its improvement to the management of Latvenergo Group. The Internal Audit prepares its activity report and submits it to the Management Board and the Audit Committee. It comprises information on compliance of the activities with standards, self-assessment and measures for assuring and improving the quality of its services.

Dividend Policy

The distribution of Latvenergo AS dividends over the coming years is regulated by the Republic of Latvia Law on the State Budget for 2018 and the Law on the Medium-Term Budgetary Framework for 2018, 2019 and 2020. In compliance with these laws, the anticipated amount payable by Latvenergo AS in dividends for the use of state capital is EUR 94.2 million in 2018, EUR 132.9 million in 2019 (including corporate income tax) and EUR 127.1 million in 2020 (including corporate income tax). The actual amount payable by Latvenergo AS in dividends is determined by the Shareholder Meeting of Latvenergo AS after the approval of the Annual Report, upon evaluation of the results for the previous year.

Governance of Subsidiaries

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

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

Latvenergo AS Supervisory Board

Andris Ozoliņš
Chairman of the Supervisory Board

TERM OF OFFICE

16.12.2016–15.12.2021

COMMITTEE MEMBERSHIP

Audit Committee

EXPERIENCE

2016–2018: Baltic International Bank AS, Member of the Supervisory Board

2013–2014: Reverta AS, Member of the Supervisory Board

2013–2014: Kredītinformācijas birojs AS, Member of the Supervisory Board

2010–2011: DNB Bank ASA, Member of the Management Board

1999–2012: DNB banka AS (NORD/LB Latvija AS), President and Chairman of the Management Board, Member of the Management Board

1997–1999: Irvin & Co Baltics SIA, Chief Executive Officer, Senior Consultant

EDUCATION

RTU Riga Business School, Master of Business Administration (2002)

University of Latvia, Diploma in Philosophy (1991

Andris Liepiņš
Deputy Chairman of the Supervisory Board

TERM OF OFFICE

16.12.2016–15.12.2021

COMMITTEE MEMBERSHIP

Audit Committee
Human Resources Committee

EXPERIENCE

2014–2016: Riga International Airport SJSC, Chairman of the Management Board

2011–2014: Air Baltic Corporation AS, Chairman of the Supervisory Board

2001–2014: Ministry of Economics, Deputy State Secretary

2002–2006: Latvenergo AS, Member of the Supervisory Board

1995–2001: Development Agency of Latvia, Member of the Management Board, Director of the Investment Department

1994–1995: Saeima, Member of Parliament, Ministry of Economics, Parliamentary Secretary

1994: Development Agency of Latvia, Member of the Management Board, Director of the Investment Department

1991–1994: Ministry of Economics, Department of External Economic Relations, Senior Specialist

EDUCATION

RTU Riga Business School, Master of Business Administration (2010)

Columbia University in the City of New York, Master of International Relations (1997)

University of Latvia, Master of Public Administration (1996)

University of Latvia, Diploma in Economics (1993)

Baiba Anda Rubesa
Member of the Supervisory Board

TERM OF OFFICE

16.12.2016–15.12.2021

COMMITTEE MEMBERSHIP

Human Resources Committee

EXPERIENCE

(2015–present: RB Rail AS, Chairperson of the Management Board, Chief Executive Officer

2014–present: RFactor SIA, Owner and Chairperson of the Management Board

2012–2015: Citadele Banka AS, Member of the Supervisory Board

2010–2013: Statoil ASA, Vice President, Corporate Social Responsibility

2008–2010: Statoil Azerbaijan, Director, Government & Public Affairs

2002–2009: DnB NORD Banka AS, Member of the Supervisory Board

2001–2008: Latvija Statoil SIA, Managing Director

1996–2000: Statoil Baltic States, Director, Marketing & Public Affairs

1994–1996: Es un partneri SIA, Owner

1993–1993: Bell Sygma Inc., Assistant Vice President

1985–1992: Volkswagen Group, Manager of Corporate Image and Coordinator of International Public Relations

EDUCATION

Shaw College, Degree in Business Administration (1975)

York University, Bachelor of Arts (1974)

Mārtiņš Bičevskis
Member of the Supervisory Board

TERM OF OFFICE

16.12.2016–15.12.2021

COMMITTEE MEMBERSHIP

Human Resources Committee (Chairman)

EXPERIENCE

2016–present: State Real Estate SJSC, Chairman of the Supervisory Board

2012–2017: Employers' Confederation of Latvia, Vice President, Member of the Supervisory Council

2011–2016: Association of Latvian Commercial Banks, President, Member of the Board

2008–2011: Ministry of Finance, State Secretary

2004–2008: Ministry of Justice, State Secretary

2003–2004: Ministry of the Interior, Deputy State Secretary

2000–2003: Office of Citizenship and Migration Affairs, Head

1999–2000: Ministry of the Interior, Parliamentary Secretary

1999: Saeima, Member of Parliament

1999: Privatisation Agency, Member of the Supervisory Board

EDUCATION

University of Latvia, Faculty of Law, Lawyer (1998)

Martin Sedlacky
Member of the Supervisory Board

TERM OF OFFICE

16.12.2016–15.12.2021

EXPERIENCE

2012–present: Air Baltic Corporation AS, Member of the Management Board, Chief Operating Officer

2006–2013: The Boston Consulting Group (Czech Republic), Project Manager

EDUCATION

University of Economics in Prague, CEMS Master in International Management (2006)

University of Economics in Prague, Engineer Degree in Economics (2006)

Latvenergo AS Management Board

Āris Žīgurs

Chairman of the Management Board and Chief Executive Officer

TERM OF OFFICE

16.11.2015–15.11.2020

EXPERIENCE

2016–present: Member of the Council of Higher Education

2015–present: Employers' Confederation of Latvia, Member of the Board

2013–present: Latvenergo AS, Chief Executive Officer

2011–present: RTU, Chairman of the Counsellor Convent

2011–present: LUA, Member of the Counsellor Convent

2011–present: Latvian National Committee of the World Energy Council, Vice President

2010–present: Latvenergo AS, Chairman of the Management Board

2010–present: EURELECTRIC, Member of the Board of Directors

1996–2010: Rīgas Siltums AS, President and Chairman of the Management Board

EDUCATION

RTU, Doctor of Sciences in Engineering, energy sector (2009)

RTU Riga Business School, Master of Business Administration (2004)

LUA, Faculty of Engineering, engineer-mechanic (1988)

Guntars Baļčūns

Member of the Management Board and Chief Financial Officer

16.11.2015–15.11.2020

2016–present: Elektrum Eesti OÜ, Member of the Supervisory Board

2016–present: Elektrum Lietuva UAB, Member of the Supervisory Board

2016–present: Baltic Institute of Corporate Governance, Member of the Supervisory Board

2015–present: Latvenergo AS, Chief Financial Officer

2015–present: Latvenergo AS, Member of the Management Board

2014–2015: Enerģijas publiskais tirgotājs AS, Member of the Management Board

2005–2015: Latvenergo AS, Business Planning and Control Director, Corporate Strategy Project Manager

RTU Riga Business School, Master of Business Administration (2016)

University of Latvia, Master of Economics (2005)

SSE Riga, Bachelor of Economics and Business Administration (2003)

Uldis Bariss

Member of the Management Board and Chief Commercial Officer

16.11.2015–15.11.2020

2013–present: Latvenergo AS, Chief Commercial Officer

2010–present: Elektrum Lietuva UAB, Chairman of the Supervisory Board

2010–present: Elektrum Eesti OÜ, Chairman of the Supervisory Board

2005–present: Latvenergo AS, Member of the Management Board

2005: Latvenergo AS, Project Director of Distribution Network Restructuring

2002–2004: Latvenergo AS, Economics Department Director

1996–2002: Lattelekom SIA, Head of the Financial Planning and Control Division, Head of the Management Accounting Sector

RTU, Doctor of Science in Engineering, Environmental Science (2017)

SSE Riga, Executive Master of Business Administration (2008)

University of Latvia, Master of Economics (2004)

Māris Kuņickis

Member of the Management Board and Chief Operating Officer

16.11.2015–15.11.2020

2013–present: Latvenergo AS, Chief Operating Officer

2012–present: EURELECTRIC, Deputy Member of the Board of Directors

2011–present: Latvian Association of Power Engineers and Energy Constructors (LAPEEC), Member of the Board

2010–present: Latvenergo AS, Member of the Management Board

2006–2010: Rīgas gaisma LGA, Director, Executive Officer

University of Latvia, Master's Degree, Faculty of Physics and Mathematics (2005)

RTU, Bachelor of Engineering, Faculty of Power and Electrical Engineering (2002)

Guntis Stafeckis

Member of the Management Board and Chief Technology and Support Officer (until 01.03.2018)

16.11.2015–01.03.2018

2016–2018: Latvenergo AS, Chief Technology and Support Officer

2015–2018: Latvenergo AS, Member of the Management Board

2011–2015: Latvijas elektriskie tīkli AS, Chief Executive Officer

2010–2011: Siltumelektroprojekts AS, Chief Executive Officer

1995–2009: Siemens SIA, Chief Executive Officer, Manager of the Energy Department, Manager of the Energy and Transport Systems Department

1995: Latvenergo AS, Deputy Head of the Technical and Production Department of the Daugava HPPs

RTU, Professional Master's Degree in Electrical Engineering (1986)

Latvenergo AS Audit Committee

Torben Pedersen
Chairman of the Audit Committee

TERM OF OFFICE

03.03.2017–02.03.2020

EXPERIENCE

2015–present: Electronic House UAB, Member of the Supervisory Board

2013–present: Vilnius International School, Shareholder Representative

2012–present: Latvenergo AS, Chairman of the Audit Committee

2013–2014: Rus-Agro Team AS, Member of the Management Board

2012–present: Baltic Engineers UAB, Chairman of the Management Board

2011–2016: Danish Chamber of Commerce in Lithuania, Member of the Supervisory Board

2001–2010: Deloitte, Partner

1994–2001: Arthur Andersen, Partner

EDUCATION

Aarhus School of Business, Master of Economics and Auditing (1974)

Chartered Accountant qualification (Denmark)

Marita Salgrāve
Member of the Audit Committee

TERM OF OFFICE

03.03.2017–02.03.2020

EXPERIENCE

2017–present: International Organization of Supreme Audit Institutions, FIPP member

2015–present: Latvenergo AS, Member of the Audit Committee

2015–present: State Audit Office of the Republic of Latvia, Advisor to the Auditor General in strategic matters

2007–2015: State Audit Office of the Republic of Latvia, Member of the Council, Director of the Fourth Audit Department

1998–2007: Central Finance and Contracting Agency, Deputy Director, Director of the Programme Management Department, Senior Procurement Specialist

1993–1998: Ramboll AS, Project Manager

EDUCATION

Sint-Aloysius School of Economics (EHSAL) (Belgium), Master of Business Administration (1998)

University of Latvia, Faculty of Economics and Management, postgraduate qualification of an economist (accountant) (1997)

Oxford College of Petroleum and Energy Studies, postgraduate qualification in energy and the environment (1995)

University of Latvia, Faculty of Chemistry, Master of Analytical Chemistry (1988)

Svens Dinsdorfs
Member of the Audit Committee

TERM OF OFFICE

03.03.2017–02.03.2020

EXPERIENCE

2017–present: INDEXO IPAS, Member of the Supervisory Board

2015–present: Elko Grupa AS, Director, Member of the Management Board

2012–present: Latvenergo AS, Member of the Audit Committee

2006–2014: Elko Grupa AS, Finance Director, Member of the Management Board

2004–2006: Sirowa Riga AS, Finance Director

1998–2004: Air Baltic Corporation AS, Vice President of Strategic Development, Business Control Director

EDUCATION

SSE Riga, Master of Finance and Economics (2003)

SSE Riga, Bachelor of Economics and Business Administration (1998)

2.3. GROUP MANAGEMENT

The Group's management is implemented according to the strategic directions

102-18 Latvenergo Group's management model is based on best corporate governance practice. In order to ensure effective governance of the Group, decision-making and achievement of goals, strategic and operational management are separated.

The Group's strategic management is ensured by the Management Board, whose accountability is joint according to the Commercial Law, and the operational management is ensured by Chief Officers, whose accountability is individual. The main duty of the Management Board is to lead the Group in order to reach the objectives stated in the strategy. At minimum, the Management Board reports to the Supervisory Board on a quarterly basis and to the shareholder on an annual basis. Chief Officers ensure the operational management of Latvenergo AS, including the achievement of set goals, implementation of strategy and developed policies, and other everyday duties according to delegation.

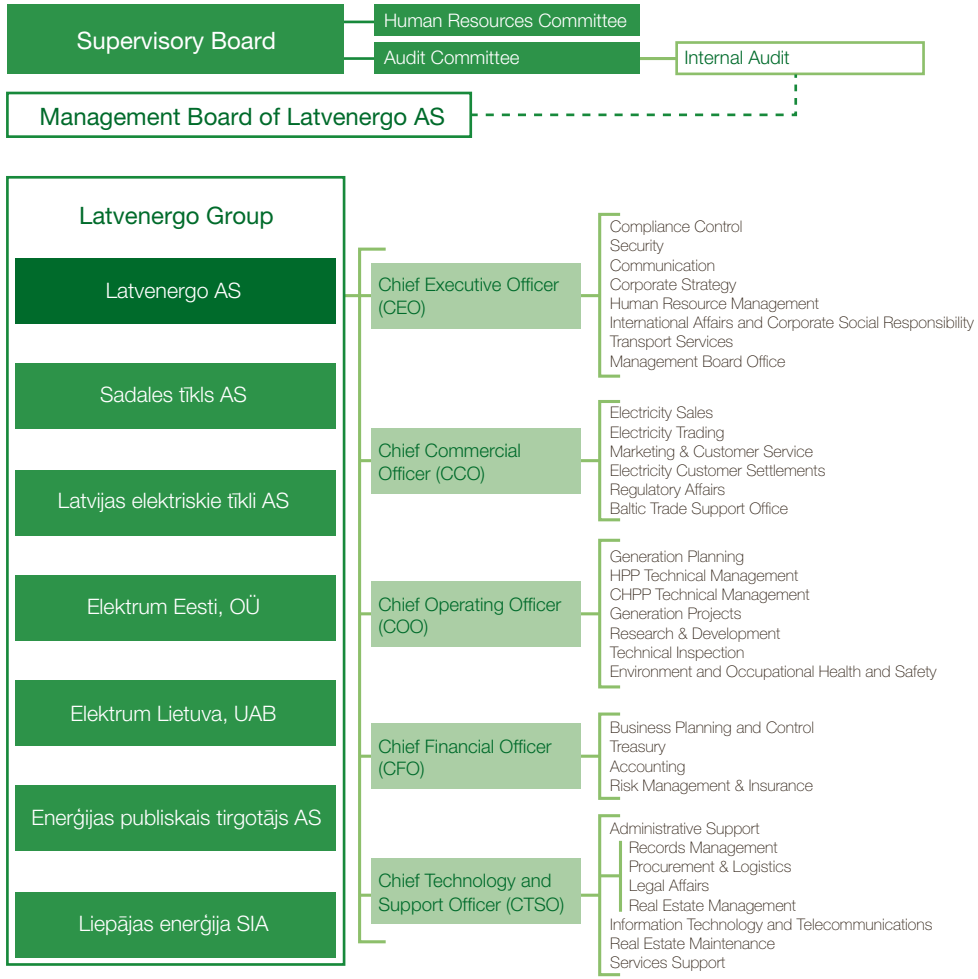
Considering their previous experience and knowledge of the Group's operations, the duties of Chief Officers are performed by the Members of the Management Board of Latvenergo AS. The division of duties of Chief Officers at the end of the reporting year was as follows:

- **Āris Žīgurs –** Chief Executive Officer;
- **Guntars Baļčūns –** Chief Financial Officer;
- **Uldis Bariss –** Chief Commercial Officer;
- **Māris Kuņickis –** Chief Operating Officer;
- **Guntis Stafeckis –** Chief Technology and Support Officer.

The Chief Officers' areas of accountability and subordinated functions are clearly defined. Chief Officers are individually accountable to the Chief Executive Officer for the operational activity of subordinated functions, ensuring their division's cooperation with the functions of other divisions and adoption of decisions in compliance with the Group's strategy. The Chief Executive Officer is accountable to the Management Board for the operational activity of subordinated functions. The areas are defined and accountability of the Chief Officers is set in accordance with the strategic goals of the Group.

In 2017, for the purpose of optimising the organisational structure required for performing the business operations of Latvenergo AS and the decision-making process, changes were implemented in the structure of the Generation Division. The past functions of Generation Projects and Maintenance Projects are now merged into the single function of Generation Projects. Also, the location of the Compliance Control function within the organisational structure was changed; it is now directly subordinated to the Chief Executive Officer.

Latvenergo Group Organisational Structure



2.4. INTERNAL CONTROL SYSTEM AND RISK MANAGEMENT

The Group continuously improves its internal control system

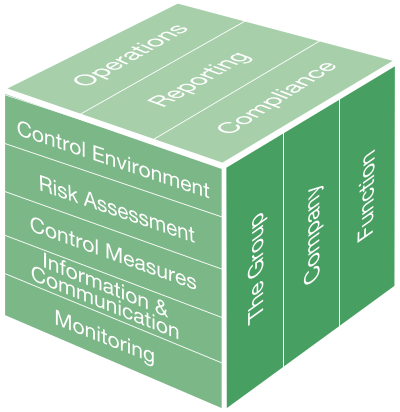
Internal Control System

102-11
102-16
102-56

To ensure the achievement of Latvenergo Group's strategic goals, successful supervision and efficiency of operations, an internal control system has been introduced and is continuously improved at the Group. It has been developed taking into account the COSO (Committee of Sponsoring Organizations of the Treadway Commission) framework, which is among the internationally recognised internal control approach frameworks. Three key objectives of the internal control system:

- efficiency of the Group's operations;
- credibility of the disclosed information;
- compliance of operations with regulatory enactments.

COSO cube



Efficiency of the work processes

The goal of the work process of Latvenergo Group is operational efficiency and effectiveness. In order to continue improving the competitiveness of Latvenergo Group and to strengthen the position of the power utility on the dynamically changing regional market, during the strategy period until 2022 an efficiency programme is planned to provide for review, centralisation and digitalisation of the Group's processes.

Reporting

Reporting includes both internal and external reports on financial and non-financial operations. The credibility of the information delivered provides accurate and complete information to the management of Latvenergo Group for decision-making and supervision of company operations. External reports ensure that investors and other stakeholders are kept informed of the financial position of the company and its performance.

Compliance

Latvenergo Group operates in compliance with regulatory enactments. In order to ensure compliance with regulatory enactments, internal regulatory enactments and their compliance with external regulation is reviewed regularly, potential risks are identified and evaluated, and additional controls are developed.

In order to achieve the above goals on the level of Latvenergo Group, its subsidiaries and departments, the following internal control system's elements are continuously improved:

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

Control environment

The management of the Group promotes business activities that are in line with the principles of good faith and compliance with ethical standards and implements actions necessary to prevent the risk of corruption and fraudulent conduct and to promote the improvement of the control environment. Responsible persons for establishment and performance of controls are appointed on all organisational levels. In order to promote employee understanding of the internal control environment and processes, the Group holds regular employee trainings. On an annual basis, the Internal Audit provides a comprehensive opinion on the effectiveness of the internal control environment and develops recommendations for its improvement.

Risk assessment

Latvenergo Group continuously improves its risk management process in order to adapt to the changing business environment and market development trends. Risk assessment is increasingly integrated into all the company's governance processes. For more information on the Group's risk management process and major risks, see the section "Risk Management".

Control measures

Latvenergo Group has introduced and continuously improves integrated control measures, in particular the Group's governance policies, the regulations of structural units, the division of employee duties and responsibilities, etc. These are aimed at promoting implementation of the Group strategy and achievement of goals by ensuring economical, productive and efficient operations compliant with ethical standards.

Information and communication

Latvenergo Group's internal information and control systems ensure verified, accurate and reliable information for communicating both internally within the Group and to external stakeholders.

The management of Latvenergo Group provides regular information to employees on both long-term and short-term plans. The key information exchange and communication channels are the Intranet, the employee newsletter Latvenergo Vēstis, internal record-keeping systems, electronic communication, internal databases, employee forums and workshops. In order to ensure feedback, internal opinion surveys, employee development interviews and competence assessments are performed. Working groups are also established where representatives with various skills, know-how and competencies are delegated to ensure the exchange of employees' opinions and knowledge and raise their motivation and engagement in decision-making. In order to promote employee understanding of the internal control system, the Group organises employee trainings.

Monitoring

The Group's management is responsible for regular assessment and improvement of controls. The management's performance is monitored by the Supervisory Board (the Shareholder Meeting until formation of the Supervisory Board in December 2016), the Audit Committee and the Internal Audit. The external auditor issues an opinion on compliance of the financial reports. All the aforementioned institutions are independent in their operations.

Supervisory bodies			
Institution	Objective	Monitoring scope and tasks	Reporting
Auditor	To provide an opinion on compliance of the Group's financial reports with the IFRS	• Auditing financial reports and checking the sustainability report; • Evaluating accounting principles and justification of major management accounting estimates.	Once a year, following the finalization of the consolidated financial statements, the Auditor reports at the Shareholder Meeting.
Supervisory Board	To represent the interests of the Shareholder in between the Shareholder Meetings and supervise the operation of the Management Board	• Supervising the Management Board's operations; • Approval of the medium-term operational strategy of the company; • Evaluation of the work of the Audit Committee; • Supervising the compliance of the company's operations with legislation, the Articles of Association and decisions adopted at the Shareholder Meeting.	At least once a year, the Supervisory Board reports at the Shareholder Meeting.
Audit Committee	To oversee the preparation of the Group's financial reports and the operation of internal control systems, thus stimulating transparency of company operations	• Supervising the preparation of financial reports; • Supervising the effectiveness of the internal control and risk management system; • Supervising the activities of the Internal Audit and the auditor as well as implementation of the Fraud Risk Management Plan; • Ensuring the process of selection of the sworn auditor.	At least once a year, the Audit Committee reports on its activities and performance of tasks to the Supervisory Board.
Human Resources Committee	To ensure the supervisory functions of the Supervisory Board in the area of human resources management	• Ensuring the selection of the employees of the Management Board, the Audit Committee and the Internal Audit; • Evaluation of the remuneration, performance and combining of positions of the Management Board, the Audit Committee and the Internal Audit employees.	The Human Resources Committee reports on its activities and performance of tasks to the Supervisory Board.
Internal Audit	To evaluate and assist governance bodies and structural units in improving the effectiveness of risk management, internal control and corporate governance processes	• Evaluating the effectiveness of internal control, risk management and corporate governance processes, preparing recommendations for their improvement and supervising their implementation.	Every quarter the Internal Audit reports to the Audit Committee on the audits performed and the status of implementation of audit recommendations.

Risk Management

The objective of Latvenergo Group risk management is to identify significant risks for the Group in a timely manner and manage them to ensure achievement of the Group's strategic goals and minimise potential losses or harm to its reputation.

Risk management at Latvenergo Group is integrated both in the processes of development and implementation of the strategy and in operational activities. The core principles of the Group's risk management are defined by the Risk Management Policy. The risk management process provides for continuous risk identification, assessment and management.

Significant risks for the Group are divided into four categories:

- *Strategic risks* involve matters of strategic importance for the Group, such as the industry development, new competitors entering the market, and implementation of projects of strategic importance. The main risk management instruments for this category are monitoring change and development trends in the energy sector and the political environment, participating in developments that affect the Group's operational aspects, and evaluating and implementing necessary changes in the Group;
- *Operational risks* include risks arising from the Group's operational specifics: energy generation, maintaining power plants and ensuring their functionality, and energy supply and distribution. Operational risks are associated with loss of assets, human health and safety, information technologies, environmental impact and other issues. Operational risks arise from imperfect or insufficiently effective processes and systems, employee error or insufficient competence, damage to equipment, or external events. The main risk management instruments for this category are continuous improvement of the internal control system, development and use of maintenance and development plans, and use of insurance services.
- *Financial risks* are risks associated with funding of the Group's operations. The Group is subject to various financial risks: market risks, credit risk, and liquidity and cash flow risks. In its financial risk management Latvenergo Group applies financial risk controls and performs various risk restriction measures. The Group uses long-term fixed price supply contracts with customers, electricity derivatives, natural gas supplies at fixed prices, and balanced placement of financial assets and instruments. Cash flow risk is restricted by using the credit facilities granted by banks allowing to meet existing and expected commitments and compensate for fluctuations in cash flows. Within the framework of financial risk restriction, tax, financial statement and reporting risks are also evaluated and monitored;
- *Legal and compliance risks* are risks arising from rules and regulations issued by the EU and Latvian institutions. The main risk management instruments for this risk category are monitoring changes and development trends in the legal environment that affect the Group's operational area, participation in the development process of new regulatory documents, and implementation of required changes in the Group. In order to minimise any kind of abuse or incorrect or unlawful action for personal gain, the Compliance and Control Department has been established at the Group. It organises and manages the compliance control process by ensuring effective fraud and corruption risk management at the companies of Latvenergo. Continuous employee training and monitoring is an important instrument for managing this type of risk.

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

2.5. GROUP PROCUREMENT

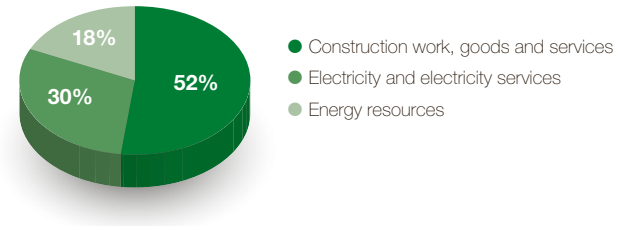
The Group complies with and encourages its contractors to follow ethical and good faith principles of cooperation

102-9
102-10

To ensure its operations, Latvenergo Group procures electricity, energy resources (natural gas, woodchips and diesel fuel) and fuel as well as various types of construction work, goods and services. In 2017, the total cost of Latvenergo Group's procurement was around EUR 670 million, approximately 50% of which constituted construction work, goods and services, while electricity and electricity services constituted approximately 30% and the cost of energy resources constituted approximately 20%.

Most of the Group's procurement was from suppliers and service providers in the Baltics and the Nordic countries. The total number of suppliers exceeds 3.5 thousand.

Types of procurement in 2017



The Group's procurement complies with EU legislation and the legal acts of the Republic of Latvia and those countries in whose territory the Group carries out its commercial activity. The key principles of the Group's procurement are based on the requirements of Directives 2014/24/EU and 2014/25/EU of the European Parliament and the Council and those of the Law on Procurement of Public Service Providers of the Republic of Latvia. The Group is committed to ensuring the most efficient use of funds and, in selecting suppliers, ensures competition and fair and equal treatment and follows the principle of transparency of procurement.

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

To ensure efficient procurement, Latvenergo Group has established a qualification system for suppliers of construction work and services, aimed at selecting and maintaining a list of qualified suppliers. The qualification system contains 24 types of construction work and engineering with 96 qualified contractors and planning engineers.

Procurement of construction work, goods and services

In 2017, Latvenergo Group's procurement of construction work, goods and services amounted to approximately EUR 350 million, constituting about 50% of its overall procurement expense. Investment in both reconstruction of existing assets and construction of new ones accounts for the largest share of procurement of construction work, goods and services. In 2017, the Group made investments amounting to EUR 243.8 million. In order to secure high quality power network service, technical indices and security of operations, a considerable amount of investment was made in network modernisation. Investment in network assets accounted for 65% of the total investment in the reporting year. The Group is also continuing reconstruction of the hydropower units of the Daugava HPPs, where EUR 41.8 million were invested in the reporting year.

The other major expense within the procurement of construction work, goods and services consists of procuring materials, repair work and various services. The expenses of Latvenergo AS and Sadales tīkls AS account for more than 90% thereof.

Electricity procurement

Purchased electricity (2013–2017)

	Unit	2013	2014	2015	2016	2017
Purchased electricity	GWh	3,656	5,590	4,701	4,081	3,544

In 2017, Latvenergo Group's procurement of electricity and electricity services amounted to approximately EUR 200 million, constituting about 30% of its overall procurement expense. Electricity and electricity service procurement expenses include ancillary electricity services and electricity future transactions performed to reduce price risks. The total amount of electricity and ancillary electricity services purchased wholesale was 3,544 GWh, which is 13% less than in the previous year. This was mainly due to higher electricity output at the Daugava HPPs. The Group sells all the electricity generated by its plants and at the same time procures electricity for its customers on the Nord Pool, the leading international power exchange in Europe, thus ensuring full transparency of procurement.

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

Energy resource procurement

Amounts of fuel consumed (2013–2017)

	Unit	2013	2014	2015	2016	2017
Natural gas*	thsd. nm^3	597,846	517,119	569,004	598,425	465,741
Wood chips	loose m^3	169,801	233,786	216,645	232,792	255,352
Diesel fuel	m^3	5	111	120	18	12

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

The energy resource procurement of Latvenergo Group comprises natural gas, woodchips and diesel fuel. In 2017, its expense amounted to EUR 120 million or 20% of the overall procurement expense. The Riga CHPPs accounted for more than 90% of fuel expenses, the rest coming from the Liepaja plants and Kegums Boiler House.

Natural gas accounts for the largest share of Latvenergo Group's overall fuel expenses. It is used as the primary fuel by the Riga CHPPs and as one of the fuel sources by the Liepāja plants.

Until 3 April 2017 Latvijas Gāze AS held the monopoly right to natural gas sales and utilisation of the natural gas system. Since the opening of the market, any consumer is free to choose their natural gas merchant and any user of the system has the right to access the system at the tariffs approved by the PUC. Since 1 June 2017, Latvenergo Group has organised natural gas supplies to the Riga CHPPs through wholesale purchases of natural gas. Liepājas enerģija SIA buys natural gas from Latvijas Gāze AS.

In 2017 Latvenergo Group consumed 466 million nm^3 or 4,907 GWh of natural gas, which is 22% below the level of the previous year. Annual natural gas consumption at Latvenergo Group plants ranged from 500 to 600 million nm^3 during preceding years depending on thermal energy demand and market conditions. Moreover, three new heat producers started operating in the vicinity of Riga CHPP-2 in 2017, thus increasing competition on the thermal energy market.

To ensure the reliability of thermal energy supply for emergency situations when the supply of natural gas is interrupted, the Riga CHPPs store backup fuel reserves of diesel. The boiler house of Liepājas enerģija SIA also uses diesel. Procurement of diesel fuel accounts for an insubstantial share of the overall expense of energy resource procurement at the Group.

At the Liepaja plants and Ķegums Boiler House a renewable energy source, woodchips, is used, which accounted for approximately 2% of the total fuel procurement expense in 2017.

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

2.6. STAKEHOLDER ENGAGEMENT

We provide for various forms of stakeholder engagement in our activities

102-40 The operation of Latvenergo Group affects a broad range of stakeholders. By assessing the social, environmental and economic impact of its operations, the Group ensures varied engagement of
102-42 stakeholders therein.

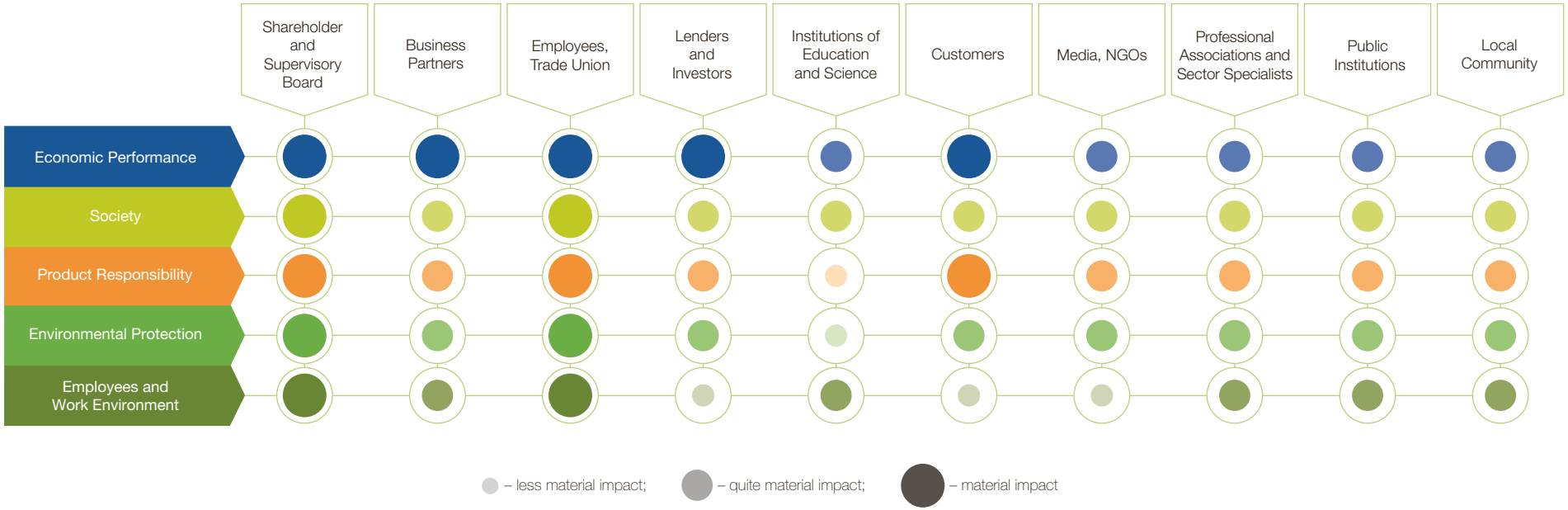
102-43 Through internal and external discussions, Latvenergo Group has identified stakeholders who have been
102-44 grouped into a stakeholder map. Stakeholders are evaluated according to their impact on Latvenergo Group's operations and vice versa. The evaluation is carried out in the areas of economic performance, society, product responsibility, environmental protection and employment and work environment. Identification and grouping is carried out taking into account the GRI guidelines and the AA1000 Stakeholder Engagement Standard, which sets an example for best practice in quality stakeholder engagement at both a strategic and an operational level.

Latvenergo Group engages with stakeholders on several levels:
- consultation – identification of current issues;
- negotiation – participatory discussions;
- involvement – exchange of opinion without joint decision-making and cooperation;
- collaboration – joint decision-making and cooperation.

In 2017, Latvenergo Group continued to promote best practice in sustainability, social responsibility and corporate governance. The Group shared its experience at conferences organised by the Cross-Sectoral Coordination Centre, the Institute for Corporate Sustainability and Responsibility, the Free Trade Union Confederation of Latvia and the ECL.

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

Stakeholders of Latvenergo Group



Stakeholders

Stakeholder	Representatives	Material issues / Sustainability aspects	Engagement description	Level of engagement
Shareholder and Supervisory Board	Ministry of Economics of the Republic of Latvia, Members of the Supervisory Board	▪ Group strategy, governance, investments and performance; ▪ Compliance with the requirements of regulatory acts and fair competition; ▪ Involvement in the development of energy sector policy; ▪ The Group's contribution to the national economy; ▪ Efficiency of energy generation facilities; ▪ Electricity and thermal energy generation from renewable energy resources, increasing its share; ▪ Contribution to the promotion of public welfare and CSR activities; ▪ Contingency management plans.	Information on the shareholder and the Supervisory Board is available in the section "Governance Bodies".	Collaboration
Business Partners	Construction companies and equipment suppliers, service providers, energy resource suppliers, energy generators and traders, transmission system operators, etc.	▪ Clear and transparent procurement tenders; ▪ Electricity transmission and distribution, natural gas transmission; ▪ Mandatory procurement (MP) of electricity and subsidised electricity tax (SET); ▪ Development of electricity interconnections; ▪ Efficiency of energy generation facilities.	The Group regularly informs its business partners about ethical principles, maintains and regularly updates its Register of Qualified Bidders, and encourages partners to apply for inclusion in its qualification system. The Group regularly surveys its current and potential business partners, defining areas where improvement is required. Sadales tīkls AS regularly informs business partners about planned investment projects.	Involvement
Employees, Trade Union	Existing and potential employees, trade union "Enerģija"	▪ Collective Bargaining Agreement, healthy and safe working environment, rights and responsibilities of the employer and employees; ▪ Productivity and motivation, competencies, remuneration and welfare of employees; ▪ Data safety; ▪ Availability and efficiency of distribution services; ▪ The Group's contribution to the national economy.	Latvenergo Group conducts annual employee opinion polls to investigate employees' attitudes towards various factors that impact the work environment. Employee performance is assessed on a quarterly basis. During the annual career development interviews, employees and their managers discuss achievement of annual targets of the structural unit and individual targets and further activities for improving their competencies. The annual employee opinion polls also contain questions about the use and the content of the Sustainability Report. The Management Board of Sadales tīkls AS organises an annual meeting with all the company's employees and representatives of the trade union where it reviews the performance of the year and elucidates on the company's goals for the following years. In 2017 representatives of the Group had 24 meetings with the trade union to look for solutions to issues of mutual importance.	Negotiation and involvement
Funders and Investors	Banks, European Commission (EC), bondholders	▪ The Group's financial results, significant events, compliance with the terms of agreements; ▪ Involvement in the development of energy sector policy; ▪ Compliance with the requirements of regulatory acts and fair competition; ▪ Transparent, fair and ethical marketing and communication practice; ▪ Customer satisfaction with the company, its services, service level, availability of information and its content; ▪ The Group's contribution to the national economy.	On Latvenergo Group's website, information is provided on the Group's financial results and performance indicators, including quarterly publication of interim financial reports. All relevant information is also published on the Nasdaq Riga exchange website and submitted to the Official System for Central Storage of the Regulated Information of the Financial and Capital Market Commission. Since 2015 Latvenergo Group has been organising regular webinars on financial results and business developments where stakeholders can post questions online. In August 2017 representatives of Latvenergo AS rang the traditional trading session opening bell at Nasdaq MarketSite in New York's Times Square. Latvenergo AS is the first company in the Baltics to receive the Nasdaq Baltics exchange award for the Best Investor Relations among Bond Issuers.	Consultation and collaboration
Institutions of Education and Science	Academic institutions, institutions of higher, secondary and vocational education	▪ Educational programmes meeting the requirements of the labour market; ▪ Content of educational materials for children and youth; ▪ Contribution to the promotion of public welfare and CSR activities; ▪ Involvement in the development of energy sector policy; ▪ Transparent, fair and ethical marketing and communication practice; ▪ Availability of information.	The Group's experts participate in theoretical and practical training of specialists in cooperation with LUA and RTU. In cooperation with the Latvian Academy of Sciences, the Group awards scientists for their achievements in the energy sector, organises graduation paper and scholarship competitions, and provides students with internship opportunities. For more information on cooperation with institutions of education and science, see the section "Corporate Social Responsibility".	Collaboration

Stakeholders

Stakeholder	Representatives	Material issues / Sustainability aspects	Engagement description	Level of engagement
Customers	Current and potential customers (households and legal entities)	▪ Electricity products, tariffs, pricing of related services; ▪ Quality of services provided; ▪ Customer satisfaction with the company, its services, service level, availability of information and its content; ▪ Payment options and services; ▪ Availability and efficiency of distribution services; ▪ Reducing the frequency and duration of unscheduled power outages; ▪ Transparent, fair and ethical marketing and communication practice; ▪ Compliance with the requirements of regulatory acts and fair competition; ▪ Contingency management plans.	Latvenergo Group's assortment of electricity products is adjusted to customer needs by introducing new products and improving existing ones. Information the customers are interested in is available on Elektrum customer portals in the Baltic countries, on the customer portal of Sadales tīkls AS, on social networks, at customer service centres and via other information channels. For corporate customers, the Group regularly prepares the Electricity Market Overview. The Energy Efficiency Centre in Jūrmala organises regular free seminars on possibilities to improve electricity usage habits. Latvenergo Group conducts annual customer satisfaction surveys and undertakes activities to increase customer satisfaction. For more information, see the section "Product Responsibility".	Involvement
Media, Non-Governmental Organisations (NGOs)	Journalists, NGOs	▪ The Group's core operations and corporate governance; ▪ Current issues in energy sector policy in Latvia and the EU; ▪ MP and the MP component; ▪ The Group's CSR activities; ▪ Efficiency of energy generation facilities; ▪ Contingency management plans; ▪ Electricity and thermal energy generation from renewable resources; ▪ Occupational health and safety; ▪ Availability and efficiency of distribution services.	Latvenergo Group cooperates with national and regional media. About 270 press releases were prepared in 2017 and several media events and press conferences were organised. The main topics were the MPC and the impact of the solutions developed for its reduction on the MPC payments to Latvenergo AS, replenishment of fish stocks and cleaning of the Vedze River. The Group regularly provides up-to-date information on its activities and answers questions from journalists on its website and in social media. Latvenergo Group also provides information related to its core business to NGOs whose activities are focused on the development of civic society and protection of individual rights.	Consultation and involvement
Professional Associations and Sector Specialists	See the section "Representation at Associations, Organisations and Unions"	▪ The energy sector's policies and the regulatory environment in the EU and Latvia; ▪ Development trends and innovations in the energy sector; ▪ Optimisation of electricity consumption for one's own use; ▪ Electricity and thermal energy generation from renewable resources; ▪ The amount of air pollution from generation of electricity and thermal energy; ▪ Expenditure on environmental protection; ▪ Compliance with environmental protection requirements; ▪ Compliance with the requirements of regulatory acts and fair competition; ▪ Contingency management plans; ▪ Transparent, fair and ethical marketing and communication practice; ▪ Contribution to the national economy.	Representatives of Latvenergo Group regularly discuss development issues of the energy sector and related sectors with industry experts at various forums, conferences, workshops and working groups. In 2017, the Group's representatives participated in the energy forum "Towards sustainable energy supply in Latvia", in the conference "Energy 2017" and in the Baltic Energy Forum 2017, as well as in other events. For more information, see the section "Representation at Associations, Organisations and Unions".	Consultation and involvement
Public Institutions	Ministry of Economics of the Republic of Latvia, Public Utilities Commission (PUC), Competition Council, Ministry of Environmental Protection and Regional Development, Procurement Monitoring Bureau, etc.	▪ Development of Latvian and EU energy policies and regulatory provisions; ▪ Improvement of the regulatory environment; ▪ Energy tariffs and their components; ▪ Electricity and thermal energy generation from renewable resources; ▪ Contingency management plans; ▪ Compliance with the requirements of regulatory acts and fair competition; ▪ Efficiency of energy generation facilities.	Latvenergo Group experts participate in the development of energy sector policy documents and legislative acts and regularly provide opinions for the preparation of national position statements on energy and environmental matters on the current agenda of the EU Council. Information on position statements prepared in 2017 is available in the section "Society". In compliance with the procedure provided for by the legal acts, Latvenergo Group cooperates with the Competition Council and also provides regular information on its operations, financial results and calculation of the MP components to the PUC.	Consultation and involvement
Local Community	Residents of Latvia, municipalities, residents in the vicinity of the Group's facilities	▪ The Group's CSR activities; ▪ Environmental protection, modernisation of generation facilities, and electricity network infrastructure projects; ▪ Provision of Latvenergo Group services and problem solving; ▪ MP component.	The local community is regularly involved in the discussion of the modernisation projects at the Group's facilities. The opinion of Latvian society is regularly surveyed through various opinion polls, including a survey on residents' awareness of the Latvian electricity market. The Group also organises a wide range of social responsibility activities, which are described in the section "Corporate Social Responsibility". The Group cooperates with local governments regarding provision of energy supply, environmental impact assessment for modernisation projects at the Group's facilities, and the development of the regulatory environment for the energy sector by municipalities and public institutions. In spring there are regular interinstitutional meetings to secure the preparedness of responsible services, institutions and local governments and their action during the spring flood period in the Daugava River basin. Sadales tīkls AS regularly organises meetings with all the local governments of Latvia and informs them about the work performed to improve the energy supply and the power network renovation and reconstruction projects planned in the territories of municipalities.	Consultation, involvement and negotiation

Representation at Associations, Organisations and Unions

102-13 Participation in national associations and professional organisations as well as international organisations and unions provides information to Latvenergo Group on current developments in the energy sector and related sectors and ensures representation of its interests in the development of national and international policy documents, legal acts and standards.

National Associations and Professional Organisations

	Association, Professional Organisation	Engagement description
	Latvian Association of Power Engineers and Energy Constructors (LAPEEC)	Membership in the Association provides an opportunity to participate in the evaluation and development of legal acts, policy documents and standards for the electrical power engineering and energy construction sector; the organisation of staff certification and training programmes; performance of scientific research and organisation of scientific and technical events related to electrical power engineering; and cooperation with educational institutions in the electrical power engineering sector. Latvenergo Group representatives regularly participate in LAPEEC meetings to ensure exchange of opinions on topical issues for the energy sector, including the energy security and development of the Daugava infrastructure and the development of the Latvian national standardisation system for improving the competitiveness of the national economy and innovation.
	Latvian Association of Large Dams	Membership in the Association ensures exchange of information on technical, economic, environmental and social aspects of dams and related innovations and safety issues. The Association is represented at the International Commission on Large Dams (ICOLD). In 2017, representatives of the Association participated in the 85th ICOLD Annual Meeting in the Czech Republic and continued work on the ICOLD Dam Safety Committee.
	Latvian Association of Heat Supply Companies (LAHC)	The LAHC provides Latvenergo Group with current information on district heating, tariffs and cogeneration, use of renewable resources in generation of thermal energy and other topical issues in energy sector development. The LAHC also organises meetings of experts and supports the interests of the Group at state and local government institutions in matters related to heat supply. Group experts participate in developing the LAHC's positions on drafts of policy documents and legal acts important for the sector.
	Latvian Chamber of Commerce and Industry (LCCI)	The LCCI is a member of the Association of European Chambers of Commerce and Industry and of the International Chamber of Commerce. The LCCI represents the interests of its members in drafting policy documents and legislation specific to business activity in general and the energy sector by state and local government institutions. Group experts share their experience in the energy sector at seminars held by the LCCI. In 2017, Group representatives provided information on possibilities of improving companies' energy efficiency and the practical aspects of opening the gas market.
	Employers' Confederation of Latvia (ECL)	Participation in the ECL ensures representation of the Group's interests in the drafting of policy documents and legislation on labour law and labour protection and fosters the development of economic, educational and social policies favourable to business development. Latvenergo Group representatives are involved in the ECL Platform for Energy and the Environment and in the drafting of position statements, and they participated in ECL working groups, competitions, conferences and workshops.
	Institute for Corporate Sustainability and Responsibility	Since 2010, the Group has participated in the Sustainability Index of Latvia, conducted by the Institute for Corporate Sustainability and Responsibility based on an internationally recognised methodology for evaluating corporate sustainability and responsibility. Latvenergo AS became a corporate member of the Institute in July 2017. This will secure the possibility for the Group to receive information on the latest CSR trends and to participate in development of the planning documents of responsible business operations policy. In 2017, the Group participated in Sustainability Week organised by the Institute, including the conference "Market of Responsible Ideas" and the creation of the Responsible Ideas Catalogue by providing information on the Group's activities to stimulate young people's interest in physics.
	World Energy Council, Latvian National Committee (WEC LNC)	Participation in the WEC LNC provides information about the research, extraction, transport, transformation and efficient use of energy resources on both a national and international scale. Latvenergo Group experts participate in the activities of the WEC LNC, including analysis of energy policy documents and legal acts and organisation of forums. In 2017 WEC LNC representatives participated in the WEC Baltic Sea Region national committee's discussion and presented reports on energy policy in Latvia, the operations of the WEC LNC and the Latvian natural gas market.

International Organisations and Unions		
	International Organisation, Union	Justification of Membership
BALTIC INSTITUTE OF CORPORATE GOVERNANCE	The Baltic Institute of Corporate Governance (BICG)	Latvenergo Group has been an active BICG member since the very outset of the operations of the Institute. The Group engages in activities and training and assists with the development of corporate governance guidelines for Baltic companies and the development of good corporate governance practice in Latvia. Latvenergo Group's management has completed the BICG education programmes on good corporate governance practice and has confirmed the Group's preparedness to comply therewith.
eurelectric ELECTRICITY FOR EUROPE	Union of the Electricity Industry EURELECTRIC	EURELECTRIC represents the interests of the electricity industry on an international level. Participation of Latvenergo Group representatives in the Union is ensured by the LAPEEC, a member of EURELECTRIC. Participation in EURELECTRIC's Board of Directors, committees and working groups gives Latvenergo Group access to information on the latest EU developments in the energy sector and provides an opportunity to participate in the drafting of EU policy documents, legislation, and EURELECTRIC research papers and position statements. In September 2017, Kristian Ruby, the Secretary General of EURELECTRIC, visited Riga and presented the EURELECTRIC development vision until the year 2020 to representatives of Latvenergo Group and LAPEEC. The meeting's participants also discussed the positions of the Association regarding EU energy policy. For more information on the involvement of Latvenergo Group in drafting EURELECTRIC position statements in 2017, see the section "Society".
OECD BETTER POLICIES FOR BETTER LIVES BIAC	Organization for Economic Cooperation and Development (OECD), Business and Industry Advisory Committee (BIAC)	The BIAC is involved in the shaping of OECD policies and provides members with up-to-date information on the OECD's business development initiatives. BIAC membership enables Latvenergo Group to participate in discussions and decision-making on business development matters of international importance. In 2017, Latvenergo Group participated in the fifth Global OECD Forum on Responsible Business Conduct as well as in the business session and consultations of stakeholders on improvement of the operation of the national contact points organised by the OECD.
Member of VGB POWERTECH www.vgb.org	Technical Association for Power and Heat Generation VGB PowerTech e.V.	Representation in the Association ensures that Latvenergo Group receives information on the best practice of power plants in the areas of exploitation, development and environmental protection, including the availability and safety of similar power plant equipment and solutions for increasing operational flexibility and efficiency. In 2017 new working groups and committees were established at VGB providing technical consultations and exchange of experience on technologies using renewable resources. The experience of VGB members has been used for optimisation of the operation and maintenance of the Group's production facilities.
EDSO for smart grids	European Distribution System Operators' Association for Smart Grids	Representation in the Association ensures that the Group's subsidiary Sadales tīkls AS receives up-to-date information on European distribution system operators' plans and on smart grid technologies. It also enables participation in drafting position statements in the area of smart grids.
ENCS	European Network for Cyber Security, ENCS	The ENCS is a non-profit organisation founded in 2012 which unites critical infrastructure companies (including distribution system operators) and security experts in order to facilitate the exchange of information and support competence development needed for cyber security and secure infrastructure of smart grids. To ensure information exchange and experience as well as sustainable development as regards protection of information and improvement of processes, Sadales tīkls AS became a member of the ENCS in 2017.

Other commitments and initiatives

102-12 The environment, energy efficiency and social responsibility are important aspects for the sustainability of Latvenergo Group. Therefore, in addition to the requirements stipulated by regulatory enactments, the Group follows the requirements of international standards in its operations.

By complying with the requirements of the European Union's regulatory enactments on energy efficiency, Latvenergo AS has implemented and certified an energy management system in compliance with ISO 50001. In 2017, Liepājas enerģija SIA also received a certificate for its energy management system's compliance with this standard. In order to implement the requirements of energy efficiency at Sadales tīkls AS, the energy management principles are integrated in its certified environmental management system.

Integrated management systems comprising environmental management, quality management and occupational health and safety are implemented and certified in the Generation Division of Latvenergo AS and at Sadales tīkls AS. In the Generation Division, project management has also been implemented and certified within the scope of the quality management system. An accredited certification company audits and certifies the compliance of the abovementioned systems with the requirements of ISO 14001, ISO 9001, and OHSAS 18001. In 2017, the environmental management system was expanded and implemented in all the areas of operation of Latvenergo AS.

The subsidiaries Latvijas elektriskie tīkli AS and Liepājas enerģija SIA have certified and maintain quality management systems in compliance with ISO 9001 requirements.

In cooperation with stakeholders, Latvenergo Group voluntarily integrates activities into its operations to improve public welfare and the environmental situation, following the principles of the ISO 26000 standard on social responsibility and the AA1000 standard on stakeholder engagement.

2.7. CORPORATE GOVERNANCE REPORT

The Management Board of Latvenergo AS has evaluated the company's compliance with the Law on the Financial Instruments Market, Article 56.2, and the Principles of Corporate Governance and Recommendations on Their Implementation approved by Nasdaq Riga AS on 1 June 2010. The principles have been prepared taking into account the recommendations of the EU and the OECD on the governance of capital companies. They set requirements with respect to shareholder meetings, management and supervisory boards, disclosure of information, internal control and risk management, and the remuneration policies of governing bodies.

Upon evaluating the company's governance system and compliance with these principles in 2017, the Management Board of Latvenergo AS confirms that the company has complied with all applicable principles of corporate governance in all key material aspects.

The full text of the Latvenergo AS Corporate Governance Report 2017 is publicly available on the Latvenergo website (www.latvenergo.lv) and the Nasdaq Baltic website (www.nasdaqbaltic.com). Detailed information on compliance with the corporate governance principles is presented in the Corporate Governance section of the Sustainability Report 2017. Of the 83 Nasdaq Riga corporate governance principles, Latvenergo AS complies with 77 fully, while 6 are not applicable to company operations.

Āris Žīgurs
Chairman of the Management Board

Guntars Baļčūns
Member of the Management Board

Uldis Bariss
Member of the Management Board

Māris Kuņickis
Member of the Management Board

2.8. AUDIT COMMITTEE REPORT

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

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

In 2017, the activities of the Audit Committee focused on reviewing the following issues, which impact the Group's operations:

- the Group's risk management processes, including integration of the Group's risk assessments into the planning and execution of the internal audit plan;
- supervision of the Fraud Risk Management plan's execution;
- monitoring of the operations of the Internal Audit and the external auditor.

The Audit Committee has also carried out the selection process of the external auditor for the period 2018-2022 and of the Internal Audit Director.

Having assessed the information and processes reviewed during the 2017 financial year, nothing has come to our attention that would lead us to believe that the internal controls of Latvenergo AS do not provide a reliable basis for the preparation of the 2017 Annual Report.

We submit our activity report and assessments to the Supervisory Board of Latvenergo AS in April 2018.

Torben Pedersen
Chairman of the Audit Committee

Marita Salgrāve
Member of the Audit Committee

Svens Dinsdorfs
Member of the Audit Committee

Andris Ozoliņš
Member of the Audit Committee

Andris Liepiņš
Member of the Audit Committee

OPERATING SEGMENTS

102-2
102-10

Latvenergo Group's activity is organised along three operating segments: generation and trade, distribution, and lease of transmission system assets.

The generation and trade segment comprises generation of electricity and thermal energy, ensured by Latvenergo AS and Liepājas enerģija SIA, as well as electricity and natural gas trade (retail and wholesale) operations in the Baltic States carried out by Latvenergo AS and subsidiaries Elektrum Eesti OÜ and Elektrum Lietuva UAB.

The functions of public trader, i.e. administration of electricity mandatory procurement, are performed by the subsidiary Enerģijas publiskais tirgotājs AS.

The distribution segment provides electricity distribution services in Latvia through Sadales tīkls AS – the largest distribution system operator in Latvia.

The segment handling lease of transmission system assets is ensured by Latvijas elektriskie tīkli AS, the owner of the transmission system assets, which leases them to the transmission system operator Augstsprieguma tīkls AS.

3.1. GENERATION AND TRADE

We produce 83% of the electricity sold to customers

Generation and trade is the Group's largest operating segment in terms of both revenue and EBITDA value. Activities within this segment include trade of generated and procured electricity both to retail customers in the Baltics and wholesale on the Nord Pool power market. The Group also generates and trades thermal energy in Riga and Liepaja. Since 1 June 2017, Latvenergo AS has organised natural gas supplies to its generating facilities independently through wholesale purchases of natural gas. The Group has also launched natural gas trade to customers in Latvia and Estonia.

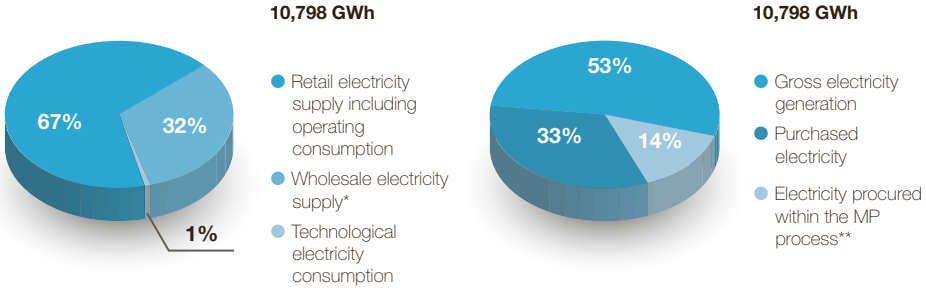
The majority of generation and trade segment revenue is unregulated, while tariff-regulated operational revenue comprises revenue from:

- capacity payments for the installed electrical capacity and generation of thermal energy at Riga combined heat and power plants (CHPPs);
- generation of electricity and thermal energy at Liepaja generation facilities and small plants (Aiviekste Hydropower Plant (HPP) and Kegums Boiler House).

Latvenergo is among the biggest electricity traders in the Baltics. In 2017, its market share in the Baltic countries amounted to approximately 27%. The total amount of electricity supplied in retail and wholesale (including auxiliary consumption) constituted 10,798 GWh, of which 64% was supplied to retail customers.

In 2017, Latvenergo Group power plants generated 5,734 GWh or 53% of the total electricity trade. Compared to 2016, the electricity generated increased by 22%. 75% of the electricity was generated from renewable energy sources. The generation capacities of Latvenergo Group also ensure electricity trade support services, such as provision of emergency back-up capacity and supply of regulating electricity to transmission system operators.

Latvenergo Group electricity balance sheet in 2017



Latvenergo Group electricity balance sheet (2013–2017)*

	Unit	2013	2014	2015	2016	2017
Retail electricity supply including operating consumption	GWh	8,065	8,800	7,961	7,666	7,259
incl. retail electricity supply	GWh	8,065	8,800	7,961	7,666	6,923
Wholesale electricity supply*	GWh	1,588	1,562	1,907	2,474	3,448
Technological electricity consumption	GWh	104	89	95	105	91
TOTAL	**GWh**	**9,757**	**10,451**	**9,963**	**10,245**	**10,798**
Gross electricity generation	GWh	4,854	3,625	3,882	4,707	5,734
Electricity procured within the MP process**	GWh	1,247	1,235	1,380	1,457	1,520
Purchased electricity	GWh	3,656	5,590	4,701	4,081	3,544
TOTAL	**GWh**	**9,757**	**10,451**	**9,963**	**10,245**	**10,798**

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

3.1.1. Generation

75% of the total electricity output is produced from renewable energy sources

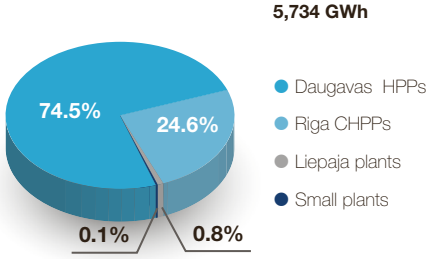
EU1 EU2

Latvenergo Group has a balanced and environmentally friendly energy generation portfolio, consisting mostly of hydropower plants and highly efficient combined heat and power plants. Most of the electricity and thermal energy is generated by the three Daugava HPPs and two Riga CHPPs. Energy is also generated by generation facilities in Liepaja, Aiviekste HPP, Ainazi Wind Power Plant (WPP) and Kegums Boiler House.

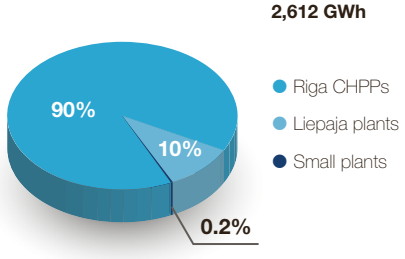
The total installed electrical capacity at Latvenergo Group generation facilities is 2,569 MW, exceeding 85% of the total installed capacity at power plants in Latvia. The installed thermal capacity of Latvenergo Group thermal energy generation facilities is 1,842 MW.

In 2017, the facilities of Latvenergo Group generated 5,734 GWh of electricity and 2,612 GWh of thermal energy. The total electricity generation accounted for 79% of the total electricity consumption in Latvia. The electricity sales outside Latvia accounted for 1/3 of the total retail sales of electricity and amounted to 2.3 TWh.

Electricity generation in 2017



Thermal energy generation in 2017



Installed electrical capacity of generation facilities (2013-2017)

	Unit	2013	2014	2015	2016	2017
Daugava HPPs	MW_{el}	1,536	1,536	1,536	1,536	1,536
Riga CHPPs*	MW_{el}	1,025	1,025	1,025	1,025	1,025
Liepaja plants	MW_{el}	6	6	6	6	6
Small plants	MW_{el}	2	2	2	2	2
TOTAL	**MW_{el}**	**2,569**	**2,569**	**2,569**	**2,569**	**2,569**

* installed capacity when Riga CHPP-2 is in condensation mode

Installed thermal energy capacity of generation facilities (2013-2017)

	Unit	2013	2014	2015	2016	2017
Riga CHPPs	MW_{th}	1,617	1,617	1,617	1,617	1,617
Liepaja plants	MW_{th}	236	223	223	221	221
Small plants	MW_{th}	4	4	4	4	4
TOTAL	**MW_{th}**	**1,857**	**1,844**	**1,844**	**1,842**	**1,842**

Electricity generation (2013-2017)

	Unit	2013	2014	2015	2016	2017
Daugava HPPs	GWh	2,852	1,925	1,805	2,449	4,270
Riga CHPPs	GWh	1,957	1,648	2,025	2 206	1,411
Liepaja plants	GWh	43	48	48	47	48
Small plants	GWh	3	4	3	5	5
TOTAL	**GWh**	**4,854**	**3,625**	**3,882**	**4,707**	**5,734**

Thermal energy generation (2013-2017)

	Unit	2013	2014	2015	2016	2017
Riga CHPPs	GWh	2,305	2,308	2,175	2,417	2,349
Liepaja plants	GWh	257	248	229	253	258
Small plants	GWh	5	5	4	5	5
TOTAL	**GWh**	**2,566**	**2,560**	**2,408**	**2,675**	**2,612**

Daugava HPPs

The Daugava HPPs are the biggest hydropower plants in the country providing for an environmentally friendly mode of electricity generation. They operate on water – a renewable energy source.

Although the installed capacity of the Daugava HPPs is high, their ability to generate electricity depends on the water inflow in the Daugava River. In years with normal inflow levels, the Daugava HPPs operate at full capacity during the spring flooding season, which lasts for about one to two months annually. During the flooding period, the water volume may exceed water inflow during low water periods more than 10 times. During the spring flooding, Latvenergo Group is able to cover the entire customer demand for electricity and trade the excess on the electricity exchange.

Outside the flooding season, the Daugava HPPs provide for the possibility to accumulate water and generate electricity when the demand and prices on the Nord Pool exchange increase.

In 2017, the Daugava HPPs generated 4,270 GWh of electricity, which is 74% above the level of the previous year. The water inflow to the Daugava was exceptionally high in 2017. According to data from the Latvian Environment, Geology and Meteorology Centre, it was 849 m^3/s on average, which is 140% of the Daugava's mean annual (1992-2017) inflow. Thus, the output of the Daugava HPPs in 2017 was the highest since 1998 and the third highest since monitoring began in 1966. The amount of electricity generated by the Daugava HPPs in 2017 accounted for 74% of the Group's total electricity output.

Daugava HPPs: construction chronology

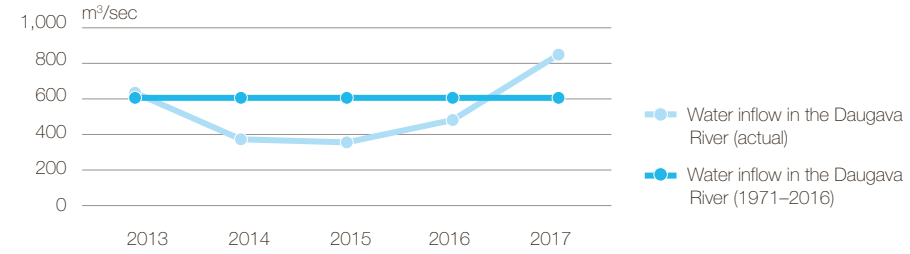
Kegums HPP, built in 1936–1939, is the oldest of the Daugava HPPs, with an initial installed capacity of 72 MW. The plant was renovated after the war, rebuilt in 1979 and reconstructed within the framework of the hydropower unit reconstruction programme. At present seven hydropower units with an aggregate capacity of 240 MW are operated at Kegums HPP.

Plavinas HPP is the largest hydropower plant in the Baltics and one of the largest in the EU in terms of installed capacity. The power plant started operating in 1968 with ten hydropower units; capacity amounted to 825 MW at the time. Reconstruction of hydropower units has been carried out at the plant several times. Also, reconstruction within the framework of the hydropower unit reconstruction programme started in 2011 and continues at Plavinas HPP. The reconstruction of hydropower units has improved the efficiency of Plavinas HPP. At the end of 2017, nine hydropower units were in operation at the plant. The total installed capacity at Plavinas HPP is 894 MW.

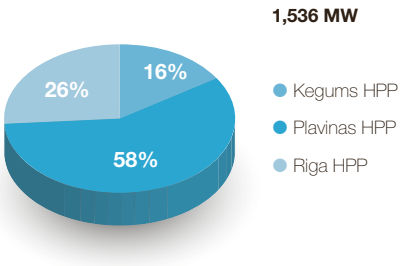
Riga HPP, with 6 hydropower units and a total capacity of 402 MW, was commissioned in 1974. Due to the hydropower unit reconstruction programme at the Daugava HPPs, four hydropower units were in operation at Riga HPP at the end of 2017. The total installed capacity at Riga HPP is 402 MW.

Plavinas HPP and Riga HPP can also operate in synchronous compensator mode (adjusting the voltage in high-voltage electric networks), allowing the transmission system operator to ensure a certain voltage quality.

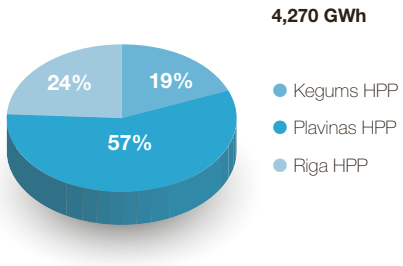
Water inflow in the Daugava River (2013–2017) – *Source: Latvian Environment, Geology and Meteorology Centre*



Installed electrical capacity of generation facilities at Daugava HPPs in 2017



Electricity generation at Daugava HPPs in 2017



Electricity generation at Daugava HPPs (2013-2017)

	Unit	2013	2014	2015	2016	2017
Kegums HPP	GWh	532	376	350	475	825
Plavinas HPP	GWh	1,640	1,089	1,022	1,386	2,429
Riga HPP	GWh	679	460	433	588	1,016
TOTAL	**GWh**	**2,852**	**1,925**	**1,805**	**2,449**	**4,270**

Investments

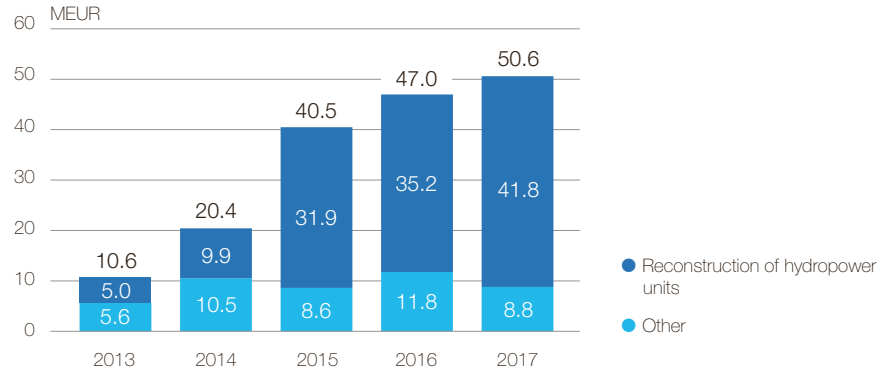
In 2017, total investments in Daugava HPP assets amounted to EUR 50.6 million, including EUR 41.8 million for the Daugava HPP hydropower unit reconstruction programme. At the end of 2017, one reconstructed hydropower unit of the Plavinas HPP was put into operation.

Latvenergo Group is continuing with the gradual overhaul of the unreconstructed hydropower units at the Daugava HPPs. The main purpose of the reconstruction project is to replace outdated hydro turbines and increase the installed capacity, efficiency rate and electricity output. This promotes reliable, efficient, sustainable and competitive operations of the Daugava HPPs within the overall energy system and liberalised electricity market.

Thirteen of the 23 Daugava HPPs hydropower units have already been modernised. The hydropower unit reconstruction process is scheduled for completion in 2022. The total cost for reconstructing the hydropower units is expected to exceed EUR 200 million. The investments made by the end of the reporting year amounted to EUR 128.4 million. The reconstruction will provide for operation of the hydropower units for the next 40 years.

An increase in the installed capacity and efficiency ratios of the hydropower units ensures more efficient use of water, which is a renewable energy source; thus, the Group is mitigating the negative impact on climate change. Each additional megawatt hour of electricity generated by the Daugava HPPs reduces CO_2 emissions by 0.345 t/MWh, assuming that this energy would otherwise be generated in condensation mode at combined heat and power plants by using natural gas.

Investments in Daugavas HPPs (2013-2017)



Riga CHPPs

Latvenergo Group's upgraded Riga CHPPs are operated mostly in the highly efficient cogeneration mode to cover thermal energy demand. Consequently, generation of electricity at the combined heat and power plants depends largely on thermal energy consumption, which in turn depends on weather conditions, the duration of the heating season, and the situation on the electricity market.

The Riga CHPPs guarantee a significant base-load electricity capacity that can cover Latvian electricity consumption almost completely in circumstances where, due to certain factors, electricity imports from foreign countries are limited. In such cases, the plants can operate as stable base-load capacities that will promptly offset the shortage of cross-border supply.

The Riga CHPPs use natural gas as their primary fuel, which is the environmentally friendliest type of fossil fuel available for power generation. To ensure the reliability of thermal energy supply in emergency situations (emergency cut-offs of gas supply), the Riga CHPPs store back-up fuel reserves of diesel.

The amount of electricity generated by the Riga CHPPs in 2017 was 1,411 GWh, a 36% decrease compared to the previous year. This was mainly due to the untypically high electricity output at the Daugava HPPs. The Riga CHPPs operate efficiently and flexibly, adapting their operational modes to the electricity market's conditions. The amount of electricity generated by the Riga CHPPs in 2017 was 25% of Latvenergo Group's total electricity output.

In 2017, the amount of thermal energy generated by the Riga CHPPs was 2,349 GWh or 3% less compared to the previous year. Thermal energy generated by the Riga CHPPs is supplied to Rīgas siltums AS at regulated tariffs.

At the end of 2017, within the framework of reduction of the costs of the mandatory procurement supported by the Cabinet of Ministers, Latvenergo AS applied for the receipt of a one-off compensation from the state, at the same time opting out of the receipt of 75% of the annual electricity capacity payment to cogeneration plants Riga CHPP-1 and Riga CHPP-2 in future. The remaining support in the amount of 25% ensures the operation of the CHPPs and both CHPPs will continue guaranteeing the electricity base capacities needed for Latvia. More information can be found in the Section "Mandatory Procurement".

Riga CHPPs: construction chronology

The first combined heat and power plant in Riga (Riga CHPP-1) was built from 1954 to 1958 and fully reconstructed in 2005. Two gas turbines, one steam turbine and three water boilers for district heating are operated at the plant. The installed electrical capacity of CHPP-1 equals 144 MW and the thermal capacity is 493 MW.

The second combined heat and power plant in Riga (Riga CHPP-2) is the largest in Latvia. It was launched in 1973. Reconstruction of two power units was performed from 2006 to 2013. Currently Riga CHPP-2 is the most efficient and up-to-date combined cycle power plant in the Baltics.

Two combined-cycle gas turbine (CCGT) units and five water boilers are currently operated at Riga CHPP-2. The electrical capacity of Riga CHPP-2 in cogeneration mode reaches 832 MW, while the thermal energy capacity of the two power units is 544 MW in cogeneration mode. The total thermal energy capacity of Riga CHPP-2, including water boilers, is 1,124 MW.

The total installed electrical capacity of the Riga CHPPs in cogeneration mode is 976 MW (1,025 MW in condensation mode).

In 2017, total investment in Riga CHPP assets was EUR 22.5 million.

Electricity generation at Riga CHPPs (2013–2017)

	Unit	2013	2014	2015	2016	2017
Riga TEC-1	GWh	406	487	464	613	595
Riga TEC-2	GWh	1,550	1,161	1,561	1,593	816
TOTAL	**GWh**	**1,957**	**1,648**	**2,025**	**2,206**	**1,411**

Thermal energy generation at Riga CHPPs (2013–2017)

	Unit	2013	2014	2015	2016	2017
Riga TEC-1	GWh	772	966	978	1,110	1,195
Riga TEC-2	GWh	1,533	1,342	1,197	1,307	1,154
TOTAL	**GWh**	**2,305**	**2,308**	**2,175**	**2,417**	**2,349**

Investments in Riga CHPPs (2013-2017)

	Unit	2013	2014	2015	2016	2017
Investments	MEUR	34.0	11.0	15.0	11.3	22.5

Liepaja plants

Latvenergo AS holds a 51% share in Liepājas enerģija SIA. Liepājas enerģija SIA ensures generation, transmission, distribution and supply of thermal energy in the city of Liepaja as well as generation of electricity in cogeneration mode.

The total installed thermal energy capacity of the Liepaja plants is 221 MW, including 40 MW from a renewable source: woodchips. Installed electrical capacity totals 6 MW. In 2017, the Liepaja plants generated 258 GWh of thermal energy and 48 GWh of electricity.

New generation capacities have been built at Liepaja plants with co-financing from the EU Cohesion Fund, increasing the share of biomass consumption in the fuel balance at the Liepaja plants from 0% before 2010 to 62% in 2017.

Due to the reconstruction of thermal energy transmission and distribution networks in Liepaja, thermal energy losses have also been reduced considerably over the past few years. The loss ratio decreased from 15.4% in 2013 to 12.7% in 2017. Encouraging responsible use of thermal energy and urging users to take care of environmental sustainability, Liepājas enerģija SIA now provides a possibility for customers to obtain and analyse thermal energy consumption data for their homes online.

Liepaja plants (2013–2017)

	Unit	2013	2014	2015	2016	2017
Installed electrical capacity of generation facilities	MW_{el}	6	6	6	6	6
Installed thermal energy capacity of generation facilities	MW_{th}	236	223	223	221	221
Electricity generation	GWh	43	48	48	47	48
Thermal energy generation	GWh	257	248	229	253	258
Thermal energy losses	GWh	38	36	32	32	31
Proportion of losses	%	15.4%	15.2%	14.3%	13.0%	12.7%

Small plants

The generation facilities within Latvenergo Group's energy system also include two small power plants: Ainazi WPP, with a capacity of 1.0 MW, and Aiviekste HPP, with a capacity of 0.8 MW. In 2017, total electricity output at the small plants was 5 GWh, which is approximately 0.1% of Latvenergo Group's total electricity output.

Kegums Boiler House, with an installed thermal capacity of 4 MW, generates only thermal energy. It is fuelled by woodchips. Total thermal energy output at Kegums Boiler House in 2017 was 5 GWh.

3.1.2. Trade

Latvenergo Group commences natural gas sales in Latvia and Estonia

EU3 Latvenergo Group trades electricity and natural gas in the Baltic States under the *Elektrum* brand. The product range is designed for different consumption and usage patterns so that each customer can choose what is most suitable.

In 2017, Latvenergo Group was among the leaders in electricity trade in the Baltics. The market share of the Group accounts for approximately 27% of the total Baltic retail electricity market, where the total consumption amounts to approximately 26 TWh. Latvenergo Group's retail electricity supply in the Baltics in 2017 was 6.9 TWh, or 10% less compared to the previous year. The decrease is related primarily to increasing competition in the large business customer segment. The electricity sales outside Latvia amounted to 2.3 TWh and accounted for approximately 1/3 of the total retail sales of electricity. In 2017, Latvenergo Group commenced sale of natural gas to business customers in Latvia and Estonia and approximately 100 contracts were signed by the end of the year.

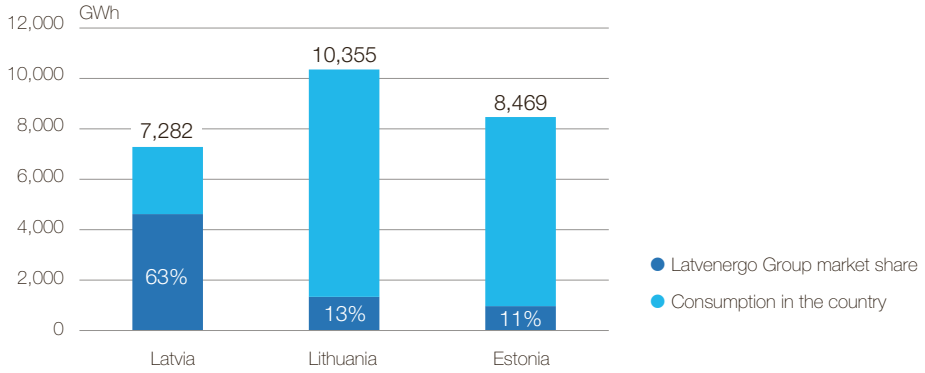
In the customer breakdown according to segments, households constituted 96% of the total number of customers and business customers constituted 4%. At the end of 2017, Latvenergo Group had approximately 799.6 thousand customers in the household segment and 34.1 thousand business customers:

- 773.4 households and 34.1 thousand business customers in Latvia;
- 7.1 thousand business customers in Lithuania;
- 26.2 households and 2.1 thousand business customers in Estonia.

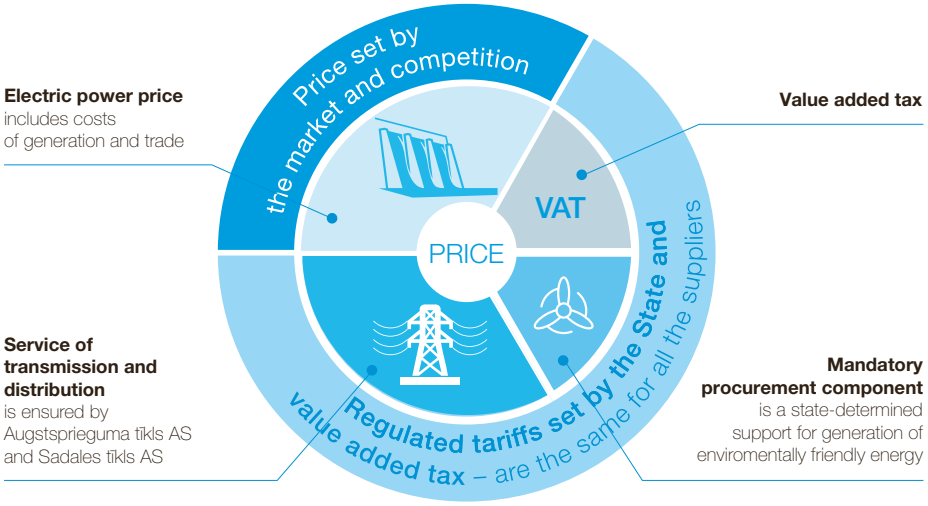
In comparison to 2016, the number of corporate customers in the Baltics increased by 1% and the number of household customers decreased by 3%.

In 2017, the Group introduced two new electricity products for the household segment. One of them is *Elektrum Smart House*, which provides remote control of space heating and electrical devices at home. *Elektrum Solar* is the other new product; it provides for the possibility to use independently generated electricity from solar light.

Market share in the Baltics in 2017



The price of electricity is comprised of several components (example of Latvia)



3.1.3. Mandatory Procurement

> The decision on changes in support to the Riga CHPPs lowers the average amount of mandatory procurement component

Mandatory procurement (MP) is a state-regulated support mechanism for electricity generators in Latvia. This mechanism is implemented in the form of electricity procurement or guaranteed payments for installed capacity.

In accordance with the Electricity Market Law, the right to sell electricity generated within MP or receive guaranteed payment for the installed capacity at power plants is granted to generators who generate electricity in efficient cogeneration or from renewable energy sources. The support in the form of a payment for the guaranteed capacity is received by cogeneration plants with installed capacity above 4 MW. These rights to generators are granted by the Ministry of Economics of the Republic of Latvia.

The provisions for electricity generation, electricity MP pricing and the amount of guaranteed capacity payments are governed by regulations of the Cabinet of Ministers of the Republic of Latvia. The amount of MP support depends on the type of energy resource used (wind, water, biomass, biogas, natural gas), the installed capacity, and, for some plants, the cost of natural gas. Measures for prevention of the risk of overcompensation of MP power plants were introduced in 2017.

On 13 June 2017, Cabinet Regulations regarding support to energy-intensive processing industry companies entered into force. The Regulations stipulate that eligible companies complying with the criteria can apply for a reduction of the Mandatory Procurement Component (MPC). Payments to companies to which the Ministry of Economics has granted the right to receive a reduction of the MPC are made by the public trader.

In compliance with the Electricity Market Law, the functions of the public trader in Latvia are performed by Enerģijas publiskais tirgotājs AS. Expenditures associated with the MPC and the support paid to energy-intensive processing industry companies are compensated to the public trader from the MPC payments by electricity end-users and a state budget grant.

On 1 September 2017, amendments to the Electricity Market Law entered into force providing for a new procedure for covering the MP costs to be compensated to the public trader. As of 1 January 2018, consumers pay an MPC comprising a variable part and a fixed part. The variable part is calculated in proportion to the electricity consumption and the fixed part (the capacity component) depends on the type of system service used. The amount of the MPC is set on the basis of the MP costs of the preceding year and is approved by the PUC.

Enerģijas publiskais tirgotājs AS receives an annual state grant. During the preceding years this has allowed the MPC to remain static irrespective of the increase in MP costs. The state grant is funded mainly from the dividends paid by Latvenergo AS, and until the end of 2017, from the SET (subsidised electricity tax) revenue as well. This tax was applied to the state support provided for MP generators, i.e. revenue from the electricity sold within the MP, as well as the guaranteed payment for installed capacity to cogeneration plants. The tax was differentiated depending on the type of energy source used. In the coming years, according to the provisions of the Law on the Medium-Term Budget Framework 2018, 2019 and 2020, the dividends of Latvenergo AS for the use of state capital are intended to form the main source of financing for compensation of the MP costs.

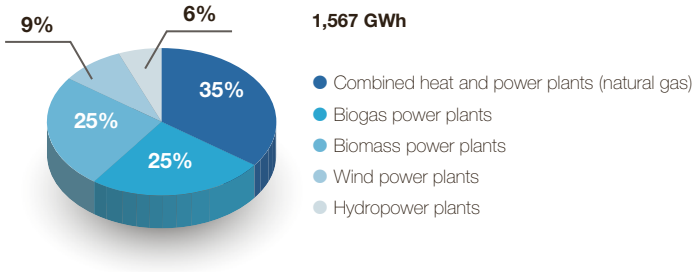
Amendments to Cabinet Regulation No. 221, which entered into force on 14 October 2017, stipulate that cogeneration plants with installed capacity above 100 MW may opt out of the guaranteed annual capacity payments of the remaining aid period by receiving a one-off compensation corresponding to the discounted value of the unreceived future support payments. In October 2017, Latvenergo AS applied for the receipt of such a one-off compensation from the state, at the same time opting out of the receipt of 75% of the annual electricity capacity payment to cogeneration plants Riga CHPP-1 and Riga CHPP-2 in future. This allows for reducing the long-term state liabilities by EUR 262 million. As of 1 January 2018, the mean MPC has decreased by 0.1 cent/kWh.

Mandatory procurement: key indicators

In 2017, 1,567 GWh of electricity were procured within the MP process, which is 4% more than in the previous year. Though in 2017 the support period ended for 24 power plants, the increase was mainly affected by the commissioning of new power plants and an increase in the capacity of the existing power plants. In 2017, the biggest support per generated kWh within the MP (following the SET) was received by biogas plants (12.6 cents/kWh) and small-scale hydropower plants (12.1 cents/kWh), and the lowest support was received by cogeneration plants with installed capacity up to 4 MW (5.8 cents/kWh) and the Riga CHPPs (5.9 cents/kWh). Following the reduction of the intensity of support payments in 2018, the planned support payment to the Riga CHPPs will decrease to 1.4 cents/kWh.

The total MPC did not change in 2017. It has been 2.679 cents/kWh since 2014. The total amount of state subsidies received in 2017 was EUR 69.9 million. As of 1 January 2018, the mean MPC amounts to 2.579 cents/kWh. In order to secure reduction of the MPC in 2018, a state budget subsidy in the amount of EUR 88.6 million is also provided.

Electricity purchased within the mandatory procurement



Mandatory procurement key indicators (2013–2017)

	Unit	2013	2014	2015	2016	2017
Power plants	number	368	386	400	402	408
MP paid-up capacity	MW	1,310	1,354	1,364	1,379	1,394
Electricity purchased within the MP	GWh	2,610	1,284	1,427	1,503	1,567
MP costs above the market price (after SET)	MEUR	209.9	215.3	224.3	207.9	235.3

For more information on MP, see the website of Enerģijas publiskais tirgotājs AS.

3.2. DISTRIBUTION

Increase in the efficiency of distribution grid use

EU3
EU4

Among the operational segments of Latvenergo Group, the distribution segment is the biggest in terms of assets and second biggest in terms of the value of the turnover. Sadales tīkls AS, a subsidiary of the Group, is the biggest distribution system operator in Latvia, providing electricity distribution system service to approximately 819 thousand customers. The distribution system operator ensures equal access to electricity distribution networks, which is one of the prerequisites for ensuring competition in the Latvian electricity market.

The electricity distribution network ensures the flow of electricity from the transmission network and electricity generators connected to the distribution networks to electricity consumers. At the end of 2017, the total length of electricity lines was 93,560 km. The number of distribution network transformers was 29,967, while the number of transformer substations was 27,085, with a total installed capacity of 5,913 MVA.

Due to significant investment in distribution networks, the length of low-voltage lines to distribution system users has been decreasing every year, thus developing a more efficient structure for the power grid and improving the quality and reliability of power supply. Reconstruction of the medium voltage overhead line network increases the share of cable lines in the overall length of power lines year by year, i.e. from 28% in 2013 to 34% in 2017. This has allowed for reducing the negative impact of weather conditions on power networks and the number of failures on lines. The volume of electricity not supplied to customers as a result of failures has decreased by 63% during the last five years, from 2,559 MWh in 2013 to 950 MWh in 2017.

In 2017, the volume of distributed electricity has remained on the level of 2016 and amounts to 6,463 GWh. Electricity distribution losses constitute a significant performance indicator of the distribution segment (see also the EU12 indicator). Compared to 2016, electricity losses did not change and constituted 4.6% of the total electricity received by the network. Total losses during the last five years decreased by 7% or 24 GWh.

In 2017, the amount of electricity received by distribution networks from small electricity generators continued to increase. This volume reached 1,575 GWh, which is 1.4 times more compared to 2013. The increase is mainly due to the commissioning of new electricity generation capacities.

Sadales tīkls AS provides the distribution system service in compliance with the tariffs approved by the PUC. Since 2016, balanced distribution system service tariffs have been in force, allowing customers to evaluate the existing connection capacities and increasing the efficiency of their use. Efficient use of connection capacities also means a considerable gain for Sadales tīkls AS, allowing for faster and less expensive construction of network connections to new customers in future.

Electricity received in distribution network (2013–2017)

	Unit	2013	2014	2015	2016	2017
From transmission network	GWh	5,670	5,470	5,236	5,304	5,225
From small generators	GWh	1,139	1,297	1,448	1,495	1,575
TOTAL	**GWh**	**6,808**	**6,767**	**6,684**	**6,799**	**6,800**

Distributed electricity and losses (2013–2017)

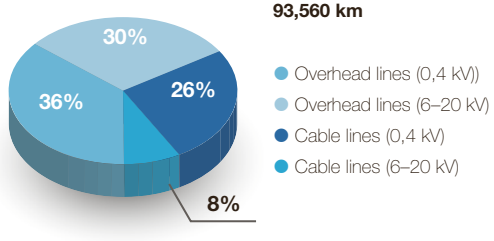
	Unit	2013	2014	2015	2016	2017
Distributed electricity	GWh	6,447	6,421	6,263*	6,465	6,463
Electricity distribution losses, technological and operating consumption	GWh	361	346	328**	334	337
TOTAL	**GWh**	**6,808**	**6,767**	**6,591**	**6,799**	**6,800**
Electricity losses	%	5.0%	4.8%	4.6%	4.6%	4.6%

* The volume of electricity distributed excludes 123 GWh; that amount corresponds to the regulated electricity tariff revenues received at the beginning of 2015 that were recognized in 2014
** The amount of losses is increased by 30, which is related to the recalculation of actual consumption of customers and the actual amount paid for electric energy

Reconstruction and construction (2013–2017)

	Unit	2013	2014	2015	2016	2017
Overhead lines constructed (0,4 kV)	km	17	19	37	22	18
Cable lines constructed (0,4 kV)	km	995	1,089	934	651	781
TOTAL low-voltage power lines	**km**	**1,012**	**1,107**	**972**	**673**	**799**
Overhead lines constructed (6–20 kV)	km	305	300	556	628	522
Cable lines constructed (6–20 KV)	km	126	104	189	140	115
Cable lines constructed (6–20 KV) (Cable programme)	km	162	207	210	208	211
TOTAL medium-voltage power lines	**km**	**593**	**611**	**955**	**976**	**848**
Transformer substations reconstructed	number	577	649	877	773	726
Connections constructed	number	7,335	8,510	7,588	9,353	8,907

Length of electricity distribution lines in 2017



Efficiency programme

Improvement of the operational efficiency of the distribution segment of Latvenergo Group is an important precondition for its balanced development and reduction of operational costs. In order to identify opportunities for improving operational efficiency, Sadales tīkls AS has been performing in-depth analysis of operational processes and management of assets and personnel since 2016. Both employees in charge of daily planning, management and oversight of work and an independent international management consulting company were involved in the evaluation. The evaluation of the distribution segment's operation included also benchmarking with other European distribution system operators.

With the purpose of improving the operational efficiency of Sadales tīkls AS, a plan for improving the network management process and cost reduction was approved in 2017. Within this plan, the company's organisational structure and operational processes were improved and the management of assets and personnel was reviewed. As a result of implementing the plan in 2017, the number of jobs was reduced by 122. In addition, the core operation processes related to customer service were reviewed, and within the framework of the efficiency programme the number of jobs was reduced by 16.

The changes implemented represent a part of the operational efficiency improvement activities that will be implemented until 2022. During this period, the amount of resources required for operations will be reduced at Sadales tīkls AS, including the number of geographic locations of employees and specialised machinery.

Introduction of smart electricity meters also contributes to the operational efficiency of the distribution segment. Implementation of this project has allowed for a reduction of the costs of meter service and maintenance. The number of work assignments related to meter inspection and meter reading has decreased considerably. Thus, in 2017, within the project the number of jobs was reduced by 56. In total, in 2017, the number of jobs was reduced by 194.

Investment and maintenance

Each year, maintenance and development of distribution networks include large-scale repairs and investment. This is aimed at increasing the quality and reliability of the energy supply, reducing the frequency and duration of scheduled and unscheduled power supply outages due to damage, and ensuring adequate voltage quality. Increased cleaning of electricity transmission lines as well as implementation of the investment programme in 2017 reduced the number of failures on power grids and the duration of unscheduled disconnections by 9.6% and 3% respectively in comparison to 2016 (for additional information, see indicators EU28 and EU29).

Investment in reconstruction and modernisation of distribution networks is made in line with the Sadales tīkls AS Development Plan 2014–2023. The objective of the plan is to ensure a sustainable and economically viable electricity distribution service by effectively managing the power network and enhancing the reliability and quality of the electricity supply, which is important for the competitiveness and growth of the national economy. The plan details the actions to be taken to achieve the goals set in the medium-term operational strategy of Sadales tīkls AS.

Sadales tīkls AS has done an analysis of electricity network development and usage perspectives and set criteria to be considered when planning reconstruction and renovation work. In compliance with the criteria, 2% of the total electricity network needs to be renovated every year. During the last four years, the volume of investment in distribution assets has stabilised at the level strategically required for distribution assets. The amount of investment in 2017 was close to EUR 108 million.

The following investment projects and programmes for improving the power supply's quality and reliability and for developing the smart grid were continued in the distribution segment in 2017:

- *Cable Programme* – replacing medium-voltage non-isolated overhead lines with cable lines (mostly in forested areas). This helps to reduce the number of electricity supply disruptions due to unfavourable weather conditions. A total of 211 km of medium-voltage cable lines were built in 2017. The low voltage network is reconstructed into cable lines at locations where the existing poles of overhead power lines can be used;
- *Restoration of lines and reconstruction of transformer substations* – 8,907 new connections were built. In the historical centre of Riga reconstruction of the 0.23 kW power network was continued, resulting in provision of power supply compliant with modern needs and requirements;
- *Automation programme* – construction of remote-controlled circuit breakers and installation of fault location detectors which promptly provide information about power supply failures on power grids and contribute to more efficient elimination thereof;
- *Introduction of smart electricity meters* improves customer awareness of electricity consumption, promoting the efficiency of electricity consumption and cost reduction for the distribution system operator, customers and electricity traders. More than 405 thousand smart meters have been installed at the end of 2017, accounting for 36% of the total fleet of meters and metering 78% of the total volume of electricity consumed by customers.

Investments (2013–2017)

	Unit	2013	2014	2015	2016	2017
Investments	MEUR	92.0	103.2	102.0	106.4	107.7

3.3. LEASE OF TRANSMISSION SYSTEM ASSETS

We provide for investments in transmission system projects in Latvia

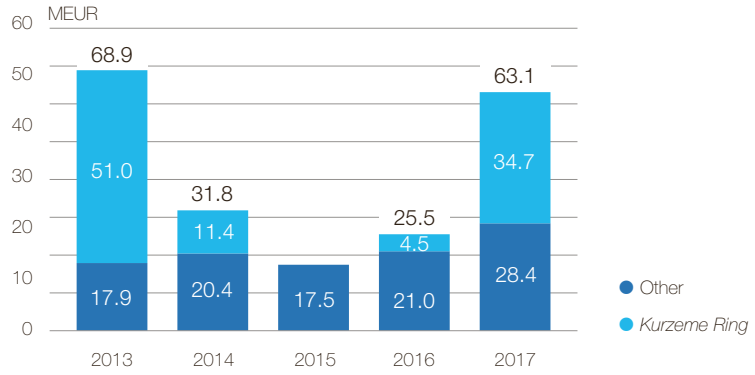
EU4 The operation of this segment is ensured by Latvijas elektriskie tīkli AS, which is the holder of the distribution system assets (330 kV and 110 kV power transmission lines, substations and distribution points) and leases the assets to Augstsprieguma tīkls AS, the transmission system operator. Lease of the transmission system assets is a regulated segment. The lease payment for the transmission assets is calculated in compliance with the methodology approved by the PUC.

At the end of 2017, the total length of power transmission lines was 5,240 km, of which 74% was 110 kV lines and 26% was 330 kV lines. To ensure the operation of the transmission network, sixteen 330 kV substations with a total autotransformer capacity of 3,825 MVA and one hundred and twenty-three 110 kV substations with a total installed transformer capacity of 5,196 MVA are used.

Investment

Total investment in transmission system assets in 2017 amounted to EUR 63.1 million. The most important transmission network investment projects include the *Kurzeme Ring* project and the third Latvia–Estonia transmission network interconnection.

Investments in transmission system assets (2013–2017)



The *Kurzeme Ring* project

The most important investment project of the transmission system of the last few years, *Kurzeme Ring*, was started in 2009. Implementation of the project improves the reliability of power supply considerably in Kurzeme and Latvia as a whole and allows for more efficient use of the Lithuania-Sweden sea cable NordBalt through even greater integration of the Baltic countries on the Nordic electricity market.

The project is being implemented in three stages, and the total planned length of the 330 kV transmission ring is approximately 330 km. The first stage was completed in 2012 through construction of the *Riga Ring*. By commissioning the new 330 kV power transmission line *Grobiņa–Ventspils* in August 2014, the second stage of the *Kurzeme Ring* project was completed. For the concluding part of the project *Ventspils–Tume–Rīga*, the design work for the 330 kV line was performed and construction work was started in 2017 on three stages:

- *Dundaga–Valdemārpils–Talsi;*
- *Kandava–Tume;*
- *Priedaine–Imanta.*

As at the end of 2017, within the third stage, in total 66 kilometres of 330/110 kV power transmission lines were built. Reconstruction at the 110 kV substations *Priedaine* and *Valdemārpils* was performed and reconstruction was started at the substations *Kandava* and *Dundaga*. The amount of investment in 2017 equalled EUR 34.7 million.

The *Kurzeme Ring* project is scheduled for completion in 2019. The total estimated construction costs of the project amount to approximately EUR 220 million, including the costs of implementing the first and second stages of the project in the amount of EUR 95 million. An agreement was concluded with the EC Innovation and Networks Executive Agency for financing the construction of the concluding stage of the project *Ventspils–Tume–Riga*, providing for co-financing in the amount of 45%.

The third Estonia–Latvia power transmission network interconnection

An important future electricity transmission infrastructure project for the entire Baltic region is a new, third electricity transmission network interconnection between Estonia and Latvia. The new 330 kV interconnection will increase the available throughput between the Latvian and Estonian energy systems, reducing the price differences between the Latvian/Lithuanian and Estonian bidding areas.

The planned length of the new 330 kV interconnection line in Latvia is about 190 km. It is scheduled for completion by the end of 2020. The overall construction costs of the project in Latvia are estimated to be EUR 100 million. In 2015, an agreement was concluded with the EC Innovation and Networks Executive Agency that provides 65% co-financing for the total eligible project costs. The procurement procedure for performance of the design and construction work of the 330 kV power transmission line was completed in 2017.

Other projects

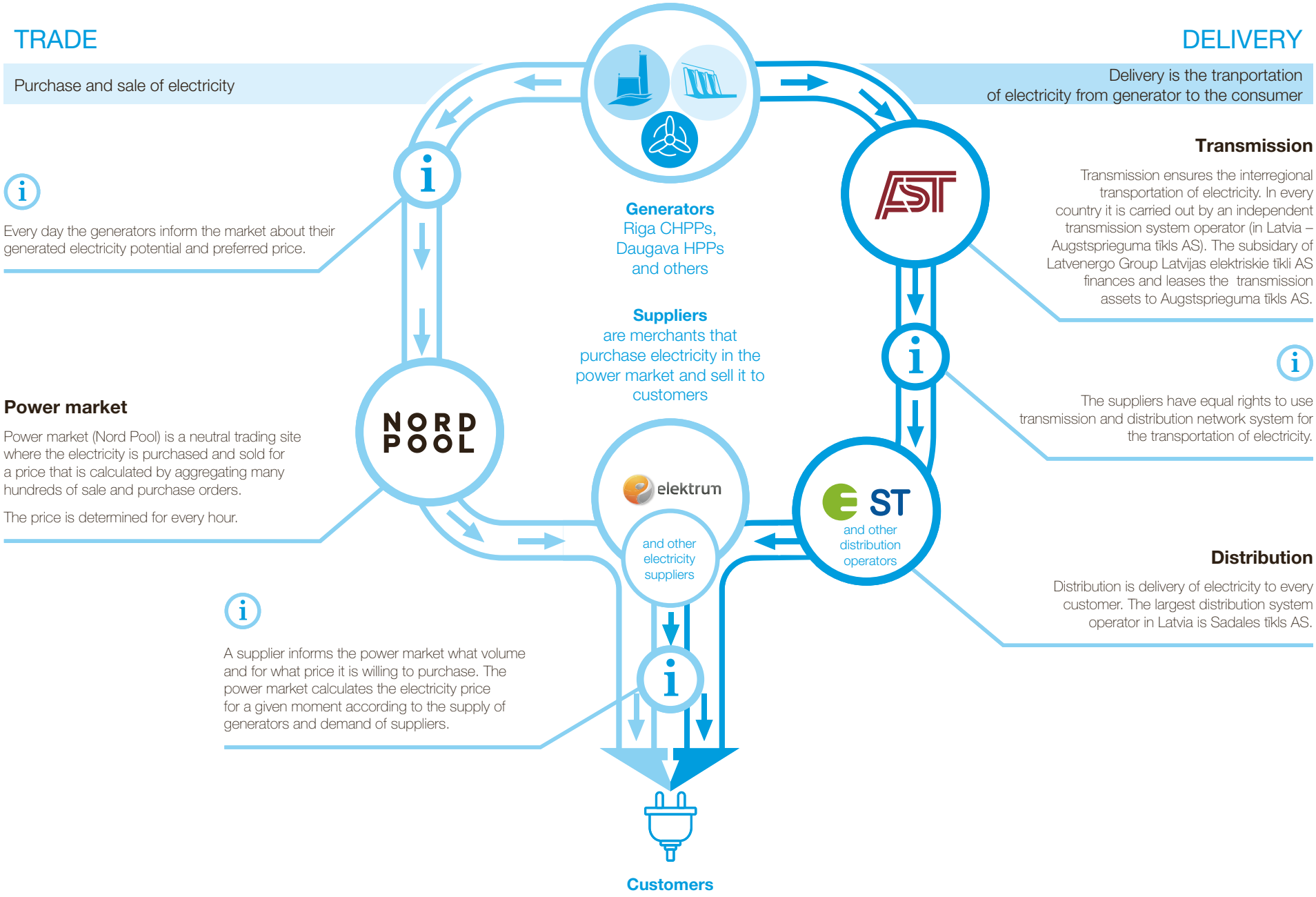
To increase the stability of electricity supply to consumers and meet capacity demand at transmission network points, other important projects were implemented in 2017, such as reconstruction of the 110 kV distribution switchgear of the 330/110 kV substation *Ventspils* and reconstruction of the 110 kV substation *Aloja*. Reconstruction of the 110 kV switchgear of the substation *Viskaļi* was continued and reconstruction was started at the 330 kV substations *Daugavpils* and *Aizkraukle* and at the 110 kV substation *Bolderāja.* In order to ensure an increase in the capacity of the distribution system connections, two 110 kV substations, *Skanste* and *Koknese,* were built and construction of the substation *Stīpnieki* was started. Also, reconstruction projects for 330 kV and 110 kV power transmission lines were continued by reconstructing the line elements.

TRADE

Purchase and sale of electricity

DELIVERY

Delivery is the tranportation of electricity from generator to the consumer



Every day the generators inform the market about their generated electricity potential and preferred price.

Power market

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

The price is determined for every hour.

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

Transmission

Transmission ensures the interregional transportation of electricity. In every country it is carried out by an independent transmission system operator (in Latvia – Augstsprieguma tīkls AS). The subsidary of Latvenergo Group Latvijas elektriskie tīkli AS finances and leases the transmission assets to Augstsprieguma tīkls AS.

The suppliers have equal rights to use transmission and distribution network system for the transportation of electricity.

Distribution

Distribution is delivery of electricity to every customer. The largest distribution system operator in Latvia is Sadales tīkls AS.

PERFORMANCE INDICATORS

4.1. MATERIALITY ASSESSMENT

Material topics for the Group and its stakeholders are defined according to the international GRI guidelines

102-46 The content of the Latvenergo Group Sustainability Report is based on economic, social and environmental
102-47 topics important for the Group and its stakeholders. These material topics were defined in compliance with the GRI Guidelines and the materiality assessment methodology developed by Latvenergo Group.
102-49 The process of defining the material topics and the relevant disclosures can be divided into four steps.

Step 1

In order to determine the sustainability topics a list of potentially relevant topics was compiled. It contains topics potentially relevant for both the Group and its stakeholders. The list was based on the following sources of information:

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

During this step a total of 27 topics were identified as relevant to Latvenergo Group operations. In order to facilitate the evaluation of their significance, these topics were grouped into five areas: economic performance, society, product responsibility, environmental protection, and employment and work environment. Latvenergo Group's priority stakeholders in each sustainability area were identified through Group management surveys and assessed by the responsible managers of the respective areas.

Step 2

In order to determine the most relevant sustainability topics, in-depth involvement of the Group management and stakeholders was implemented in 2015. The opinions of the Group's managers were identified through opinion surveys and in working groups. The opinions of the Group's employees were determined through the annual survey, which comprised questions about material topics of the Group's sustainability.

A workshop was organised to find out the opinions of priority stakeholders on the material topics of the Group's sustainability. About 70 stakeholder representatives were invited to the workshop, representing all the priority stakeholder groups of Latvenergo Group.

During the workshop, the stakeholders were invited to evaluate the materiality of each pre-selected topic on a scale of not material to very material. In the following stage of the workshop, participants were asked to work in groups and express their ideas and suggestions regarding ways to improve the Group's sustainability on its most material topics. The results of the working groups were revealed in a panel discussion.

Step 3

Within this step, the results of the stakeholder workshop and Latvenergo Group management survey were compiled and a materiality matrix of sustainability topics was drawn up. The results of the employee opinion survey and the management working groups were also taken into account in developing the matrix. The matrix was assessed and approved by the top management of the Group.

The matrix comprises 27 sustainability topics identified as relevant to Latvenergo Group. The vertical axis of the matrix reflects the importance of the sustainability topics to the Group's stakeholders, and the horizontal axis reflects the importance of these topics from the Group's point of view. The materiality matrix is divided into three parts: most, moderately and least material topics. Nine topics were evaluated as being the most material, rated as such by both stakeholders and Latvenergo Group. Twelve topics were recognised as being of moderate materiality and six as being least material.

The Sustainability Report covers most and moderately material topics. The least material topic "Biodiversity" is also included as this is one of the fundamental principles of the Group's Environmental Policy. Latvenergo Group has obtained assurances that certain stakeholders would appreciate more

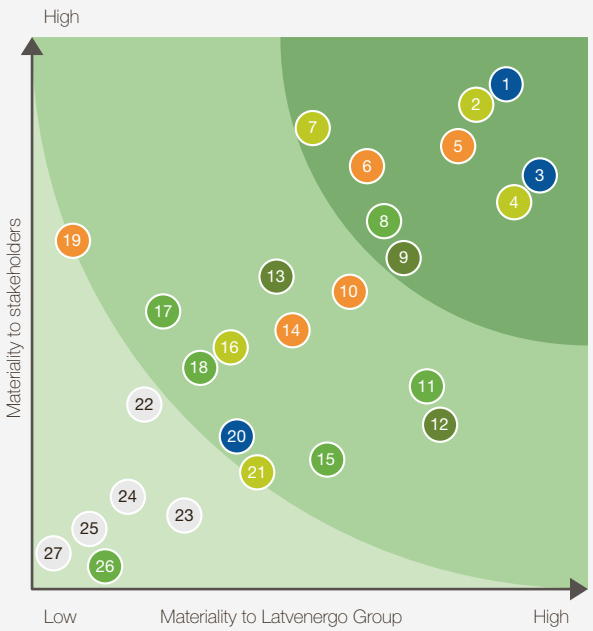
information on the Group's impact and contribution to the protection of biodiversity, especially regarding such issues as the protection of white storks and the replenishment of fish stocks in the Daugava River basin.

According to the GRI Guidelines, in cooperation with the responsible managers of the respective areas, disclosures corresponding to these topics were identified. In preparing information to be disclosed in the report, the materiality of each topic to Latvenergo Group companies and stakeholders was taken into account. Overall, the report discloses information on 22 material sustainability topics for the Group and 33 specific standard disclosures (see the GRI Index).

Step 4

Every year the preparation of the report includes re-evaluation of stakeholders' opinions, the topics identified and the relevant disclosures. This is done by the responsible persons for the relevant areas, considering changes in the operational environment and the Group's operations and the feedback received from stakeholders. During this process the Group concluded that in 2017 there was no need to change the sustainability topics identified. The Sustainability Report 2017 is prepared according to the GRI Standards; therefore, some disclosures were merged, moved and/or updated in comparison to the previous report, which was prepared in accordance with the GRI G4 Guidelines.

As the availability of the electricity distribution services is among the most material topics according to both the stakeholders and the Group, an additional disclosure, EU27, is included in the Sustainability Report 2017. This disclosure reveals information on the number and duration of power supply disconnections in the household segment due to non-payment and reconnection once payment is arranged.



Economic Performance

- 1 Efficiency of generation plants
- 3 Contribution to the economy
- 20 Support received from state

Society

- 2 Emergency planning
- 4 Public policy making
- 7 Compliance and fair business
- 16 Community contribution
- 21 Impact on local communities

Product Responsibility

- 5 Availability and efficiency of distribution system
- 6 Customer satisfaction
- 10 Data security
- 14 Information availability
- 19 Fair marketing communication

Environmental Protection

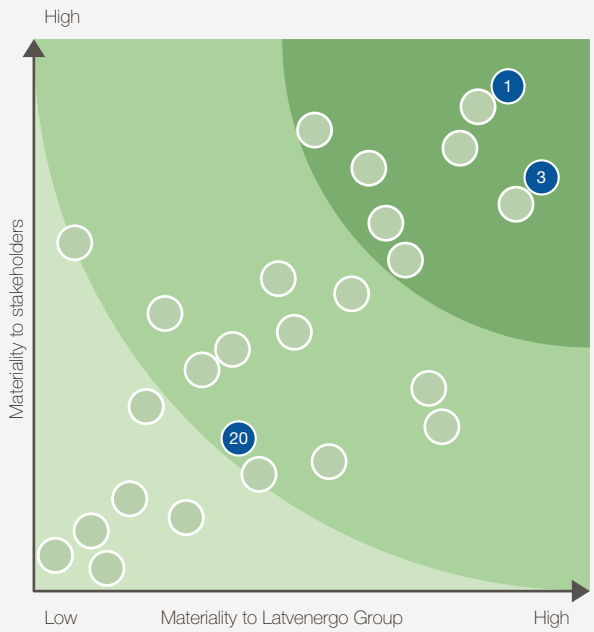
- 8 Resource consumption in production
- 11 Environmental compliance
- 15 Air pollution
- 17 Energy consumption
- 18 Renewable energy
- 22 Waste and waste water
- 24 Environmental protection expenditure
- 26 Biodiversity

Employment and the Work Environment

- 9 Health and safety
- 12 Workplace compliance
- 13 Employee development
- 23 Human rights and workplace diversity
- 25 Work-life balance
- 27 Employee involvement and freedom of association

4.2. ECONOMIC PERFORMANCE

Economic Performance topics



1 Efficiency of generation plants
3 Contribution to the economy
20 Support received from state

Management Approach

Latvenergo Group is the largest provider of power supply services and the most valuable power utility in the Baltic countries. The economic performance of the Group includes the commitment to encourage sustainable use of resources and long-term economic growth. The Group implements this commitment by offering modern and competitive products and services and by investing wisely in energy production and power network development. Efficiency plays an important role across the whole energy production and supply process, thus improving the competitiveness and quality of services.

Contribution to the national economy

The energy industry is an important economic driver since energy is an indispensable raw material in all the industries of the national economy. It provides a direct contribution to economic growth by creating added value in the economy through sustainable and sizeable investment and direct and indirect creation of jobs. Latvenergo Group has a major impact on the overall public welfare in the form of taxes and dividends paid to the state budget, job creation, investment and procurement.

Latvenergo Group's operations have a major impact on the economic growth of both Latvia and the Baltics. In 2017, Latvenergo Group made investments in the amount of EUR 244 million, with total investment over the past five years exceeding EUR 1 billion. Significant amounts have been invested in environmentally friendly energy generation and power network development projects. During the last five years, the biggest investment projects have been the Daugava HPP hydropower unit reconstruction programme and the energy infrastructure project "Kurzeme Ring" (see the annex "Green Bond Report").

Latvenergo Group is among the biggest taxpayers in Latvia. In 2017, the Group paid 238 million EUR to the state budget of Latvia, including more than 90 million EUR as dividends for the use of state capital. The amount of taxes paid in Lithuania and Estonia is EUR 12 and 6 million accordingly. The Group is also one of the biggest employers in Latvia, with a total of 3,908 employees as of the end of 2017. Through competitive wages, contributions to the pension fund, training for improvement of professional skills, and termination benefits upon retirement, Latvenergo Group takes good care of its employees.

Latvenergo Group's financial results have improved considerably over the last five years. Considerate and sustainable investment and efficiency improvements within both energy production and distribution and sales processes are the preconditions for the Group's growth. The value of the Group's assets exceeds EUR 4 billion and equity amounts to EUR 2.8 billion as of 31 December 2017. Detailed information on the performance of the Group is available in the Latvenergo Consolidated Annual Report 2017.

Efficiency of energy generation facilities

The Daugava HPPs and Riga CHPPs, the Group's largest energy generation facilities, operate in conditions of free competition, trading all the electricity they generate on the Nord Pool power exchange. The efficiency of the energy generation facilities is very important for maintaining the competitiveness of the power plants in a changing market situation.

In 2017, the reconstruction of hydro power units was continued at the Daugava HPPs. Until 2022, Latvenergo Group plans to gradually overhaul the remaining 10 hydropower units at the Daugava HPPs. Thus, hydropower turbine efficiency ratios and installed capacity will be improved, increasing annual electricity output.

The Riga CHPPs flexibly adjust their operating modes to the changing electricity market situation and are operated mostly in the highly efficient cogeneration mode. In unfavourable market conditions, the generation of Riga CHPPs is reduced by utilising the opportunity to purchase cheaper electricity from the Nordic countries. The output of the Daugava HPPs is planned considering the water inflow in the Daugava River and the possibility to accumulate water and generate electricity during periods when the demand and the exchange price is higher. Through an optimal combination of Riga CHPP and Daugava HPP output with import opportunities in the region, customers in the Baltics benefit from both price approximation to the Nordic level and long-term price stability.

A certified integrated management system in compliance with the requirements of ISO 9001, ISO 14001 and OHSAS 18001 and an energy management system in compliance with the requirements of ISO 50001 for electricity and thermal energy generation have been implemented and are maintained, thus confirming operational efficiency. The aim of the quality policy is to improve and develop the thermal energy and electricity generation processes, ensuring their quality and stable performance in line with the requirements of legal acts and customer demand.

Distribution efficiency

Along with the improvement of electricity supply quality, Latvenergo Group implements programmes and activities to reduce electricity losses in distribution networks. By 2023, the Group plans to reduce losses to 4.47% of the electricity received in the power grid.

Transformers are among the installations causing the biggest technical losses in the distribution network; therefore, they are being replaced by more energy-efficient transformers according to the plan. Power losses are also reduced by improving the monitoring of electricity consumption and by using the possibilities provided by smart meters. At the end of 2017, smart and electronic meters accounted for 36% of the fleet of electricity meters.

For more information, see the subsection "Distribution".

Performance Indicators

201-1

Direct economic value generated and distributed

In 2017, the economic value generated by Latvenergo Group was EUR 1,076.8 million, which is 4% of the GDP of Latvia. The economic value generated increased by 14% in comparison to the previous year. The increase was positively affected by the output of the Daugava HPPs, which was 74% higher, and also the one-off compensation for the Riga CHPPs' capacity payments in the amount of EUR 454.4 million, of which EUR 140 million were recognised as 2017 revenue.

The distributed economic value was EUR 686.4 million and amounted to 64% of the economic value generated. The majority or 57% of the distributed value is comprised of operating costs, including electricity procurement, electricity services, fuel and other operational costs.

The added value generated by Latvenergo Group in 2017 was distributed among the following stakeholders:

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

Latvenergo Group is a significant payer of dividends for the use of state capital in Latvia. In 2017, dividends paid for 2016 comprised EUR 90.1 million. Over the last five years, more than EUR 250 million have been paid into the state budget. Latvenergo AS dividends are also used as a source of funding for the state budget programme "Electricity user support", ensuring the reduction of the MPC.

In 2017, the undistributed economic value of Latvenergo Group represented 36% of the economic value generated, reaching EUR 390.4 million. 62% or EUR 243.8 million of this amount has been earmarked for investment.

Economic value generated and distributed (2016–2017)

	Unit	2016	2017
Economic value generated	**MEUR**	**941.9**	**1,076.8**
Revenue and other income	MEUR	939.6	1,075.6
Income from financial activities	MEUR	2.3	1.2
Economic value distributed	**MEUR**	**660.9**	**686.4**
Raw materials, consumables and other operational expenses	MEUR	428.3	390.8
Remuneration of employees	MEUR	96.0	113.3
Payments for the use of state capital	MEUR	77.4	90.1
Payments to providers of debt capital	MEUR	14.2	11.2
State imposed payments	MEUR	44.5	80.3
Charity and sponsorships	MEUR	0.5	0.7
Retained economic value	**MEUR**	**280.9**	**390.4**
Depreciation and amortisation	MEUR	186.8	189.1
Savings and reserves	MEUR	94.1	201.3

201-3

Defined benefit plan obligations and other retirement plans

Taking care of its employees and respecting the terms stated in the Collective Bargaining Agreement, Latvenergo Group makes contributions to a pension fund and pays termination benefits to employees upon their retirement (for more information on the Collective Bargaining Agreement, see the section "Employees and the Work Environment"). These benefits apply to 97% of the Group's employees.

In compliance with the Collective Bargaining Agreement, Latvenergo Group makes monthly contributions to the current account of Pirmais Slēgtais Pensiju fonds AS (the pension fund) on behalf of employees until they reach the pensionable age for statutory pensions. The contributions amount to 5% of each pension fund member's monthly remuneration. In 2017, Latvenergo Group contributed EUR 2.2 million to the pension fund on behalf of its employees (EUR 2.3 million in 2016). The lower amount of contributions compared to 2016 is attributable to the decrease in the number of employees during 2017.

The accumulated private pensions become available to employees after they reach the age of 55 or in case of Group 1 disability. If the employee draws on the accumulated pension after reaching the age of 55, the employer suspends contributions. The operations of Pirmais Slēgtais Pensiju fonds AS are supervised by the Financial and Capital Market Commission.

Termination benefits upon retirement apply to employees who terminate employment and are eligible for a state old-age pension or disability pension. The amount of the benefits depends on the duration of service at Latvenergo Group. Latvenergo Group grants a benefit in the amount of an average weekly salary for each year of employment. The amount of Latvenergo Group's obligation for the benefit plan is disclosed in Note 22 of the Notes to the Financial Statements.

201-4

Funding received from the state

Latvenergo Group did not receive foreign financial assistance in 2017. During the preceding years, for the implementation of major investment projects, Latvenergo Group attracted co-financing from the EU. One of the key projects co-financed by the EU is the *Kurzeme Ring* transmission network project. The construction of the initial stages, *Riga Ring* and *Grobiņa–Ventspils*, received 50% co-financing within the framework of the European Energy Programme for Recovery. An agreement on 45% co-financing for the final project stage, *Ventspils–Tume–Riga*, has been signed with the EC Innovation and Networks Executive Agency. EU funds have also been attracted in the amount of 65% co-financing for the third Estonia–Latvia power transmission 330 kV network interconnection. As of 1 January 2015, transmission projects are implemented by Augstsprieguma tīkls AS (for more information on the projects, see the section "Operating Segments").

In compliance with the Electricity Market Law, the functions of the public trader in Latvia are performed by Enerģijas publiskais tirgotājs AS, a subsidiary of the Group. Within the state budget programme "Electricity user support", Enerģijas publiskais tirgotājs AS receives a targeted grant from the state budget that has allowed for maintaining an unchanged MPC value and allows for reducing it as of 2018. The revenue from Latvenergo AS dividends is used as the main source of funding for this budget programme. In 2017, Enerģijas publiskais tirgotājs AS received a EUR 69.9 million targeted grant from the state budget. This also includes payments of state budget funds to energy-intensive processing industry companies in the amount of EUR 2.9 million, which are paid out by Enerģijas publiskais tirgotājs AS.

Funding received from the state and the EU (2013–2017)

	Unit	2013	2014	2015	2016	2017
Project *Kurzeme Ring*	MEUR	7.6	0	18.0	0.2	0
Liepaja plants	MEUR	2.4	2.2	0	0	0
Smart technology	MEUR	0.2	0	0	0	0
Grant for limiting MPC*	MEUR	0	29.3	20.3	59.2	69.9
TOTAL	**MEUR**	**10.1**	**31.4**	**38.3**	**59.4**	**69.9**

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

EU11

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

Generation efficiency indicators are calculated as the ratio of electricity and thermal energy generated and the energy necessary for their generation. Generation efficiency indicators are affected by the generation facility's chosen operation modes, which are adjustable according to electricity market conditions.

In 2017, the generation efficiency at the Daugava HPPs has not changed significantly – 18.6 m^3 of water were used for generation of one kWh. In order to improve generation efficiency and return on resources, the Daugava HPPs use the possibility of accumulating water and generating electricity when the demand for electricity and the exchange price is higher (during the peak hours).

The generation efficiency indicator of the Riga CHPPs increased by 5% in comparison to the preceding year. The upgrading of equipment and its operation in the highly efficient cogeneration mode has contributed to this increase.

Compared to other power generation companies in the Baltics, the efficiency indicators of Latvenergo Group generation facilities are considered high.

Generation facility efficiency indicators (2013–2017)

	Unit	2013	2014	2015	2016	2017
Daugava HPPs	m^3/kWh	19.5	18.7	18.8	18.9	18.6
Riga CHPPs	%	79%	80%	79%	83%	88%
Liepaja plants	%	91%	91%	90%	90%	91%
Kegums boiler house	%	86%	86%	86%	86%	86%

EU12

Distribution losses as a percentage of total energy

One of the most important indicators describing the efficiency of the distribution segment is distribution losses as a percentage of total electricity received in the grid. This indicator has remained unchanged at 4.6% during the last three years. This is the historically lowest electricity loss rate for Latvenergo Group.

Distribution losses (2013–2017)

	Unit	2013	2014	2015	2016	2017
Distribution losses	%	5.0	4.8	4.6	4,6	4.6

EU30

Average plant availability factor by energy source and by regulatory regime

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

In 2017, the plant availability factors for the Daugava HPPs were 5% lower than in the previous year. The decrease was due to the Daugava HPP hydropower unit reconstruction programme, within which reconstruction of three hydropower units took place in the reporting year.

Also, the availability factors of the Riga CHPPs were slightly lower in comparison to the previous year. This was due to the inspections of gas turbines and generators and reconstruction of individual devices.

In 2017, the Daugava HPPs were operational for an average of 3,245 hours and on back-up for an average of 3,104 hours. The average annual duration of scheduled repair work per hydropower unit was 1,917 hours. Unscheduled repairs were performed on two hydropower units amounting to 75 hours in total.

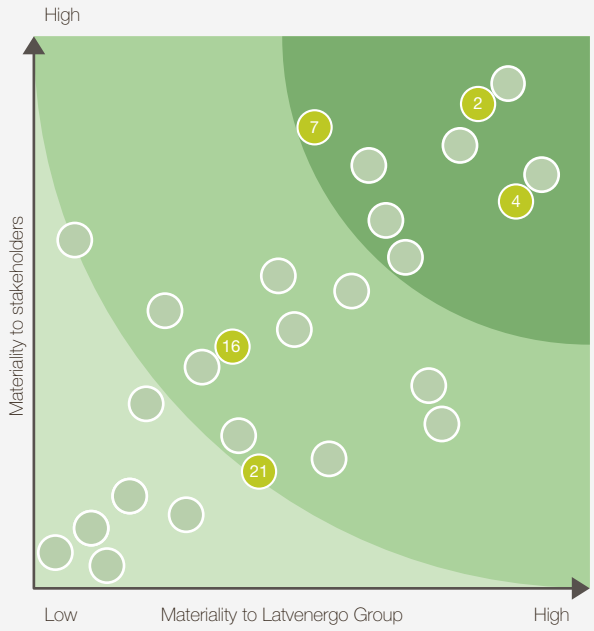
The CHPPs were operational for an average of 2,752 hours and on back-up for an average of 4,019 hours. The average annual duration of scheduled repair work per unit was 1,540 hours. Unscheduled repairs were performed on the gas and steam turbine of CHPP-1 and the gas turbine of the second power unit of CHPP-2, amounting to 448 hours in total.

Average plant availability (2013–2017)

	Unit	2013	2014	2015	2016	2017
Daugava HPPs	%	91	93	87	81	76
Riga CHPPs	%	93	86	82	82	80

4.3. SOCIETY

Society topics



- 2 Emergency planning
- 4 Public policy making
- 7 Compliance and fair business
- 16 Community contribution
- 21 Impact on local communities

MANAGEMENT APPROACH

Responsibility is one of Latvenergo Group's values and a fundamental principle of corporate governance. The Group's management and employees undertake responsibility for tasks performed in compliance with the requirements of applicable laws and regulations and with best practice. Latvenergo Group conducts business in a transparent, ethical, safe, reliable and fair manner, ensuring provision of information to stakeholders and engaging them in its activities.

Latvenergo Group's management approach with regard to its impact on society is based on openness and the following socially responsible activities:

- in compliance with the principles defined by its Code of Ethics, Latvenergo Group guarantees fair and equal treatment of stakeholders, preventing fraud and corruption. The Group has published ethical principles for cooperation with contractors and urges them to follow similar ethical principles in cooperation;
- the Group evaluates the impact of its activities on society and the environment in its day-to-day operations and in implementing new projects. Local communities and other stakeholders are regularly involved in public consultations regarding the modernisation projects at the Group's facilities. Emergency and crisis management and prevention plans have been developed for the Group's critical infrastructure;
- the Group actively informs stakeholders about its activities and expresses its position on subjects regarding energy and related industries which are of importance to the Group and its stakeholders.

Compliance with the requirements of regulatory acts and fair competition

One of the cornerstones of Latvenergo Group corporate governance is ethics and compliance. The Group has introduced a Code of Ethics, which defines the Group's corporate values and professional conduct principles for ensuring that employees carry out their responsibilities with the utmost integrity, are unbiased, comply with high ethical standards, and prevent fraud, corruption and illegitimate or fraudulent conduct in their activities. The Group also urges its contractors to adhere to equivalent ethical principles.

The Group has also developed and introduced a Fraud and Corruption Risk Management Policy. It defines the basic principles for the management of this risk and the main tasks and responsibilities of the managers and employees of all levels. Along with the policy, a range of measures have been introduced to mitigate the likelihood of the fraud and corruption risk:

- annual fraud and compliance risk assessment and corrective action planning and quarterly monitoring of the implementation of risk mitigation measures are carried out;
- employees who, in the performance of their duties, have found themselves or might find themselves in situations of conflict of interest submit a conflict of interest declaration on an annual basis. Upon entering employment relations and signing the declaration, new employees must confirm in writing their understanding of conflict of interest situations and commitment to prevent their occurrence;
- regular training on best practice for the prevention and mitigation of fraud and corruption risks is carried out;

In 2017, Latvenergo AS, Sadales tīkls AS and Latvijas Elektriskie tīkli AS introduced uniform software for risk assessment and conducted an annual assessment of risks, including fraud and corruption risk.

Financial and human resources are allocated to ensure the legal compliance of the Group's operations, preventing the occurrence of compliance risks. The Group regularly keeps track of changes to laws and regulations, participates in public consultations and cooperates with the responsible institutions. The Group also develops and maintains its internal procedures to ensure the compliance of its operations.

Considering that Latvenergo Group is the dominant player in the electricity market in Latvia, increased attention is being paid to the principles of equal market competition. To prevent any issues related to competition law, the Group has developed a Competition Law Manual and organises regular educational workshops for employees whose activities may impact the occurrence of such issues.

Emergency management plans

Latvenergo Group is not fully protected against natural disasters and damage caused by humans. To mitigate these risks, the Group has created a common emergency and crisis management system. The purpose of the system is a common approach for resolving issues that arise during emergency or crisis situations and to ensure continuous and reliable operations of the Group or their prompt and efficient recovery.

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

To raise their awareness of their duties in managing emergency and crisis situations, employees receive regular instruction. In cooperation with Augstsprieguma tīkls AS, annual emergency and crisis management training is carried out where possible emergency scenarios are simulated. These activities involve employees of various Latvenergo Group organisational units and specialists from the Department of Management and Operations of the SFRS and from the National Armed Forces. To improve recovery response and reduce material losses, the training process is subsequently analysed and preventive measures to be taken are defined.

Involvement in shaping energy sector policy

Latvenergo Group engages in shaping energy sector policy to promote sustainable development of the Group, the industry and the economy. In line with the objectives and targets set in the Group's strategy, the Group's representatives engage in drafting statements and opinions on Latvian and EU-level studies, guidelines, standards, policy documents and legislation pertaining to the energy sector and related sectors.

The Group's experts make recommendations for the development and improvement of various Latvian regulatory documents on a regular basis. The most important of these in 2017 included the regulation on the use of the natural gas infrastructure, the reform of state support principles for power plants with a capacity over 4 MW, and participation in the preparation of Latvia's national positions on the EC package of documents forming the future European Energy Union.

The Group's involvement in shaping energy sector policy is ensured through its participation in the European electricity sector professional association EURELECTRIC. In 2017, the Group's experts continued to contribute to the development of EURELECTRIC position papers on the legislative package Clean Energy for all Europeans. Latvenergo Group also joined the Declaration on Electrification published by EURELECTRIC in June 2017. It calls on European and national policymakers and stakeholders to take advantage of electricity, remove barriers to electrification and create the necessary regulatory framework for the wider use of efficient electrical technologies in various economic sectors.

By participating in various forums, Latvenergo Group's experts promote the exchange of opinions on topical issues for Latvian and EU energy policy, including the energy sector in Latvia and the forthcoming changes in the sector, market-based energy, the opening of the natural gas market in Latvia, challenges in the natural gas market in the Baltic states, and the development of a smart grid that meets customer requirements. The most significant examples in 2017 included the energy forum organised by the newspaper Dienas Bizness, the conference Energy 2017 and the Baltic Energy Forum in Lithuania.

Impact on society

Latvenergo Group is aware that its operations have an impact on stakeholders and follows all regulatory requirements regarding the assessment of the impact of its operations. The Group identifies stakeholders' views and engages society in decision-making if the Group's operations are related to potential harm or risk of harm to the environment and society. Customers and others may express their opinions in public consultations or submit a complaint or an application in the most convenient manner for them (see the section "Product Responsibility"). Latvenergo Group cooperates with the responsible services, institutions and local governments to ensure the safety of local communities affected by the Daugava HPP reservoirs during the spring flood period.

Performance Indicators

205-2 **Communication and training on anti-corruption policies and procedures**

In the reporting period, Latvenergo Group continued to organise training on fraud and corruption risk management and recommended risk mitigation measures for managers and employees. All Latvenergo AS, Sadales tīkls AS and Latvijas elektriskie tīkli AS Management Board members, Chief Officers and managers participated in the training. In order to raise awareness among employees about anti-corruption issues, discussions were organised in the departments, during which potential risks were assessed and the necessary control measures needed to diminish the risk of fraud and corruption were identified.

In 2017, a seminar for managers was organised which was led by representatives of the Corruption Prevention and Combating Bureau (KNAB). The main topics of the seminar were prevention of ethical conflicts and conflicts of interest, raising anti-corruption awareness, and measures to be taken to reduce fraud and corruption. Around 120 employees of the Group participated in the seminar, including all Management Board members of Latvenergo AS, Sadales tīkls AS and Latvijas elektriskie tīkli AS.

In addition, the development of an e-learning programme on the prevention of conflict of interest, fraud and corruption was completed in 2017. At the end of the year, pilot training was conducted for Latvenergo AS and Sadales tīkls AS employees. In 2018, after approval of the programme, e-learning is planned for all Latvenergo employees.

In the reporting year, a publicly available reporting channel for reporting cases of fraud and malpractice in the operations of Latvenergo Group was created on the Group's website. Reporting is anonymous. Those who want to be contacted by the responsible employees may provide contact information in the report form. An informative e-mail was sent to all employees regarding the creation of the reporting channel.

205-3 **Confirmed incidents of corruption and actions taken**

No cases of corruption were identified within Latvenergo Group in the reporting period. The risk of fraud and corruption at Latvenergo Group is properly managed in compliance with the risk assessment results. Mitigation of fraud and corruption risks is ensured through internal documents regulating employees' activities and determining the scope of their authority. Furthermore, Latvenergo Group carries out risk mitigation activities and continuously improves its preventive measures and detection.

206-1 **Legal actions for anti-competitive behaviour and monopoly practices**

In 2017, no cases of anti-competitive behaviour or misuse of the dominant position by Latvenergo Group were identified, and no court proceedings against Latvenergo Group were initiated or are ongoing.

413-1 **Operations with implemented local community engagement, impact assessments, and development programmes**

Latvenergo Group engages the community in all projects where public interests are at stake. To ensure coordinated action and provide prompt information to the community, the SFRS, in cooperation with Latvenergo AS, organises coordination meetings with the participation of the responsible institutions, services and local governments in the vicinity of water reservoirs during the spring flood. At the meetings, updated information is provided regarding cooperation, communication and actions of the institutions during the spring flood in the Daugava River basin.

In public information activities, Latvenergo Group cooperates with national and regional media. Various media events on the opening of the natural gas market in Latvia, the MP and the solution developed by the Ministry of Economics for reducing MP expenses, and the environmental and CSR projects supported by the Group were held in the reporting year.

For communication with the public and customers and their engagement, Latvenergo Group also makes active use of social media, which allows for prompt replies to questions about the Group's operations and specific practical questions from customers.

415-1 **Political contributions**

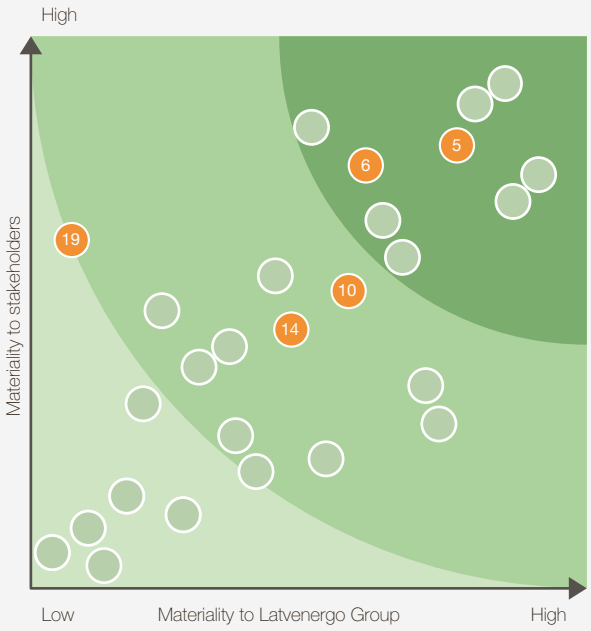
In compliance with the requirements of the laws and regulations of the Republic of Latvia, the Group Corporate Social Responsibility Policy and Latvenergo AS Donation Strategy, Latvenergo Group does not make any monetary and/or non-monetary contributions to political organisations.

419-1 **Non-compliance with laws and regulations in the social and economic area**

No significant fines or non-monetary sanctions were applied in 2017 for any failure by the Group to comply with laws and regulations in the social and economic area.

4.4. PRODUCT RESPONSIBILITY

Product Responsibility topics



5 Availability and efficiency of distribution system
6 Customer satisfaction
10 Data security
14 Information availability
19 Fair marketing communication

Management Approach

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

Customer satisfaction

Trade

Customer satisfaction is one of the main prerequisites for building loyal long-term relationships with customers. In order to ensure customer satisfaction, the Group improves existing products and services and introduces new ones, taking into account the needs of its customers. Major new developments in 2017:

- the *Elektrum Smart House* service, which allows for remote control of electricity and heating devices;
- the *Elektrum Solar* service, which makes it possible to generate green electricity using solar panels;
- the Balanced Payment Barometer, which allows customers to avoid large accumulations or overpayments;
- the opportunity to receive a notification about an increase in the exchange price at certain hours in the *Elektrum* mobile application.

Based on customer interests and needs, the Group raises the awareness of energy efficiency and safety issues among customers and society in general. Advice on these issues is regularly published in the customer newsletter "*Elektrum* tavām mājām" (*Elektrum* for Your Home) and in *Elektrum* social network accounts. The *Elektrum* Energy Efficiency Centre holds informative activities and campaigns focusing on energy efficiency issues, while Sadales tīkls AS is engaged in educating society on energy safety issues. To promote customer loyalty, the *Elektrum* Friendly Benefits programme is implemented, which was used by 34 thousand customers in 2017.

An essential factor for customer satisfaction is the quality of customer service as well as its availability and convenience. To assess the quality of customer service and identify the opportunities for its improvement in a timely manner, the following customer service key performance indicators have been defined at the Group:

- proportion of calls answered;
- calls answered within 30 seconds;
- proportion of complaints and applications answered within 15 days;
- first call resolution (for the household segment);
- proportion of e-mails answered within 24 hours;
- average waiting time at customer service centres.

Compared to previous years, virtually all the key performance indicators show improvement.

Customer service key performance indicators in Latvia (2013-2017)

	Unit	2013	2014	2015	2016	2017
Calls answered	%	92	90	90	87	89
Calls answered within 30 seconds	%	86	78	78	73	76
Emails answered within 24 hours	%	n/a	n/a	n/a	54	90
The average waiting time CSC	min	n/a	n/a	n/a	10	7
Response rate for claims answered in 15 days	%	63	75	69	71	92
First call resolution for household segment	%	n/a	n/a	n/a	91	90

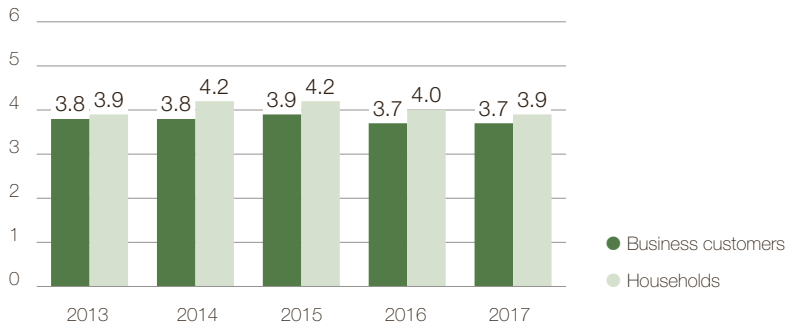
In cooperation with sociological research agencies, the Group conducts regular customer satisfaction and loyalty surveys in the household and business customer segments in Latvia. These surveys make it possible to:

- identify service aspects that need development and improvement;
- compare the Group's services and communication channels with local benchmarks;
- compare current customer satisfaction with previous periods.

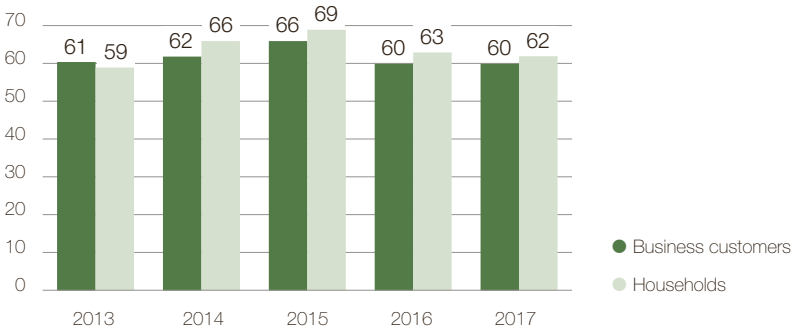
Customer satisfaction and loyalty surveys measure overall satisfaction with the Group, its services, customer service, payment options and information availability and content. Customer satisfaction is measured by the customer satisfaction index on a 6-point scale, while customer loyalty is measured by the index on a 100-point scale. In 2017, the customer satisfaction index remained unchanged in the business customer segment, and the changes in the household segment were statistically insignificant. Since the opening of the electricity market, there has been a growing customer loyalty trend with regard to those customers willing to evaluate and compare electricity traders.

A total of 190 customer complaints were received, representing less than 1% of the Group's customer contacts. 12% of complaints regarding electricity trade were substantiated and 7% were partially substantiated. Responses were given promptly: 92% of the complaints regarding electricity trade were handled within 15 days.

Latvenergo customer satisfaction index (2013–2017)



Latvenergo customer loyalty index (2013–2017)

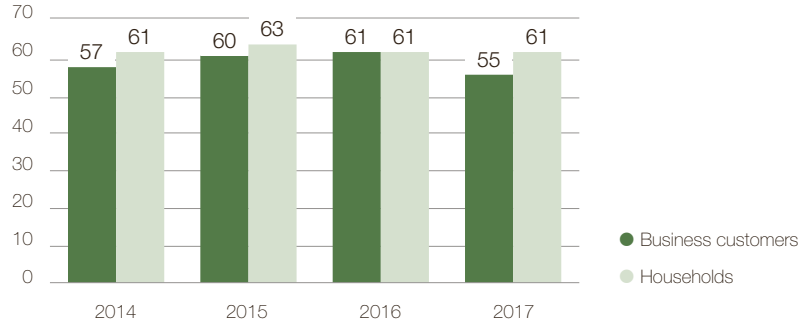


Distribution

In 2017, the Sadales tīkls AS customer satisfaction index remained unchanged for households and decreased from 61 to 55 index points for businesses. The overall index is considered medium high. The decrease in indicators in the business segment occurred in the subsegment of small enterprises, and the main reason for this was the balanced distribution system tariffs which were introduced in 2016. These encouraged customers to evaluate their capacity utilisation habits and raised the issue of efficient use of their chosen power grid connection. An increase in indicators was observed in the subsegment of medium and large enterprises compared to 2016. Maintaining the household segment index at the level of 2016 demonstrates successful communication and explanation in implementing the new tariffs.

To assess the quality of customer service, Sadales tīkls AS also introduced customer experience monitoring in 2017. The results are analysed and used to improve the service provision processes and customer service aspects. In 2017, the overall rating of all services was 3.8 on a 5-point scale.

Sadales tīkls AS customer satisfaction index (2014–2017)



Customer data security

Latvenergo Group has extensive customer databases. Data processing and maintenance complies with all regulatory requirements in terms of data security and confidentiality. Customer service processes are adapted to ensure confidentiality of data. Data security and protection are also ensured through customer authorisation on the customer portal and in direct communication activities.

On 25 May 2018, Regulation (EU) 2016/679 of the European Parliament and of the Council on the protection of personal data enters into force. In 2017, targeted and systematic work was started at the Group to ensure compliance with the data subject's rights laid down in the regulation as well as make all possible improvements to ensure the protection of personal data in accordance with the requirements of the new regulation. Since 2017, a personal data protection specialist has been employed at the Group, who takes part in revising the Group's processes, including customer service and sales processes, checking the compliance of the database management systems operation and, if necessary, initiating the development and implementation of adjustments.

Information availability

The following convenient customer service channels are offered in Latvia to maintain a high level of service quality and availability and hence customer satisfaction:

- the *elektrum.lv* customer portal, with online customer service launched in 2017;
- customer service by phone;
- customer service on site at the customer service centres;
- an option to submit questions via e-mail;
- social networks.

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

The most popular customer service channel is the *elektrum.lv* portal, where the number of visits in 2017 increased by 24%. Customers make active use of the portal to submit meter readings and make payments. The popularity of the *Elektrum* mobile application grew by 67%: it is used by more than 73 thousand customers. The use of other service channels decreases every year.

Customer service is also provided in Russian and English, while informational materials at customer service centres are also available in Russian. Russian and English translations of mail messages and agreements are available upon request. Customer service centres ensure access for customers with reduced mobility. To reduce the waiting time for customers with children and pregnant women, separate queues are arranged for them.

To ensure the availability of information on electricity distribution services as well as simplify and speed up their receipt, self-service options were developed on the customer portal *e-st.lv* in 2017. The portal now provides electronic documents and automated processing of customer applications. Compared to 2016, the number of registered users of *e-st.lv* grew by 74%. The convenience of the customer portal is especially appreciated by large business customers, of whom 77% use the portal on a regular basis.

A map of outages with up-to-date information on scheduled and emergency outages in the power grid can be found on the website of Sadales tīkls AS and on the customer portal *e-st.lv.* Power grid faults may be reported free of charge 24/7 by calling 8404.

Honest marketing communication

In communicating with customers through marketing and sponsorship activities, Latvenergo Group ensures compliance of information with Latvian and EU law, the standards of fair competition, and the policies of the Group. The most important internal documents include the Group's Code of Ethics, Brand Management Policy and Corporate Social Responsibility Policy. The communication of Latvenergo Group and its brands is always based on compliance with Group and brand values.

Quality of distribution services

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

The key performance indicators for quality of electricity supply are System Average Interruption Frequency Index (SAIFI) and System Average Interruption Duration Index (SAIDI). Both indicators are calculated as an average indicator on a per-customer-per-year basis. Sadales tīkls AS conducts regular detailed analysis of these indicators and takes measures to improve them.

Electricity supply interruptions are divided into scheduled and unscheduled interruptions. Scheduled supply interruptions are associated with planned network maintenance repair and construction work, and customers are notified about these interruptions in a timely manner. The frequency of unscheduled supply interruptions is determined by the technical solutions of the electricity grid, damage due to adverse weather conditions (storms, snowbreaks, floods, etc.), and damage caused by third parties or theft. To reduce the duration of unscheduled power interruptions, the following measures were implemented in 2017:

- 726 transformer substations and 1,647 km of power grid were reconstructed, including the replacement of 211 km of medium-voltage overhead lines with cable lines in forested areas;
- electricity line maintenance and clearance work on line routes totalling 5,742 km was carried out and low-voltage power grid repairs using insulated wires were performed on line routes totalling 1,103 km;
- 263 remote-controlled circuit breakers were built, separating power lines in densely populated areas and forested areas, and technically obsolete equipment was replaced with newer technologies;
- maintenance repairs were carried out in 1,289 transformer substations.

Compared to 2016, the total number of power grid faults was reduced by 9.6%. Preventive measures to reduce the frequency and duration of power outages are also planned for the coming years. To this end, the Group plans to continue the construction of new cable lines, carry out clearance work on electricity line routes on a regular basis, introduce new technical solutions and improve existing processes. The maximum duration of power outages for scheduled work during winter months is set to 5 hours.

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

Safety of distribution services

Safe electricity supply is a priority for Sadales tīkls AS. Accidents at the company's electrical installations are most frequently associated with third party negligence in the vicinity of the electrical infrastructure: disregarding the requirements of the Protection Zone Law in business operations and touching 20 kV electricity line wires with machinery.

Sadales tīkls AS carries out a variety of educational activities to reduce the number of electrical injuries and accidents, including lectures at schools, other educational institutions and summer camps for children and youth as well as educational work at electrical safety events organised by institutions supervising tractor machinery and agricultural work. Within the scope of these activities, Sadales tīkls AS employees explain the nature of electrical hazards and what to do in the event of an accident.

To address electrical safety issues in the virtual environment, the website *arelektribuneriske.lv* has been created where children and young people are educated about the dangers of electricity in an interactive and attractive way. Electrical safety issues are also discussed on the Sadales tīkls AS website and on the electrical safety site (Elektrodrošība) on the *draugiem.lv* portal.

Performance Indicators

417-3 **Incidents of non-compliance concerning marketing communications**

No cases of non-compliance of Latvenergo Group marketing activities with legal or voluntary provisions were identified in 2017.

418-1 **Substantiated complaints regarding breaches of customer privacy and losses of customer data**

In 2017, two substantiated (2016: two), one partially substantiated (2016: zero) and six unsubstantiated (2016: two) complaints were registered concerning possible customer data privacy violations. The errors in customer data processing were eliminated immediately upon receipt of the complaints. Six complaints submitted were from customers, one was from a third party and two were anonymous.

419-1 **Non-compliance with laws and regulations in the social and economic area**

In 2017, compensations for damage to electrical equipment due to distribution network disruptions were paid in 46 cases for a total amount of EUR 16.2 thousand. A reduced electricity distribution tariff for inadequate voltage quality was applied to 137 customer sites.

Compensations for damage associated with disruptions in distribution system power grids (2013-2017)

	Unit	2013	2014	2015	2016	2017
Compensation cases	number	97	71	66	48	46
Amount paid	thsd. EUR	43.3	31.3	23.0	24,1	16.2

Customer sites of reduced electricity distribution tariff for inadequate voltage quality (2013-2017)

	Unit	2013	2014	2015	2016	2017
Sites	number	72	156	163	131	137

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

Six accidents involving third parties occurred at Sadales tīkls AS electrical installations. The accidents were due to touching electricity lines when operating machinery; fishing; carrying out construction work; carrying out work uncoordinated with Sadales tīkls AS on a pole; and attempting to steal electrical installations. One of the cases where a power line was touched by machinery was fatal. There were no court cases in the reporting period.

Number of accidents to third parties (2013-2017)

	Unit	2013	2014	2015	2016	2017
Fatal	number	2	0	2	0	1
Serious	number	1	1	0	1	0
Not serious	number	6	2	5	2	5
TOTAL	**number**	**9**	**3**	**7**	**3**	**6**
Number of legal cases	number	0	0	0	0	0

EU26 **Percentage of the population unserved in licensed distribution or service areas**

The service area specified in the electricity distribution licence covers 99% of the territory of the Republic of Latvia. Electricity distribution is ensured to approximately 819 thousand electricity distribution service customers. Electricity distribution services are provided to all households that have concluded agreements on electricity supply within the service area specified in the licence.

EU27

Number of residential disconnections for non-payment, broken down by duration of disconnection

In 2017, electricity supply was disconnected for 8,261 households due to failure to pay in a timely manner. 38% of disconnections lasted up to 48 hours. Cases where disconnections were longer than 1 month (29%) can be explained by changes of household users.

In accordance with laws and regulations, the distribution system operator is obliged to restore electricity supply within five days after it has received a full payment for the system services or upon receipt of a relevant notification from the trader. After the payment, 98% of households had their electricity connection restored within 24 hours and for the rest of households the connection was restored the following day.

Number of residential disconnections for non-payment (2017)

	Unit	2017
Up to 48 hours	number	3,164
From 48 hours to 1 week	number	1,219
From 1 week to 1 month	number	1,460
From 1 month to 1 year	number	2,415
Vairāk nekā 1 gads	number	3
TOTAL	**number**	**8,261**

Length of time between arrangement of payment and reconnection

	Unit	2017
Up to 24 hours	number	8,069
From 24 hours to 1 week	number	192
More than 1 week	number	0
TOTAL	**number**	**8,261**

EU28

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

EU29

Well-targeted investment by Latvenergo Group in the distribution segment has contributed to substantially reduced power interruption frequency (SAIFI) and duration (SAIDI) over the last five years. Other contributing factors were the renovation of electricity networks with a high impact on power outages and clearance work on electricity distribution line routes.

In 2017, Sadales tīkls AS continued to increase the share of the power line maintenance and repair work performed without cutting voltage for consumers.

System Average Interruption Frequency Index (SAIFI) (2013-2017)

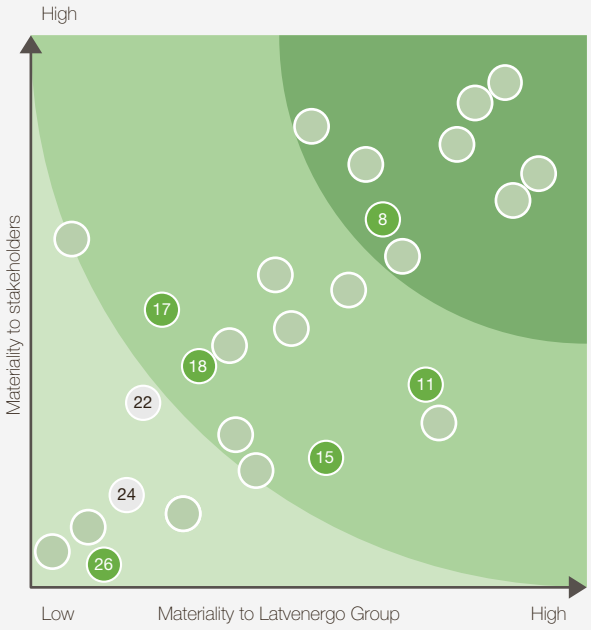
	Unit	2013	2014	2015	2016	2017
Unscheduled: natural phenomena (massive damage)	number	0,6	0,4	0,2	0,2	0,2
Unscheduled: damage (incl. if caused by third parties)	number	2.9	2.4	2.1	2.2	2.0
Scheduled: network maintenance and overhaul	number	1.0	1.0	0.8	0.7	0.6
TOTAL SAIFI	**number**	**4.5**	**3.8**	**3.2**	**3.1**	**2.8**

System Average Interruption Duration Index (SAIDI) (2013-2017)

	Unit	2013	2014	2015	2016	2017
Unscheduled: natural phenomena (massive damage)	minutes	149	57	18	26	18
Unscheduled: damage (incl. if caused by third parties)	minutes	192	153	126	104	100
Scheduled: network maintenance and overhaul	minutes	280	256	206	156	143
TOTAL SAIDI	**minutes**	**620**	**466**	**350**	**286**	**261**

4.5. ENVIRONMENTAL PROTECTION

Environmental Protection topics



- 8 Resource consumption in production
- 11 Environmental compliance
- 15 Air pollution
- 17 Energy consumption
- 18 Renewable energy
- 22 Waste and waste water
- 24 Environmental protection expenditure
- 26 Biodiversity

Management Approach

Latvenergo Group is aware of the role of environmental protection in sustainable development and implements its key principles in all its operations. The Latvenergo Group Strategy 2017–2022 has set environmental protection as one of its priorities in energy generation and supply processes.

Environmental Policy and governance

The key principles of Latvenergo Group in relation to environmental issues are established in its Environmental Policy. The following main principles characterise the Group's environmental philosophy and attitude towards the environment:

- effective management of environmental risks in all business areas of the Group;
- ensuring governance of industrial accident risks;
- reducing pollutant emissions and the Group's impact on climate change;
- efficient use of natural resources;
- promoting the implementation of balanced and economically sound technologies and measures that mitigate or prevent effects leading to climate change or ensure adaptation to it;
- fostering preservation of biodiversity;
- assessment of the environmental impact of investment projects and minimising the harm caused to the environment;
- providing regular and open information to society and stakeholders about environmental activities;
- acting in an environmentally friendly manner and urging society and partners to do the same;
- integrating the key principles of green procurement into procurement procedures.

The ability of Latvenergo Group to develop and enhance its environmental performance is evidenced by its environmental management system, implemented and certified in compliance with ISO 14001. This means that the Group focuses on minimising its environmental impact in all areas of operation and processes. In 2017, in continuing to improve management processes, the environmental management system was expanded and implemented in all areas of operation of Latvenergo AS.

Resource and energy consumption

Sustainable use of resources has become increasingly important at both a national and European level. This is promoted in particular by the implementation of the requirements of the EU Energy Efficiency Directive and the EU-level commitment to reducing the consumption of primary energy sources by 20% by 2020, which constitutes a serious challenge for the energy sector as well.

Using modern and efficient technologies is one of the main ways for the Group to save resources and reduce emissions. Latvenergo Group makes targeted investment in technological improvements that increase the efficiency of plants, reduce resource consumption and mitigate the environmental impact both directly and indirectly.

At its plants, Latvenergo Group uses a combination of optimal and diversified energy sources available to Latvia, which ensures a high proportion of renewable energy. The Group has a balanced and environmentally friendly generation portfolio, consisting mostly of hydropower plants and highly efficient combined heat and power plants.

The Riga CHPPs mainly generate electricity in cogeneration using the most environmentally friendly fossil fuel: natural gas. Cogeneration or combined heat and power generation is a highly efficient energy generation process that ensures more efficient use of fuel and, consequently, less emissions, including the amount of CO_2 per unit of energy generated. One of the CHPP performance indicators is the fuel utilisation factor, which varies according to the operating modes. For Latvenergo Group's CHPPs, this indicator in 2017 was between 84% and 92% in cogeneration mode and between 40% and 53% in condensation mode. When generating energy in cogeneration mode, the savings of primary energy sources are obtained in relation to the figures from the operation of the plant in condensation mode. In 2017, the savings of primary energy sources achieved this way amounted to 26.7% at Riga CHPP-1 and 20.8% at Riga CHPP-2.

Latvenergo Group makes investments on a regular basis and thus not only achieves technological improvements, but also reduces its environmental impact. In 2017, the long-term Daugava HPP hydropower unit reconstruction programme was continued, while Riga CHPP-1 was equipped with a flue-gas condensing economiser, which allows for more efficient use of fuel.

Energy efficiency measures also play a role in the rational use of the Group's resources, reduction of costs and mitigation of its environmental impact. Latvenergo AS has introduced and certified an energy management system in compliance with ISO 50001. In 2017, Liepājas enerģija SIA also received a certificate regarding the compliance of its energy management system with this standard. Energy management at Latvenergo Group involves the continuous assessment of energy efficiency indicators and their improvement through efficient use of energy sources in production, enhancement of the energy efficiency of buildings and structures, and modernisation of the vehicle fleet in accordance with energy efficiency principles.

Renewable energy

Latvenergo Group uses three types of renewable energy sources – water, wind and wood – to generate electricity and thermal energy. In 2017, 56% of all energy produced at the Group was generated using renewable energy sources, mostly water. By consumption of primary resources, the share of renewables was 70% in total electricity generation and 6% in total thermal energy generation.

Maintenance and renovation of the existing Daugava HPPs' capacities plays a vital role in maintaining a high proportion of renewable energy. The Latvenergo Group strategy also provides for moving towards diversification of the existing generation capacities and the development of new ones in line with the criteria for diversification of primary generation resources and low emission projects.

Compliance with environmental requirements

To ensure compliance with environmental legislation, Latvenergo Group actively cooperates with national environmental institutions, providing them with information related to environmental protection, ensuring compliance with the conditions of the permits received and consulting on issues related to environmental protection.

The Commission Implementing Decision (EU) 2017/1442 of July 2017 sets forth stricter requirements for large combustion plants with regard to the concentration of harmful substances in flue gases. These requirements are also binding on the Riga CHPPs and must be implemented within four years. Taking into account that both CHPPs have been reconstructed, the requirements of the new regulation have already been met to a large degree.

Air pollution

One of the most topical global environmental issues, which is gaining more and more attention, is greenhouse gas-induced climate change. Modernisation of Latvenergo Group facilities, replacing older and less efficient equipment with one that complies with the best and latest methodologies, is a significant contribution to the mitigation of climate change and the achievement of the Group's goals.

In 2017, the European Union continued to develop laws and regulations on climate and energy for the period after 2020. On the way towards CO_2 emissions reduction, changes are expected in the operation of the EU Emissions Trading Scheme (EU ETS). Latvenergo Group expects that the drafting and implementation of the new legislation will create fair and equal conditions for EU ETS participants and that emissions allowance prices will reflect the advantages of efficient and environmentally friendly technologies on the electricity market.

To limit pollutant emissions from combustion plants and to comply with emissions limits specified by laws and regulations, Latvenergo Group performs pollution monitoring and accounting, and plans and implements energy efficiency and environmental protection activities. Modernisation of the facilities is important in terms of both efficiency and environmental protection.

Biodiversity

Among the key principles of Latvenergo Group's Environmental Policy are preservation of biodiversity and mitigating the environmental impact of its operations. The Group continuously plans and implements measures that are aimed at preserving biodiversity, the main initiatives in this field being bird protection and replenishment of fish stocks.

Performance Indicators

301-1
302-1

Materials used by weight or volume and energy consumption within the organisation

Latvenergo Group uses renewable energy sources (water, wind and wood) as well as fossil fuel (primarily natural gas and other fuels in smaller amounts) to generate electricity and thermal energy. In 2017, renewables accounted for 51% of total consumption of energy sources, while fossil fuel accounted for 49%. The share of renewables in overall energy source consumption depends on the amount of energy generated, which is mainly determined by hydrological conditions and market factors (see the section "Generation and Trade").

Electricity generation and thermal energy generation have different primary energy source consumption ratios for renewable and fossil energy sources. By consumption of primary resources, the amount of electricity generated in 2017 from renewable energy sources (water, wind and wood) was 70% or 4,014 GWh, and 30% or 1,720 GWh was generated using natural gas. The high proportion of renewable energy sources in electricity production was ensured primarily through generation at the Daugava HPPs.

The amount of thermal energy generated from woodchips was 157 GWh, constituting about 6% of the total amount of thermal energy generated at Latvenergo Group. Woodchips are used to generate thermal energy at Kegums Boiler House and two Liepaja generation facilities: a biomass-fired combined heat and power plant and a biomass-fired boiler house. The amount of thermal energy generated from natural gas and, in small amounts, diesel fuel was 94% or 2,462 GWh.

In 2017, energy consumption for generation processes (i.e. the Group's own use) was 105 GWh or 1.3% of the energy generated.

In 2017, the fuel used for vehicles included 1,066 thousand litres of petrol and 1,728 thousand litres of diesel fuel, which is, respectively, 18% and 29% less than in 2016.

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

303-1

Water withdrawal by source

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

The Group's water consumption includes surface, underground and supply system water. In 2017, water used for operational needs amounted to 1,582 thousand m^3, including 85% or 1,345 thousand m^3 of surface water, 9% or 145 thousand m^3 of underground water and 6% or 92 thousand m^3 of supply system water.

The largest consumer of surface water is Riga CHPP-2, which consumed 1,340 thousand m^3 of water for generation needs in 2017. 33% of this amount – 443 thousand m^3 – was cooling water. The consumption of water resources at Riga CHPP-2 is affected by the operational modes of the generation facilities and the amount of energy generated. The largest consumer of underground water is Riga CHPP-1, which consumed 60 thousand m3 of underground water to feed the heating networks.

The data on water consumption are based on meter readings.

Consumption of primary energy resources (2013–2017)

	Unit	2013	2014	2015	2016	2017
Water, wind*	TJ	10,278	6,946	6,511	8,834	15,391
Wood	TJ	522	718	693	759	767
Total renewable energy resources	**TJ**	**10,800**	**7,664**	**7,204**	**9,593**	**16,158**
Natural gas	TJ	20,168	17,459	19,194	20,185	15,607
Diesel fuel	TJ	1	6	2	1	1
Total fossil energy resources	**TJ**	**20,169**	**17,465**	**19,196**	**20,186**	**15,608**
TOTAL	**TJ**	**30,969**	**25,129**	**26,400**	**29,779**	**31,766**

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

Consumption of primary energy resources for electricity generation (2013–2017)

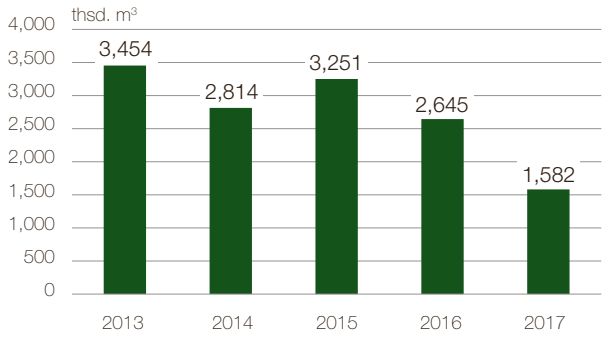
	Unit	2013	2014	2015	2016	2017
Water, wind*	TJ	10,278	6,946	6,511	8,834	15,391
Wood	TJ	59	173	181	193	189
Total renewable energy resources	**TJ**	**10,337**	**7,119**	**6,692**	**9,027**	**15,580**
Natural gas	TJ	10,253	8,391	10,910	10,583	6,477
Total fossil energy resources	**TJ**	**10,253**	**8,391**	**10,910**	**10,583**	**6,477**
TOTAL	**TJ**	**20,590**	**15,510**	**17,602**	**19,610**	**22,057**

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

Consumption by primary energy resources for thermal energy generation (2013–2017)

	Unit	2013	2014	2015	2016	2017
Wood	TJ	463	545	512	566	578
Total renewable energy resources	**TJ**	**463**	**545**	**512**	**566**	**578**
Natural gas	TJ	9,915	9,068	8,284	9,602	9,130
Diesel fuel	TJ	1	6	2	1	1
Total fossil energy resources	**TJ**	**9,916**	**9,074**	**8,286**	**9,603**	**9,131**
TOTAL	**TJ**	**10,379**	**9,619**	**8,798**	**10,169**	**9,709**

Total water withdrawal (2013–2017)



304-2

Significant impacts of activities, products, and services on biodiversity

Bird protection

On bird protection and research, Latvenergo Group cooperates with the Latvian Ornithological Society (LOS). Particular attention is paid to the protection of white storks. The White Stork Monitoring Project, carried out by Latvenergo Group and the LOS in order to gather information on the white stork population in Latvia, is now in its seventh year. At least 12,000 white stork couples nest in Latvia, and power line poles are their most frequent nesting sites. In 2017, 9,359 white stork nests were found on electricity line poles in Latvia. To ensure compliance with electricity supply safety requirements and reduce the number of white stork fatalities on electric lines, 1,059 potentially dangerous nests were removed from electricity line poles in 2017 following approval from the environmental authorities. During the nesting period, the birds are disturbed only in exceptional cases where the safety of the electricity supply or the public is endangered.

Replenishment of fish stock and reinforcement of the Daugava riverbanks

In compliance with applicable law, Latvenergo Group makes annual contributions to replenish fish stocks in the Daugava River basin. In 2017, these payments amounted to EUR 1,035 thousand. Approximately 600 thousand salmon and sea trout smolt fry, 700 thousand pike perch, whitefish and vimba fry, and 12 million lamprey larvae were released into the Daugava River basin in the reporting year.

Latvenergo Group cooperates with Mēs zivīm, a fish conservation society, on issues related to replenishment of fish stock. In April 2017, 400 artificial spawning nests were placed in the Kegums HPP and Riga HPP reservoirs to stimulate the replenishment of common fish species in the Daugava River basin. In order to reduce fish die-off during the summer season, when the water level is lowered to perform repair work at the HPPs, the Group adjusts the HPP operation modes and, in cooperation with the fish conservation society, arranges the survey of the exposed areas.

In cooperation with Mēs zivīm and the Ogre Region Municipality, the Vedze River Clean-up Project was implemented in 2017. As part of the project, the 12-km-long river was cleared of fallen trees and beaver dams, improving the water flow rate and ecological quality and providing more favourable conditions for salmonids and brook lamprey. Upon completion of the clean-up, 2,000 brown trout fry were released into the Daugava River basin, supplementing the fish stock of the Daugava basin water bodies.

At the beginning of 2017, changes in laws and regulations on covering the reinforcement costs of the Daugava riverbanks came into force, and starting from 2017 these costs are covered through the natural resource tax on water used at HPPs for electricity generation. EUR 6.8 million was paid as tax in the reporting year.

Study of fish migration and natural replenishment possibilities in the Daugava River basin

In 2017, a study on fish migration and natural replenishment possibilities in the Daugava River basin, which was initiated in 2013, continued. The purpose of the study is to understand the behaviour of Atlantic salmon in spawning places in the Ogre River and analyse the ability of this species to acclimatise. In the autumn of 2017, 20 marked salmon were released into the Ogre River. In the spring of 2018, the researchers plan to obtain data that will allow for assessing the potential of the Ogre River more accurately and planning further measures for fish migration and natural replenishment.

In September 2017, LIFE Connects, a cooperation project between Sweden and Latvia for improving river connectivity and habitats, was presented to the EU's LIFE Programme for the Environment and Climate Action. The aim of the Group within this project is to evaluate if and by what means the natural replenishment of migratory fish can be partially restored in the Daugava River basin.

305-1

Direct greenhouse gas (GHG) emissions

The amount of direct greenhouse gas emitted by Latvenergo Group is determined by fuel consumption, which, in turn, depends on the amount of energy generated and the operational modes selected by the plants. In 2017, Latvenergo Group's combustion plants emitted 882 thousand tonnes of CO_2, which is a decrease of 23% compared to the previous year. The decrease in CO_2 emissions was mainly due to a substantial increase in electricity output at the Daugava HPPs in 2017 in comparison with the preceding year.

CO_2 emissions are calculated in compliance with the requirements of the laws and regulations of the Republic of Latvia, the greenhouse gas emissions permits for CHPP-1 and CHPP-2, and the EU. The total amount of the Group's emissions is composed of:

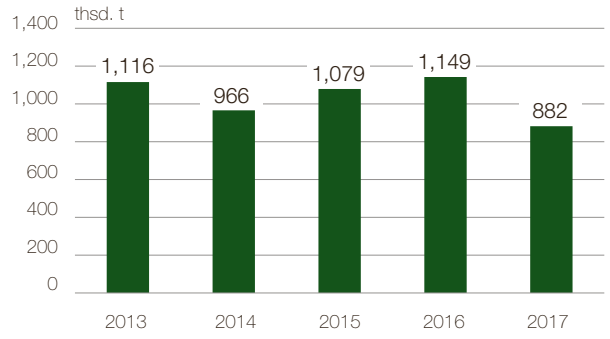
- emissions from facilities that participate in the EU ETS (combustion plants with total rated thermal input exceeding 20 MW);
- emissions from non-participating facilities (9.9 tonnes of CO_2).

This amount also includes emissions associated with supporting the energy generation process.

The Group also operates plants that contain sulphur hexafluoride (SF6) gas and cooling installations that contain gases with an insignificant global warming potential. They are closed installations where no gas leakage has been detected; therefore, these gases are not included in the calculation.

Use of fuel by Latvenergo Group vehicles also results in CO_2 emissions. In 2017, the volume of CO_2 emissions from vehicles was 7.1 thousand tonnes or approximately 1% of total emissions.

CO_2 emissions (2013–2017)



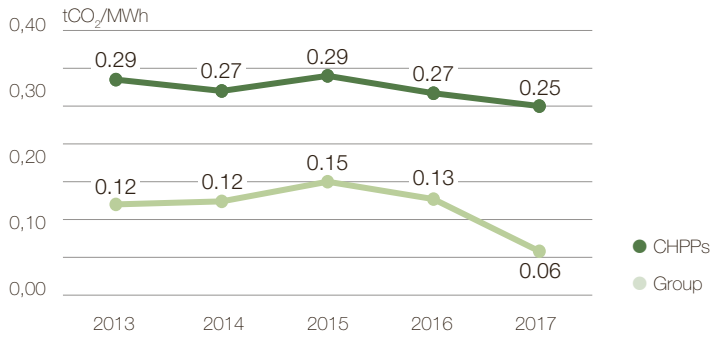
305-4

Greenhouse gas (GHG) emissions intensity

The specific CO_2 emissions indicators per unit of electricity generated by the entire Group describe the allocation and efficiency of renewable energy sources and fossil fuel: the lower the indicators, the larger the share of electricity generated from renewable energy sources, and the higher the performance efficiency of the Riga CHPPs' facilities.

In 2017, CO_2 emissions per unit of electricity generated were 0.06 tonnes CO_2/MWh at the Group overall and 0.25 tonnes CO_2/MWh at the Riga CHPPs. In 2017, the decrease in overall CO_2 emissions intensity was determined by the significant increase in electricity generated at the Daugava HPPs.

CO_2 emissions per unit of electricity generated (2013–2017)



305-7

NO_x, SO_2 and other significant air emissions

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

- Natural gas is the most environmentally friendly type of fossil fuel, and Latvenergo Group uses it not only at the Riga CHPPs, but also, where possible, at the Liepaja plants and at small boiler houses. However, apart from carbon dioxide, combustion of natural gas emits nitrogen oxides (NO_x) and carbon monoxide (CO) into the atmosphere.
- Latvenergo Group uses diesel as the back-up fuel at the Riga CHPPs. When burning diesel fuel, insignificant amounts of sulphur dioxide (SO_2) and particulate matter emissions are produced. Diesel fuel emits hydrocarbons during storage.
- Wood combustion at small boiler houses and at the Liepaja plants produces NO_x, CO and particulate matter emissions.

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

NO_x, CO, SO_2 and other emissions (2013–2017)

	Unit	2013	2014	2015	2016	2017
NO_x	t	792	623	737	803	613
NO_x from combustion plants	kg/MWh	0.18	0.16	0.17	0.16	0.15
NO_x Group combined	kg/MWh	0.11	0.11	0.12	0.11	0.07
CO	t	397	415	319	361	318
CO from combustion plants	kg/MWh	0.09	0.10	0.08	0.07	0.08
CO Group combined	kg/MWh	0.06	0.07	0.05	0.05	0.04
SO_2	t	3	1	4	4	5
Other*	t	14	17	4	17	19

* including emissions of solid particles and hydrocarbons

307-1

Non-compliance with environmental laws and regulations

In 2017, five planned thematic inspections were performed by the State Environmental Service of the Ministry of Environmental Protection and one planned control was carried out by the Health Inspectorate. No significant warnings or sanctions were issued by the regulatory bodies as a result of the inspections of the Group's operations in 2017.

In January 2017, petroleum product leakage occurred at Pļaviņas HPP, regarding which the Madona Regional Environmental Board drew up a violation report. On this basis, a decision on an administrative violation was made and a fine of EUR 1,600 was levied. Limitation and clean-up of the consequences of the pollution was carried out at the spill location, and the measures necessary to reduce or completely exclude the occurrence of such pollution in the future were identified.

EU5

Allocation of CO_2 emissions allowances or equivalent, broken down by carbon trading framework

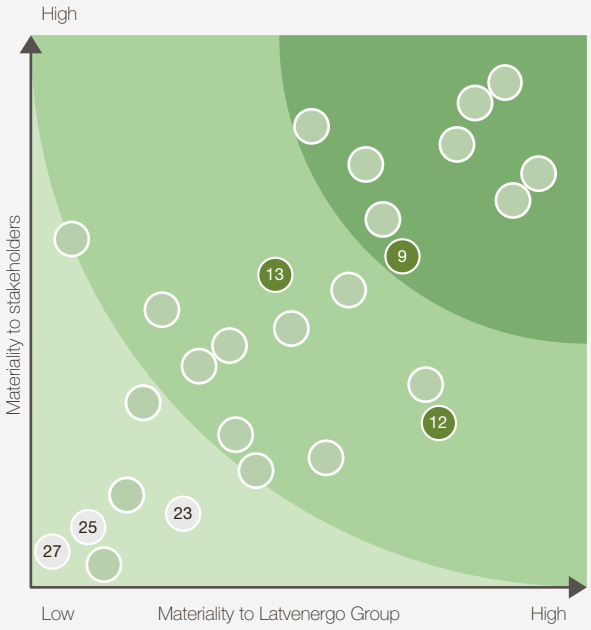
The EU ETS sets forth that free emissions allowances are granted only for thermal energy generation, and the number of allowance units granted will be gradually reduced to 30% of the necessary amount by 2020. In 2017, the Riga CHPPs were granted 295,942 allowance units and the Liepaja plants were granted 18,218 allowance units for thermal energy generation. One allowance unit is equivalent to one tonne of CO_2 emitted. See Note 13b to the Annual Report for the allowance units purchased, used and sold.

CO_2 emissions allowances granted (2013-2017)

	Unit	2013	2014	2015	2016	2017
Riga CHPPs	number	502,865	442,778	392,255	343,330	295,942
Liepaja plants	number	36,536	29,025	29,855	21,158	18,218

4.6. EMPLOYEES AND THE WORK ENVIRONMENT

Employment and the Work Environment topics



- 9 Health and safety
- 12 Workplace compliance
- 13 Employee development
- 23 Human rights and workplace diversity
- 25 Work-life balance
- 27 Employee involvement and freedom of association

Management Approach

Latvenergo Group's management acknowledges that its employees, with their diversity and variety of competences, provide a valuable opportunity to view operational aspects from different perspectives and thus achieve better results. The Group attracts and develops managers and leaders capable of driving its advancement and ensuring that its employees' competences contribute to the achievement of goals and future needs. Employee engagement and desire to implement innovative ideas in both improving the work environment and enhancing the Group's competitiveness is an important resource; therefore, guidelines for working with high potential employees were developed in 2017 and their implementation will start in 2018.

Personnel Management Policy and basic principles

The main tasks of Latvenergo Group's human resource management are subject to its strategy and aimed at ensuring that the conduct of each and every employee is in line with the Group's values: responsibility, efficiency and openness. Latvenergo Group's Personnel Management Policy was updated in early 2017. The Policy supports the areas of personnel management outlined in the Latvenergo Group Strategy 2017–2022:

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

Key personnel management principles laid down in the Policy:

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

In all areas of its operation, Latvenergo Group respects fundamental human rights, which are enshrined in the Constitution of the Republic of Latvia, in applicable laws and in international treaties binding on Latvia. The work environment and processes are created so as to prevent the possibility that the human rights of the employees of the Group and its subcontractors may be infringed or violated, insofar as the Group is able to influence this.

Safe work environment

Latvenergo Group pays special attention to creating a safe work environment. Through internal monitoring of the work environment and compliance with the requirements of laws and regulations of the Republic of Latvia, the Group develops an annual plan for occupational safety measures aimed at maintaining a safe work environment. Latvenergo Group provides its employees with workplaces, personal protective equipment and technical resources that are appropriate for their job. It also organises employee training on occupational safety and safe working methods. The Group's occupational health and safety management system is compliant with OHSAS 18001 and aims to minimise occupational health and safety risks at the company.

Latvenergo Group pays continuous attention to employees' views on the safety of the work environment. To update the assessment of the work environment, the employee opinion poll of 2017 included additional questions about the safety of the work environment, and 96% of the respondents replied that they generally felt safe at their workplace. Increased attention was also paid to the development of new, innovative informative materials, such as the e-learning programme on first aid, so that any employee may acquire new knowledge or brush up existing knowledge regarding first aid.

Occupational safety measures are ensured not only for Latvenergo Group employees, but also for employees of the Group's service providers. The Group instructs and trains the employees of all its contractors on safe work performance. Contractors manage their own human resources, and the Group supervises their activities at its facilities.

Employee growth

Employee engagement is a prerequisite for growth, development and attainment of goals. Work performance and productivity depend on employees' sense of engagement and belonging. Therefore, an anonymous survey is conducted annually to find out employees' views on various aspects of the work environment; it also identifies the level of employee engagement. The results of the 2017 survey demonstrate a consistently high level of engagement: the average rating of engagement aspects was 6.04 on a seven-point scale. In 2017, the employee commitment index (TRI*M) was put forward as one of the Group's performance indicators, and this indicator will be measured annually as part of the employee survey in the future.

To increase the efficiency of processes, the Group continuously improves the self-service system for employees, which ensures fast and efficient information exchange and maintenance of various management processes. Since 2017, the full goal management process, including goal attainment monitoring, has been carried out in this system. Moreover, digitalisation of job descriptions and competence management processes for the electrical installations maintenance personnel was started in 2017, and it is set to be completed by the end of 2018.

Employee development

Latvenergo Group takes care of employee development to ensure the attainment of the Group's goals and strategic competences. In 2017, particular attention was paid to:

- improving managers' skills in assessing employees' competences, creating a common understanding of the strategic competence model (264 managers trained);
- improving sales skills (180 employees trained);
- building stress management skills (284 employees trained);
- applying regulations on the protection of personal data in practice (340 employees trained).

Latvenergo Group's employees can improve their skills and knowledge in the way most convenient for them: by taking the opportunity provided by the employer to acquire the necessary information through internal and external face-to-face training and on the Group's e-learning platform. Employees may supplement their knowledge and skills both on the recommendation of managers and on their own initiative.

Knowledge continuity

Ensuring knowledge continuity is essential for the sustainability of Latvenergo Group's operations. The Group encourages employees to accumulate knowledge and transfer it to colleagues, putting great emphasis on the training of new employees and timely preparation of successors at workplaces that require specific and unique technical knowledge.

One of the Group's priorities in terms of knowledge transfer is provision of quality practical training to students of higher and secondary vocational educational institutions through an increasing number of paid internship opportunities at the Group's companies every year. In 2017, Latvenergo Group provided 180 students with paid internship opportunities. The Group cooperates with educational institutions in Latvia, encouraging studies in the field of engineering sciences and the development of the future workforce in Latvia in general.

In 2017, Latvenergo AS and Sadales tīkls AS signed an agreement with the Employers' Confederation of Latvia for the implementation of the ESF project: Participation of Students of Vocational Educational Institutions in Work Environment-Based Training and Company Placements. In addition to traditional company placements or internships, the project provides for expansion of work environment-based training, which is a new method in the Latvian vocational education system.

In continuing to improve the quality of practical training, 30 mentors were trained under the mentor training programme in 2017. Eight mentors learnt about the experience of similar companies at the Croatian energy company HEP Group. In May, Latvenergo was admitted as a member of the European Alliance for Apprenticeships, which demonstrates the ability to ensure the quality of practical training.

Performance Indicators

Number of employees and the Collective Bargaining Agreement

102-8
102-41

The strategy of Latvenergo Group focuses on the sustainability and strengthening of competitiveness, which provides for maximising efficiency, including revision and further centralisation of processes. In 2017, the Group launched an efficiency programme through which it plans to downsize the number of employees by about a quarter until 2022. Consequently, the number of employees at Latvenergo Group decreased in 2017 and at the end of the year the Group employed 3,908 people.

Distribution of employees by operating segments (2013–2017)

	Unit	2013	2014	2015	2016	2017
Generation and trade	number	971	989	992	987	949
Distribution	number	2,505	2,545	2,568	2,521	2,344
Lease of transmission system assets*	number	444	443	11	10	9
Corporate functions	number	592	586	606	613	606
TOTAL	**number**	**4,512**	**4,563**	**4,177**	**4,131**	**3,908**

* On 1 January 2015, 430 Latvenergo Group employees were transferred to Augstsprieguma tīkls AS along with the functions of transmission system asset construction and maintenance.

The workforce has a relatively high proportion of male individuals; it is 71% male and 29% female. This is related to industry specifics, which require a large number of technical positions.

The majority of employment contracts at Latvenergo Group are concluded on a full-time basis and for an indefinite period. In 2017, only 8 employees or 0.2% of the workforce had part-time agreements (0.2% of male and 0.5% of female employees at the Group), and 1.9% of the employment contracts were concluded for a fixed term (1% of male and 4.2% of female employees). No significant changes in these indicators have occurred compared to previous years.

In the interest of the social security and wellbeing of its employees, the Group's companies Latvenergo AS, Sadales tīkls AS, Latvijas elektriskie tīkli AS and Enerģijas publiskais tirgotājs AS have signed a Collective Bargaining Agreement with the Enerģija trade union. In addition to meeting the requirements of laws and regulations, the Agreement provides protection for employees' economic and social interests.

In 2017, the Collective Bargaining Agreement was applicable to 97% of the Group's employees, and in recent years this percentage has remained constant. The Collective Bargaining Agreement applies not only to trade union members, who currently constitute approximately 60% of the Group's total number of employees, but to all employees of the abovementioned companies. Thus, equal treatment of social guarantees is ensured for all employees and the likelihood of conflict between employees and the employer is reduced.

402-1

Minimum notice period(s) regarding operational changes

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

403-2

Types of injury and rates of injury, occupational diseases, lost days and absenteeism

Eight accidents occurred in 2017 at Latvenergo Group, six of which were not serious. No work-related fatalities occurred at the Group in 2017. Accidents are registered, investigated and analysed in compliance with the regulatory acts of the Republic of Latvia. Appropriate additional training is also conducted for employees.

Six cases of accidents among contractors' employees were registered in 2017 (three in 2016).

Rates of injury and absenteeism* (2013-2017)

	Unit	2013	2014	2015	2016	2017
Injury rate (IR)	index	0.34	0.23	0.23	0.23	0.23
Occupational diseases rate (ODR)	index	0.05	0.10	0.03	0.20	0.15
Lost day rate (LDR)	index	15	8	15	8	22
Accidents (not serious)	number	11	8	5	7	6
Accidents (serious)	number	2	1	2	1	2
Accidents (fatal)	number	0	0	1	0	0
Occupational diseases	number	2	4	1	7	5
Absentee rate (AR) **	%	3.9	3.5	4.5	4.7	5.1

Rates of injury and absenteeism by gender* (2015–2017)

		2015		2016		2017	
	Unit	Women	Men	Women	Men	Women	Men
Injury rate (IR)	index	0.00	0.23	0.03	0.20	0.03	0.20
Occupational diseases rate (ODR)	index	0.03	0.00	0.11	0.09	0.09	0.06
Lost day rate (LDR)	index	0.0	14.6	0.3	7.4	0.2	21.8
Accidents (not serious)	number	0	5	1	6	0	6
Accidents (serious)	number	0	2	0	1	1	1
Accidents (fatal)	number	0	1	0	0	0	0
Occupational diseases	number	1	0	4	3	3	2
Absentee rate (AR) **	%	6.5	3.7	6.3	4.1	6.6	4.4

*

$$IR = \frac{\text{number of accidents}}{\text{total hours worked}} * 200{,}000 \qquad LDR = \frac{\text{lost days due to accidents}}{\text{total hours worked}} * 200{,}000$$

$$ODR = \frac{\text{number of occupational diseases}}{\text{total hours worked}} * 200{,}000 \qquad AR = \frac{\text{number of missed (absentee) days}}{\text{planned number of working days}} * 100$$

** including maternity leave and incapacity to work not related to occupational accidents and diseases (numbers for 2012–2014 do not include data on Elektrum Eesti OÜ and Elektrum Lietuva UAB)

403-4

Health and safety topics covered in formal agreements with trade unions

The Latvenergo Collective Bargaining Agreement comprises labour protection issues and cooperation in their resolution. This includes the following:

- the employer, the trade union and the employees have confirmed their responsibility regarding the improvement of the labour safety system, including the evaluation of work environment risks and minimisation of their impact;
- agreement on the term of office of trustees, which is five years, and their engagement in the improvement of labour safety;
- the employer's obligations, including in a situation where an accident at work has occurred.

404-1

Average hours of training per year per employee

In 2017, a total of 2,557 employees participated in face-to-face training at Latvenergo Group, with a total of 68,242 hours devoted to it. An average of 18 hours per employee was devoted to training. Average rates by position levels were as follows:

- 29 hours for managers;
- 17 hours for specialists;
- 18 hours for skilled workers;
- and 13 hours per employee in other positions.

Concerning employee training by gender, male employees of the Group spent an average of 19 hours in training, while female employees spent an average of 16 hours in training. Internal training, experience sharing events and discussions involving all employees are organised at least once a year.

The Group puts great emphasis on training its technical staff in the latest technologies, which is why both internal courses and training by equipment suppliers are organised for technical specialists. In 2017, 192 technical specialists were trained during a total of 1,776 hours. A total of 70 employees obtained professional qualifications through training financed by the employer, devoting 37,920 hours to training during the reporting year.

In 2017, e-learning opportunities were used by 2,193 employees who completed 2,717 e-learning activities, of which 1,501 were programme learning and 1,216 were tests.

EU15

Percentage of employees eligible to retire in the next 5 and 10 years broken down by job category

The Group maintains a balanced succession and generational replacement according to the specifics of its work environment. Accordingly, no significant changes compared to 2016 have occurred in the share of employees who might retire within the next 10 years.

Retirement time (31.12.2017.)

Profession groups		5 years		10 years	
	Unit	Women	Men	Women	Men
Managers	%	0.2	0.9	0.6	1.5
Professionals	%	3.4	5.9	5.7	10.1
Craft and related trades workers	%	0.3	4.2	0.3	8.5
Other professions	%	0.9	1.0	2.0	1.6
TOTAL	**%**	**4.8**	**12.0**	**8.6**	**21.7**

EU18

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

Latvenergo Group instructs and trains all (i.e. 100%) of the employees of its contractors on safe work performance, as required by Latvian laws and regulations, energy standards and mutual agreements. The Group's labour safety specialists instruct persons employed by contractors. Instructions and applicable documents on safe performance of work, with which the contractors' employees must familiarise themselves, are also available electronically.

ANNEXES TO THE SUSTAINABILITY REPORT

5.1. GREEN BOND REPORT

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

The green bonds issued by Latvenergo AS are listed on the Baltic Bond List of Nasdaq Riga AS. The ISIN code of the bonds is LV0000801777. The bond issuance was organised by SEB banka AS. The maturity date of the bonds is 10 June 2022, with a fixed annual interest rate (coupon) of 1.9%.

The green bond programme was implemented as a continuation of the Latvenergo AS bond issue launched in 2012 and of the diversification of financing sources. Currently, the total value of bonds outstanding is EUR 135 million, constituting 17% of the Group's total borrowings.

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

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

Moody's assigned the highest green bond assessment grade – GB1 (excellent) – and the Baa2 rating with a stable outlook for the green bonds, which corresponds to Latvenergo's credit rating. Latvenergo was commended for its transparent and well-considered decision-making process, transparent and comprehensible management of proceeds from the bond issue, and effective reporting and disclosure practices.

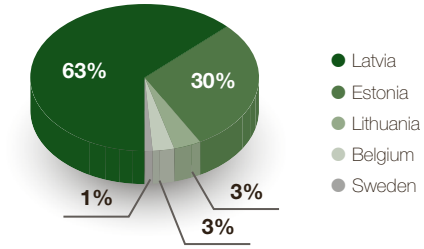
The funds raised within the green bond programme were invested in generation, transmission and distribution projects. The largest eligible projects are the Daugava HPP hydropower unit reconstruction programme and the energy infrastructure project *Kurzeme Ring*.

In January 2017, an internal audit was conducted on the management of proceeds from the bond issue and the compliance of the selection of eligible projects with the Green Bond Framework. The audit concluded that the processes had been implemented appropriately.

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

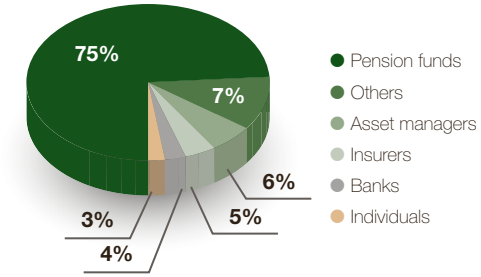
	renewable energy – building of new renewable energy capacities and reconstruction of existing ones – hydropower, bioenergy (non-food), wind energy and related infrastructure;
	energy efficiency – building and reconstruction of transmission and distribution networks to reduce network losses and ensure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

Investors by region*



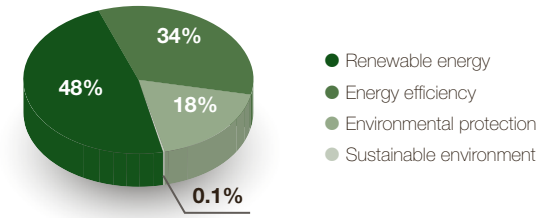
* according to the coupon payment of June 2017

Investors by type*



* according to the coupon payment of June 2017

Investment by project group



Eligible projects of the green bond programme

Group operating segment (share of total eligible costs)	Eligible projects		Eligible costs, EUR million	Project objectives and benefits
GENERATION 66.0%		Reconstruction of hydropower units and technological equipment at Daugava HPPs	47.9	Extending the service life of the hydropower units and increasing their capacity and efficiency ratios. Maintaining a high share of renewables in energy generation. Increasing the safety of operation of the Daugava HPPs. Reducing the oil leakage risk. Implementation of the programme allows for a reduction of CO_2 emissions of up to 18,000 tons per year. In 2017, the share of renewable energy generated by the Group was 75%.
		Renovation of hydroengineering structures at the Daugava HPPs and Aiviekste HPP	18.1	Improving the resilience and safety of hydroengineering structures and dams and extending their service life. Reducing accident risk probability at dams and managing flood risk more efficiently, thus diminishing the potential impact on the public, property and the environment.
		Study of migratory fish replenishment in the Daugava River	0.07	Reducing the impact on biodiversity. Potential measures to offset the impact of the Daugava HPPs on fish stocks more efficiently and to reduce the impact on biodiversity will be identified and explored.
DISTRIBUTION 9.1%		Building and reconstruction of electricity lines and transformer points	7.2	Reducing the duration of power interruptions and electricity losses. Extending the service life of the distribution grid. Since 2014, interruption duration and interruption frequency indexes have been reduced substantially (SAIDI by 30% and SAIFI by 44%). The reduction of CO_2 emissions achieved as a result of the total decrease in distribution losses in this period is 5,000 tons.
		Smart electricity meters	1.9	Reducing the duration of power interruptions and electricity losses. Opportunities for more efficient electricity consumption and use of smart energy efficiency products and services. At the end of 2017, more than 405,000 smart meters have been installed; these account for 36% of the total fleet of electricity meters and measure 78% of the total amount of electricity consumed by customers.
		Annual monitoring of white storks	0.004	Reducing the impact on biodiversity. Data on the stork population and the proportion of their nests located on electricity line poles have been obtained.
LEASE OF TRANSMISSION SYSTEM ASSETS 24.9%		Second stage of *Kurzeme Ring: Grobiņa-Ventspils*	24.9	Expanding interconnection capacity (in accordance with the EU climate and energy targets for 2030), which in turn facilitates the integration of renewable energy sources into the transmission grid, increases the security of the electricity supply and promotes competition in the electricity market. The total length of the new 330 kV electricity lines of *Kurzeme Ring* is set to be around 330 km and the planned capacity is 800 MW. The length of the electricity lines built within the second phase *Grobiņa-Ventspils* is 117 km.
	TOTAL		**100.0**	

75%
Share of renewable energy generated

up to **23,000** t CO_2
Reduction of CO_2 emissions*

205 min
Reduction in SAIDI since 2014

* Potential reduction of CO_2 emissions as a result of reconstruction of the Daugava HPPs' hydropower units – 18,000 tons per year (at a CO_2 emissions intensity of 0.424 tCO_2/MWh when operating Riga CHPP-2 in condensation mode); reduction of CO_2 emissions as a result of the lesser amount of distribution losses since 2014 – 5,000 tons.

5.2. MATERIALITY OF SUSTAINABILITY TOPICS AND CORRESPONDING GRI TOPICS

Sustainability topics	Corresponding GRI topics	Materiality of topics within the Group		
		Generation and trade	**Distribution**	**Lease of Transmission Assets**
		Latvenergo AS, Enerģijas publiskais tirgotājs AS, Elektrum Eesti OÜ, Elektrum Lietuva UAB, Liepājas enerģija SIA	Sadales tīkls AS	Latvijas elektriskie tīkli AS
Efficiency of generation plants	■ System efficiency ■ Access			
Emergency planning	■ Disaster/emergency planning and response			
Contribution to the economy	■ Economic performance			
Public policy making	■ Public policy			
Availability and efficiency of distribution system	■ System efficiency ■ Access			
Customer satisfaction	■ General Standard Disclosures			
Compliance and fair business	■ Anti-corruption ■ Anti-competitive behaviour ■ Socio-economic compliance			
Resource consumption in production	■ Materials ■ Water			
Health and safety	■ Occupational health and safety ■ Employment			
Data security	■ Customer privacy			
Environmental compliance	■ Environmental compliance			
Workplace compliance	■ Employee and management relations			
Employee development	■ Training and education ■ Employment			
Information availability	■ Provision of information			
Air pollution	■ Emissions			
Community contribution	■ Economic performance			
Energy consumption	■ Energy			
Renewable energy	■ Materials ■ Energy			
Fair marketing communication	■ Marketing and labelling			
Support received from state	■ Economic performance			
Impact on local communities	■ Local communities ■ Customer health and safety			
Biodiversity	■ Biodiversity			

5.3. GRI INDEX

General Standard Disclosures

		Page	External assurance
	Organisation profile		
102-1	Name of the organization	9	√
102-2	Activities, brands, products, and services	9, 38–48	√
102-3	Location of headquarters	9	√
102-4	Location of operations	9	√
102-5	Ownership and legal form	9	√
102-6	Markets served	9	√
102-7	Scale of the organization	9–10	√
102-8	Information on employees and other workers	69	√
102-9	Supply chain	28–29	√
102-10	Significant changes to the organization and its supply chain	9–11, 28–29, 38–47	√
102-11	Precautionary Principle or approach	26–27	√
102-12	External initiatives	34	√
102-13	Membership of associations	33–34	√
EU1	Installed capacity, broken down by primary energy source and by regulatory regime	39	√
EU2	Net energy output broken down by primary energy source and by regulatory regime	39	√
EU3	Number of residential, industrial, institutional and commercial customer accounts	43, 45	√
EU4	Length of above and underground transmission and distribution lines by regulatory regime	45–47	√
EU5	Allocation of CO_2 emissions allowances or equivalent, broken down by carbon trading framework	67	√
	Strategy		
102-14	Statement from senior decision-maker	6–7	√

		Page	External assurance
	Ethics and integrity		
102-16	Values, principles, standards, and norms of behavior	9, 18–19, 26–27	√
	Governance		
102-18	Governance structure	18–21, 25	√
	Stakeholder engagement		
102-40	List of stakeholder groups	30–32	√
102-41	Collective bargaining agreements	69	√
102-42	Identifying and selecting stakeholders	30–32	√
102-43	Approach to stakeholder engagement	30–32	√
102-44	Key topics and concerns raised	30–32, 58–59	√
	Reporting practice		
102-45	Entities included in the consolidated financial statements	9	√
102-46	Defining report content and topic Boundaries	50–51	√
102-47	List of material topics	51	√
102-48	Restatements of information	8	√
102-49	Changes in reporting	51	√
102-50	Reporting period	8	√
102-51	Date of most recent report	8	√
102-52	Reporting cycle	8	√
102-53	Contact point for questions regarding the report	8	√
102-54	Claims of reporting in accordance with the GRI Standards	8	√
102-55	GRI content index	77–79	√
102-56	External assurance	26–27, 81–82	√

Specific Standard Disclosures

	GRI Standards topics		GRI Standards disclosures	Page	External assurance
	Economic Performance				
GRI 201:	Economic performance	103	Management approach	52, 78	√
		201-1	Direct economic value generated and distributed	53	√
		201-3	Defined benefit plan obligations and other retirement plans	53	√
		201-4	Financial assistance received from government	54	√
GRI EU:	System efficiency	103	Management approach	52-53, 78	√
		EU11	Average generation efficiency of thermal plants by energy source and by regulatory regime	54	√
		EU12	Distribution losses as a percentage of total energy	54	√
	Society				
GRI 413:	Local communities	103	Management approach	56, 78	√
		413-1	Operations with local community engagement, impact assessments, and development programs	57	√
GRI 205:	Anti-corruption	103	Management approach	55, 78	√
		205-2	Communication and training about anti-corruption policies and procedures	57	√
		205-3	Confirmed incidents of corruption and actions taken	57	√
GRI 415:	Public policy	103	Management approach	56, 78	√
		415-1	Political contributions	57	√
GRI 206:	Anti-competitive behaviour	103	Management approach	55, 78	√
		206-1	Legal actions for anti-competitive behavior, anti-trust, and monopoly practices	57	√
GRI 419:	Socio-economic compliance	103	Management approach	55, 78	√
		419-1	Non-compliance with laws and regulations in the social and economic area	57	√
GRI EU:	Customer health and safety	103	Management approach	60, 78	√
		EU25	Number of injuries and fatalities to the public involving company assets, including legal judgments, settlements and pending legal cases of diseases	61	√
GRI EU:	Disaster/emergency planning and response	103	Management approach	56, 78	√
	Product Responsibility				
GRI 417:	Marketing and labelling	103	Management approach	60, 78	√
		417-3	Incidents of non-compliance concerning marketing communications	61	√
GRI 418:	Customer privacy	103	Management approach	59, 78	√
		418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	61	√
GRI EU:	Provision of information	103	Management approach	60, 78	√
GRI EU:	Access	103	Management approach	60, 78	√
		EU26	Percentage of population unserved in licensed distribution or service areas	61	√
		EU27	Number of residential disconnections for non-payment, broken dfown by duration of disconnection and by regulatory regime	62	√
		EU28	Power outage frequency (SAIFI)	62	√
		EU29	Average power outage duration (SAIDI)	62	√
		EU30	Average plant availability factor by energy source and by regulatory regime	54	√

	GRI Standards topics		GRI Standards disclosures	Page	External assurance
Environmental Protection					
GRI 301:	Materials	103	Management approach	63, 78	√
		301-1	Materials used by weight or volume	65	√
GRI 302:	Energy	103	Management approach	63-64, 78	√
		302-1	Energy consumption within the organization	65	√
GRI 303:	Water	103	Management approach	63, 78	√
		303-1	Water withdrawal by source	65	√
GRI 304:	Biodiversity	103	Management approach	64, 78	√
		304-2	Significant impacts of activities, products, and services on biodiversity	66	√
GRI 305:	Emissions	103	Management approach	64, 78	√
		305-1	Direct (Scope 1) GHG emissions	66	√
		305-4	GHG emissions intensity	67	√
		305-7	Nitrogen oxides (NO_x), sulfur oxides (SO_x), and other significant air emissions	67	√
GRI 307:	Environmental compliance	103	Management approach	64, 78	√
		307-1	Non-compliance with environmental laws and regulations	67	√
Employees and Work Environment					
GRI 402:	Employee and management relations	103	Management approach	68, 78	√
		402-1	Minimum notice periods regarding operational changes	70	√
GRI 403:	Occupational health and safety	103	Management approach	68, 78	√
		403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	70	√
		403-4	Health and safety topics covered in formal agreements with trade unions	70	√
GRI 404:	Training and education	103	Management approach	69, 78	√
		404-1	Average hours of training per year per employee	71	√
GRI EU:	Employment	103	Management approach	69, 78	√
		EU15	Percentage of employees eligible to retire in the next 5 and 10 years broken down by job category	71	√
		EU18	Percentage of contractor and subcontractor employees that have undergone relevant health and safety training	71	√

5.4. ABBREVIATIONS

AS	*akciju sabiedrība* (Eng. joint-stock company)
BIAC	Business and Industry Advisory Committee
BICG	The Baltic Institute of Corporate Governance
CCO	Chief Commercial Officer
CDO	Chief Development Officer
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CICERO	The Center for International Climate and Environmental Research – Oslo
COO	Chief Operating Officer
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CTSO	Chief Technology and Support Officer
CSR	corporate social responsibility
Daugava HPPs	Daugava hydropower plants
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECL	Employers' Confederation of Latvia
EU	European Union
EU ETS	European Union Emission Trading Scheme
GHG	greenhouse gas
GRI	Global Reporting Initiative
HPP	hydropower plant
ICOLD	International Commission on Large Dams
IFRS	International Financial Reporting Standards
ISIN	International Securities Identification Number
ISO	International Organization for Standardization
LAHC	Latvian Association of Heat Supply Companies
LAPEEC	Latvian Association of Power Engineers and Energy Constructors
LCCI	Latvian Chamber of Commerce and Industry
LGA	local government agency
LIAA	Investment and Development Agency of Latvia
LOS	Latvian Ornithological Society
LUA	Latvian University of Agriculture
MP	mandatory procurement
MPC	mandatory procurement component
OECD	Organization for Economic Cooperation and Development
OHSAS	Occupational Health and Safety Assessment Series of Standards
OÜ	*Osaühing* (Eng. private limited company)
PUC	Public Utilities Commission
Riga CHPPs	Riga combined heat and power plants
Riga CHPP-1	The first combined heat and power plant in Riga
Riga CHPP-2	The second combined heat and power plant in Riga
RTU	Riga Technical University
SAIDI	system average interruption duration index
SAIFI	system average interruption frequency index
SES	Stakeholder Engagement Standard
SET	subsidised electricity tax
SFRS	State Fire and Rescue Service
SIA	*sabiedrība ar ierobežotu atbildību* (Eng. limited liability company)
SJSC	state joint-stock company
TSO	transmission system operator
UAB	*Uždaroji Akcinė Bendrovė* (Eng. private limited-liability company)
WEC LNC	World Energy Council, Latvian National Committee
WPP	wind power plant

Ernst & Young Baltic SIA
Muitas iela 1A
LV-1010 Rīga
Latvija

Tālr.: 67 04 3801
Fakss: 67 04 3802
Riga@lv.ey.com
www.ey.com/lv

Vienotais reģistrācijas Nr. 40003593454
PVN maksātāja Nr. LV40003593454

Ernst & Young Baltic SIA
Muitas St. 1A
LV-1010 Riga
Latvia

Phone: +371 67 04 3801
Fax: +371 67 04 3802
Riga@lv.ey.com
www.ey.com/lv

Code of legal entity 40003593454
VAT payer code LV40003593454

Building a better working world

INDEPENDENT PRACTITIONER'S ASSURANCE REPORT ON SUSTAINABILITY REPORT

To the management of Latvenergo AS:

This report is intended for the management of Latvenergo AS for the purpose of reporting on sustainability report, including GRI Content Index as referred to and summarised on page 77–79, of Latvenergo AS and its subsidiaries (hereinafter 'the Group') for the year ended 31 December 2017 prepared in accordance with the GRI Sustainability Reporting Standards 'In accordance' – Core option ('GRI Standards') issued by the Global Reporting Initiative ('GRI'), a non-profit organisation with secretariat based in Amsterdam, the Netherlands (hereinafter – 'Sustainability Report').

Subject Matter Information and Applicable Criteria

As prescribed in our engagement letter dated 13 September 2017 we have performed limited assurance engagement on the Sustainability Report of the Group prepared in accordance with GRI Standards.

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

Specific Purpose of the Report

This report is intended for the purposes specified in the first paragraph above. The report refers exclusively to the Sustainability Report and must not be associated with the Group's financial statements as a whole.

Responsible Party's Responsibilities

The Group's management is responsible for the preparation of the Sustainability Report in accordance with GRI Standards. In particular, the Group's s management is responsible for internal controls being designed and implemented to prevent the Sustainability Report from being materially misstated.

In addition, the Group's management is responsible for ensuring that the documentation provided to the practitioner is complete and accurate. The Group's management is also responsible for maintaining the internal control system that reasonably ensures that the documentation described above is free from material misstatements, whether due to fraud or error.

Practitioner's Responsibilities

We conducted our assurance engagement in accordance with International Assurance Standards, particularly ISAE 3000 (revised). These regulations require that we comply with ethical standards and plan and perform our assurance engagement to obtain limited assurance about the Sustainability Report.

We apply International Standard on Quality Control 1 (ISQC 1), and accordingly, we maintain a robust system of quality control, including policies and procedures documenting compliance with relevant ethical and professional standards and requirements in law or regulation.

We comply with the independence and other ethical requirements of the IESBA Code of Ethics for Professional Accountants, which establishes the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The procedures selected depend on the practitioner's judgment. The procedures include, in particular, inquiry of the personnel responsible for financial reporting and risk management and additional procedures aimed at obtaining evidence about the Sustainability Report.

The assurance engagement performed represents a limited assurance engagement. The nature, timing and extent of procedures performed in a limited assurance engagement is limited compared with that necessary in a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is lower.

In respect of the subject matter information mentioned above we have performed mainly the following procedures:

- interviews with the responsible management, at Group level, subsidiary level, and at selected business units in order to assess if the qualitative and quantitative information stated in the Sustainability Report is complete, accurate and sufficient;
- review of internal and external documents in order to assess if the information stated in the Sustainability Report is complete, accurate and sufficient;
- an evaluation of the design of the systems and processes used to obtain, manage and validate sustainability information;

- verifying the information included in the Sustainability Report through enquires to the relevant management of the Group;
- a reconciliation of financial information with the Group's Consolidated Annual Report for the financial year 2017;
- an assessment of the overall impression of the Sustainability Report, and its format, taking into consideration the consistency of the stated information with applicable criteria;
- testing performance data, on a selective basis, substantively at both an operational and corporate level;
- inspecting documentation to corroborate statements of management and senior executives in our interviews;
- a reconciliation of the reviewed information with the sustainability information in the Group's Consolidated Annual Report for the financial year 2017.

Practitioner's conclusion

Based on the procedures performed and evidence obtained, we are not aware of any material amendments that need to be made to the Sustainability Report, including GRI Content Index as referred to and summarised on page 77–79, for it to be in accordance with GRI Sustainability Reporting Standards 'In accordance' – Core option issued by the Global Reporting Initiative.

SIA Ernst & Young Baltic

Licence No. 17

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

Riga, 17 April 2018