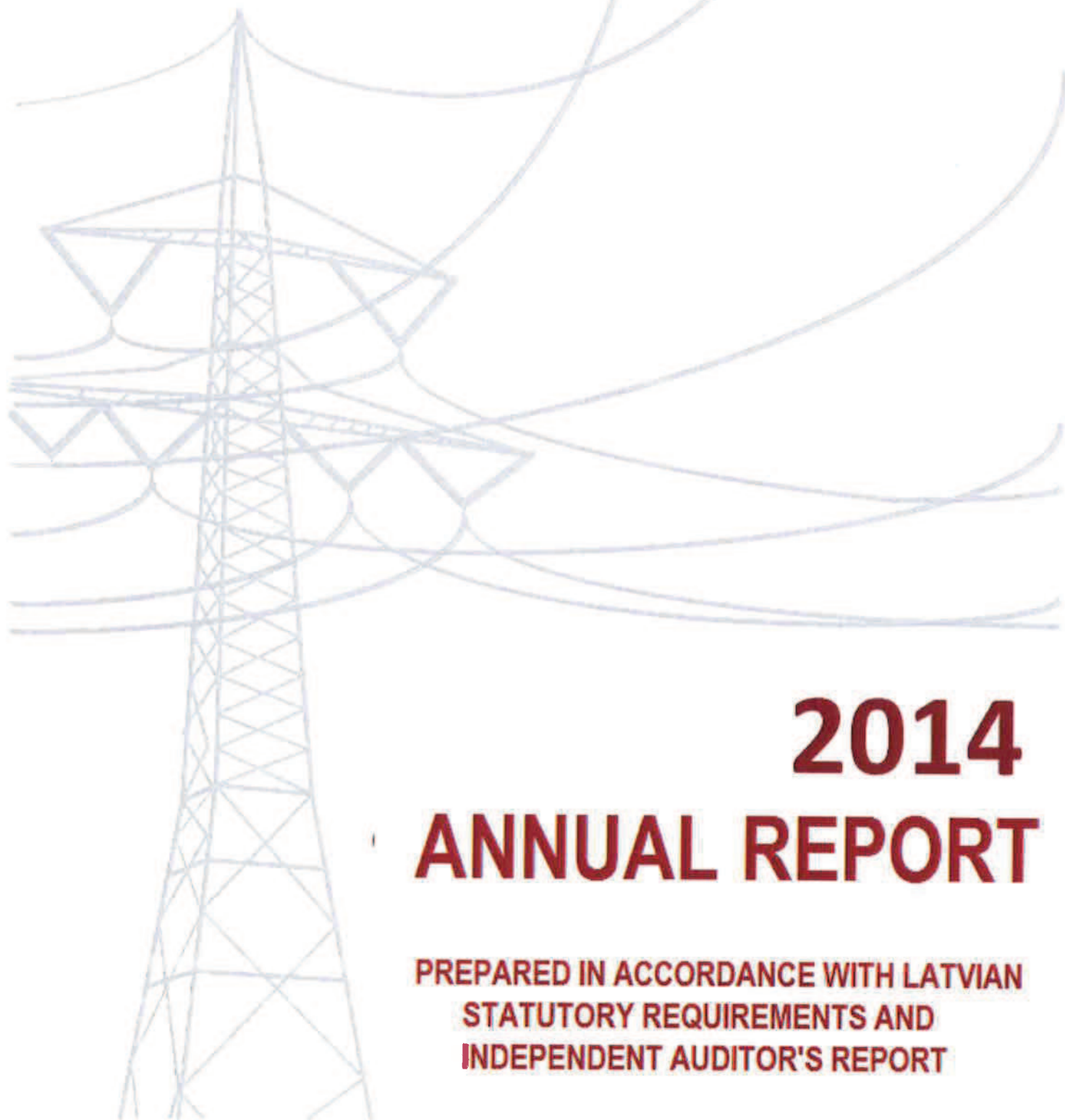


**AS « Augstsprieguma tīkls »**



# **2014 ANNUAL REPORT**

**PREPARED IN ACCORDANCE WITH LATVIAN  
STATUTORY REQUIREMENTS AND  
INDEPENDENT AUDITOR'S REPORT**

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## **Ancillary information**

Name of the entity	AS „Augstsprieguma tīkls”
Legal status	Joint Stock Company
Registration number, place and date	000357556 Riga, 28 December 2001
	Re-registered in the Commercial Register 13 November 2004 Registration number 40003575567
Legal address	86 Darzciema Street Riga, LV-1073 Latvia
Shareholder	Since 2 January 2012: Ministry of Finance of the Republic of Latvia (100%) 1 Smilšu street, Riga, LV-1919, Latvia
Names, Surnames of the Members of the Board, position (since 9 February 2015)	Varis Boks – Chairman of the Board Inese Bambāne – Member of the Board Arnis Staltmanis – Member of the Board Jānis Osītis – Member of the Board Imants Zviedris – Member of the Board
Names, Surnames of the Members of the Board, position	Varis Boks – Chairman of the Board Inese Bambāne – Member of the Board Arnis Staltmanis – Member of the Board Jānis Osītis – Member of the Board
Reporting year	1 January 2014 – 31 December 2014
Previous reporting year	1 January 2013 – 31 December 2013
Auditor’s and sworn auditor’s name and address	„Deloitte Audits Latvia” SIA License No. 43 Registration number: 40003606960 4a Gredu Street, Riga, LV-1019, Latvia  Sworn Auditor: Inguna Staša License No. 145

## **Management report**

### ***Aspect of activity***

AS „Augstsprieguma tīkls” (hereinafter – the Company) is an independent transmission system operator in the Republic of Latvia, which provides transmission system services and ensures balance and stability within the transmission system. The electricity transmission system includes interconnected networks and equipment as well as interconnections with neighbouring power systems with voltages of 110kV and above used to transmit electricity from producers of electricity to the distribution systems or end users and cross-border with neighbouring countries.

According to the issued license No E12001 and the 1<sup>st</sup> part of clause 11 in Electricity Market Law, the Company is the only transmission system operator in Latvia with license area of effect within Latvian borders.

The Company has developed quality, occupational health and safety policies by defining the following core values based on the Law on Energy, Electricity Market Law and Network Codex:

- responsibility – the Company is responsible: 1) for security of power supply, reservation of the power generation, providing firmness of cross-border transmission capacities as well as power flow management, taking in to account power exchanges with other transmission systems; 2) for possible congestions and overloads in the transmission system, as well as for operational stability and compatibility with other interconnected transmission systems; 3) for planning, constructing and implementing new infrastructure elements in order to develop transmission system; 4) for operation, maintenance, security, system management and development of the transmission system within the licensed territory as well as interconnections with other transmission systems, and the sustainability of the transmission network to meet energy demand; 5) for control and monitoring of all generating units connected to the transmission system; 6) for providing distribution system operators with energy in volumes required and corresponding to electricity standard quality requirements;
- fairness – the Company guarantees non-discriminatory electricity transmission system usage conditions to all users and applicants of the transmission system in accordance with the principles of fairness, openness and equality, as well as guarantees the availability of information for the transmission system users and applicants about the conditions to be met in order to access and connect to the transmission system;
- quality – The Company assures that service availability is provided by technology that is constantly being improved. Quality is ensured by operational power system management and monitoring, data acquisition about power system state using the remote control and monitoring tools, continuous improvement of customer satisfaction as well as systematic improvement to the professional qualifications of employees;
- transparency - the Company prepares a report on the balance of transmission system supply and consumption and an assessment report of country's security of electrical supply and provision with the production capacity, including electricity and power demand forecast for at least 10 years ahead, assessment of consumption and within the reviewed period and forecast for at least 10 years ahead, information on transmission system adequacy related to demand, maintenance quality, compliance with 10 year development plan of the transmission system, as well as information regarding measures to be taken in scenario of highest demand and scenario when one or more suppliers are not available;

## *AS „Augstsprieguma tīkls” annual report for the year ended 31 December 2014*

- occupational health and safety – the Company carries out legal, social, technical and organizational measures aimed at creating a safe and healthy work environment, as well as to prevent accidents at work and occupational illness;
- personnel – the Company’s goals are achieved by its employees. The Company cares about each employee’s professionalism, competence and motivation in achieving its goals and ensures continuous improvement of employee qualifications – the Company provides the necessary resources in implementation of lifelong learning principle.

The Company has developed, implemented and maintains its management system based on ISO 9001:2008 (quality) standard requirements.

According to the Law “On Regulators of Public Utilities”, public regulations are performed by the Public Utilities Commission under management of its council. The Public Utilities Commission’s tasks include representation of consumer interests, approval of tariff calculation methodology, tariff determination, public service licensing, promotion of competition in the regulated industries, monitoring of transmission system operator compliance according to certificate requirements and approval of transmission system 10 year development plan.

Differentiated tariffs of the electricity transmission network in 2014 (excl. VAT):

<b>Electricity transmission services</b>	<b>Units</b>	<b>Tariffs since 01.04.2012.*</b>
<b>Transmission service tariffs, for customers with electrical installations connected to 110 kV lines:</b>		
Electricity transmission tariff	EUR/kWh	0,00329
Payment for transmission power maintenance and development	EUR/kWh/ per year	7,039
<b>Transmission service tariffs, for customers with electrical installations connected to 110 kV bus bars:</b>		
Electricity transmission tariff	EUR/kWh	0,00366
Payment for transmission power maintenance and development	EUR/kWh	8,312
<b>Transmission service tariffs, for customers with electrical installations connected to 110/6-20 kV transformer:</b>		
Electricity transmission tariff	EUR/kWh	0,00438
Payment for transmission power maintenance and development	EUR/kWh/ per year	9,526

\* approved by decision No. 44 of the Board of Public Utilities Commission as of 22.02.2012.

### **Financial results**

During the reporting year, Company's sales reached EUR 110 502 757, exceeding the previous year result by EUR 3 435 697 or 3%. Revenue from electricity transmission network services in 2014 reached EUR 74 000 531, which comprises 67% of the Company's total sales. Earnings before tax during the reporting year reached EUR 1 413 458.

The Company's share capital as at 31 December 2014 is EUR 5 691 487, which is secured by a cash investment of EUR 5 691 487. All of the Company's shares are owned by the state.

During the reporting year there were 5 802 GWh of electricity transmitted to the Latvian users which is by 4% less than in 2013.

During the reporting year, the transmission system operator license obligations have been fulfilled through the following transmission networks:

<b>Highest voltage (kV)</b>	<b>Number of substations (units)</b>	<b>Number of transformers and autotransformers (units)</b>	<b>Installed power (MVA)</b>	<b>Overhead power lines and cables ETL (km)</b>
330 kV	16	25	3 825.0	1 381.33
110 kV	121	246	5 074.8	3 891.31
<b>Total</b>	<b>137</b>	<b>271</b>	<b>8 899.8</b>	<b>5 272.64</b>

### **Financial risk management**

The Company's performance is primarily associated with the transmission system operator duties, coherent functioning must be ensured between the transmission system and electricity producers, as well as users (including distribution system operators), whose electrical installations are connected to the electrical transmission system, thus the Company's financial risk management is implemented to ensure continuity of operations. The Company's financial risk management is carried out in accordance with the policy approved by the board and accepted by shareholders.

The Company's operations are exposed to such financial risks as turnover, cost and cash flow risks.

Financial resource management in the Company is focused on the financing of operational activities and securing financial stability by utilizing a conservative financial risk management approach.

The Company's turnover risks are managed by executing strategic and operational risk prevention measures according to the financial risk management policy, thus providing constant monitoring of service tariff compliance with the costs related to the provision of services.

The Company follows prudent liquidity risk management by ensuring that it has adequate financial resources to meet its obligations within due time. During the reporting year the Company has not acquired additional financial resources to help ensure its liquidity.

Financial assets, which potentially subject the Company to a certain risk degree, consist mainly of cash and trade receivables. Although the Company has a significant concentration of risk with regard to a single counterparty or group of related counterparties, the risk is assessed as limited, given the fact that the most important cooperation counterparty is a state-owned corporation – AS "Latvenergo", as well as members of its group. Trade receivables are disclosed at their recoverable value.

Trade partners are accepted in cooperation with banks and financial institutions with the minimal credit rating at least at investment grade, established by the international credit rating agency of the bank or its parent.

## ***AS „Augstsprieguma tīkls” annual report for the year ended 31 December 2014***

The Company's management estimates that the Company will not face liquidity problems, and the Company will be able to settle debts with creditors on agreed terms. The Company's management believes that the Company will have sufficient resources to not compromise its liquidity.

### ***Future development***

#### ***Development of the electricity transmission system***

Capital investments in the transmission system are planned for projects related to power system security, development and fulfilment of the license holder's obligations.

Main development activities in the coming decade:

- 3<sup>rd</sup> stage of 330 kV transmission project „Kurzeme Ring”: construction of new 330 kV transmission power line „Ventspils – Tume – Imanta”

Construction of 330 kV transmission lines “Ventspils – Tume” and “Tume – Imanta” in order to finalise full 330 kV Kurzeme Ring project, thus improving security of power supply in the Western Region of Latvia and providing infrastructure for connecting new generating capacities to the transmission network, as well as providing reliable power corridor for possible increase of transit power flows in Baltics from North to South and vice versa after commissioning of 700 MW direct current interconnection between Sweden and Lithuania (NordBalt) and 650 MW direct current second interconnection between Estonia and Finland (Estlink 2). The project includes expansion of existing 330 kV substations “Imanta” (1 connection bay) and constructing new 330 kV switchyard in substation “Tume” (5 connection bays) with installation of autotransformer 125MVA, 330kV shunt reactors and reactive power compensation equipment. In addition, it is intended to reconstruct 110 kV switchyards at “Dundaga”, “Talsi”, “Valdemarpils”, “Kandava” and “Priedaine” substations, as well as to increase transfer capacity via 110 kV substations “Tukums”, “Tume”, “Dzintari”, “Kemeru” and “Sloka”.

- Latvian – Estonian third electricity interconnection

Currently the most congested cross section of the Baltic electricity transmission network is the cross-border between Estonia and Latvia. Third Latvian-Estonian electricity interconnection will remove the existing transmission network “bottleneck” in cross-section between Estonia and Latvia and will increase the available Estonian-Latvian cross-border interconnection capacity for the electricity market, increase the security of energy supply in Estonia and Latvia as well as give an opportunity for new generating facilities (used for production of renewable energy) to be connected to the electricity transmission system. The planned transmission line length in Latvian territory is approx. 180 km.

- 330 kV capacity increase of transmission line – Tartu (EE) - Valmiera (LV) between Latvia and Estonia.

The project provides the line conductors, insulation and pylons replacement to ensure the line capacity up to 1000MVA as 330 kV power transmission line Tartu (EE) - Valmiera (LV) is built in last century 70-ies (commissioned in 1971) and is morally and physically aged. Line length in Latvian territory - 48,42km. Project realisation will be started immediately after commissioning of Latvian - Estonian third electricity interconnection.

- 330 kV capacity increase of transmission line Tsirgulinu (EE) – Valmiera (LV) between Latvia and Estonia.

The project provides the line conductors, insulation and pylons replacement to ensure the line capacity up to 1000MVA as 330 kV power transmission line Tartu (EE) - Valmiera (LV) is built last century 50-ies (commissioned in 1960) and is morally and physically aged. Line length in Latvian

## *AS „Augstsprieguma tīkls” annual report for the year ended 31 December 2014*

territory - 48,47km. Project realisation will be started immediately after the project "330 kV transmission line Tartu (EE) - Valmiera (LV) capacity increase" commissioning.

- New transmission line RigaCHP2 – RigaHPP construction.

This transmission line reinforcement will provide full functionality of Estonian-Latvian third electricity interconnection in repairs modes in transmission network around Riga city, as well as improve the power outages modes of reconstructed Riga CHP2 power plant s. The project envisages construction of a new 330 kV overhead /cable line with the transmission capacity up to 1000MVA, extension of RigaCHP2 330kV substation switchgear (2 connections) and installation of 330 kV shunt reactor for reactive power compensation, as well as reconstruction of 330kV substation RigaHPP with implementation of double-busbar scheme as far as possible using existing equipment and technical solutions. Power transmission line "RigaCHP2 - Riga HPP" is included in the European network of transmission system operators of electricity (ENTSO-E) Ten Years Network Development Plan (TYNDP2014) as Investment No.1062, i.e. as a transmission line Riga CHP2 (LV) - Salaspils (LV). When carrying out in-depth research, AS "Augstsprieguma tīkls" specialists came to the conclusion that the performance improvement of the optimal connection point of the electricity transmission system is in substation Riga HPP instead of substation Salaspils.

The last 3 projects as candidate projects of the second list of European project of common interest (PCI) under the joint project of Baltic Corridor (No. 163 TYNDP 2014) and synchronization project (No. 170 TYNDP 2014), which are candidates for the European Union co-financing under Connecting Europe Facility (CEF) program. The first two projects i.e. "Ventpils-Tume-Imanta" and Latvian-Estonian third electricity interconnection have received European co-financing from CEF programs in November 2014.

- Electricity transmission system sustainability projects

In cooperation with transmission system owner AS "Latvijas elektriskie tīkli" an electricity transmission system development plan has been developed for the next decade, which includes measures to improve transmission system infrastructure operation – renovations of existing 330 kV and 110 kV substation, refurbishment of transmission line and transformer.

- Third party access to the electricity transmission network

Taking into consideration principles of Latvian electricity market, AS "Augstsprieguma tīkls", according to the principles of integrity, openness and equality, will continue to provide producers of electricity, as well as users of the transmission system with non-discriminatory access to the transmission system by constructing new, or by reconstructing existing connections.

The Company's main attention is paid to sustainable growth in order to improve the services provided to Latvian and Baltic electricity market participants.

The Company's strategic goal is to provide secure operating state of the Latvian power system, by timely planning development of the transmission system infrastructure and by increasing efficiency of processes.

### ***Electricity market development***

In implementing the European Union's policy on a single European Union internal energy market, in accordance with the Electricity market law of Republic of Latvia, the transmission system operator is obliged to take care of the electricity market development, promote the implementation of power exchange.

In Latvia in 2014 the electricity market principles continued to develop and improve. This was the first full year of operating power exchange NordPool Spot in Latvia of the day-ahead (Elspot) and of



## ***AS „Augstsprieguma tīkls” annual report for the year ended 31 December 2014***

the intraday (Elbas) markets. The company, in collaboration with NordPool Spot, neighbouring countries PSOs and Latvian market participants actively participated in the functioning of the electricity market.

With the aim to further integrate into the European Union internal market in electricity, the Baltic transmission system operators during the year 2014 carried out analysis of the Baltic transmission capacity calculation and capacity allocation methodologies. Analysis included calculations of net transmission capacity values and amount of the transferable energy on Baltic countries internal and the Baltic States and third countries (Russia, Belarus) cross-border interconnectors. . This work resulted in Baltic TSOs agreement on reviewed methodology of capacity calculation and allocation of Baltic countries internal and the Baltic States and third countries (Russia, Belarus) cross-border interconnections, which entered into force on 1 January 2015. In 2015 Baltic TSOs will continue the review Baltic common methodology given that in 2016 will start operating two new cross-border links between Lithuania, Sweden and Poland, which will have a significant impact on common Baltic electricity market.

Starting from 2013 AS „Augstsprieguma tīkls” together with Estonian TSO Elering is offering for the Baltic electricity market participants on the Estonian-Latvian border transmission risk hedging instrument – PTR-Limited. In 2014 AS „Augstsprieguma tīkls” and Elering made improvements in the PTR-Limited and continued to provide this product to Baltic electricity market participants. Before making improvements in PTR-Limited both TSOs jointly carried out two public consultations – the first on Baltic market participants needs for such risk hedging instruments and actual requirements towards such products and the second on reviewed Rules of PTR-Limited Auctions for 2015.

In parallel to the work related to the development and operations of PTR-Limited instrument, AS “Augstsprieguma tīkls” supported Baltic electricity market participants and Nasdaq OMX Commodities in the development work to introduce in 2014 electricity market financial risk hedging product EPAD Riga (in the NordPool Spot Latvian bidding area), which started to work in November 2014.

Transparency and access to information are essential to the effective functioning of the market. To this end the Company on its website publishes necessary current market information. During 2014 European TSOs under the framework of the European Transmission System Operators ENTSO-E jointly worked on a new, pan-European information transparency platform, following the requirements of European Commission Regulation (EU) No 543/2013. This European electricity market transparency platform started its operations on 5 January 2015, and AS "Augstsprieguma tīkls" provides now there important information for functioning of the electricity market in Latvia.

### ***.Events after the balance sheet date***

Given the Public Utilities Commission Council Decision of 30 January 2013 No. 18 "On the electricity transmission system operator certification", the Company from 1 January 2015, has taken over from the AS "Latvijas elektriskie tīkli" the transmission system maintenance and development services, as well as the staff ensuring the mentioned services. Overall, the Company from 1 January 2015 has taken over 430 employees from AS "Latvijas elektriskie tīkli" and on January 1, 2015, the Company had 505 employees (in the 31 December 2014 to 71 employee).

## ***AS „Augstsprieguma tīkls” annual report for the year ended 31 December 2014***

Considering Electricity transmission system service tariff calculation methodology (hereinafter - the Methodology) article 7.1. conditions, with the Public Utilities Commission Council decision No. 59, dated 12 March 2015 „On joint stock companies „Augstsprieguma tīkls” electricity transmission system service tariff project recalculation” (hereinafter - PUCC decision No. 59), the Company in the next periods have to decrease with tariff income compensated electricity transmission loss and technological consumption costs for additional income generated in year 2014.

At the same time, according to the Latvian Republic law „On budget and financial management” and Cabinet Regulations No. 1471 on 15 December, 2009 „Arrangement in which is determined and paid to the state budget the payable amount of profit on the state capital” requirements, the minimum amount of dividends to be paid part of the profit for the 2014 accounting year to corporations, that all capital shares directly or indirectly are owned by the state, in 2015 (2014 as reference year) determined and calculated in the amount of 90 percent from the net profit of the Company.

Considering the normative document requirements mentioned above, to comply with the Public Utilities Commission decision No. 59 conditions and at the same time to objectively reflect AS „Augstsprieguma tīkls” true financial situation, Company in the year 2014 has established provisions in the amount of EUR 1 409 417.

In the period since the last date of signing of this report there have been no other significant events that would materially affect the results at the end of the year.

### ***Proposals for distribution of profit***

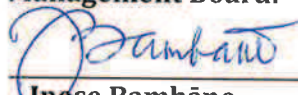
The Company’s management, in fulfilling the requirements of the law „On state and municipality owned shares and companies”, Latvian Cabinet of Ministers regulations No 1471 as of 15 December 2009 “On the order which defines and sets to transfer the part of profits to the state budget for the use of the state’s capital” proposes to allocate EUR 898 478 to be paid out as dividends and to transfer the remaining profit portion of EUR 99 831 to the reserves of the Company.

The distribution of profit for 2014 is subject to resolution by AS “Augstsprieguma tīkls” shareholder’s meeting.

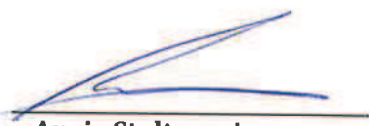
**AS „Augstsprieguma tīkls” Management Board:**



**Varis Boks**  
Chairman of the Board



**Inese Bambāne**  
Member of the Board



**Arnis Staltmanis**  
Member of the Board



**Jānis Osītis**  
Member of the Board



**Imants Zviedris**  
Member of the Board

Rīga, 17 June 2015

## Statement of Profit and Loss for the year 2014

		2014	2013
		EUR	EUR
Revenue	3	110 502 757	107 067 060
Other operating income	4	142 026	93 218
Raw materials used and repairs	5	(31 838 850)	(32 762 977)
Personnel expenses	6	(2 200 698)	(2 151 504)
<i>a) salaries</i>		(1 674 344)	(1 613 668)
<i>b) contribution to pension fund</i>		(75 075)	(73 741)
<i>c) mandatory state social security contributions and benefits defined in collective labour agreement</i>		(451 279)	(464 095)
Depreciation and amortization	10	(44 100)	(33 489)
Other operating expenses	7	(75 286 407)	(68 978 159)
<i>a) IT expenses</i>		(154 001)	(149 167)
<i>b) premises and territory expenses</i>		(115 876)	(117 346)
<i>c) transportation cost</i>		(29 901)	(39 214)
<i>d) nature and labour protection costs</i>		(346)	(658)
<i>e) other expenses</i>		(74 986 283)	(68 671 774)
Income from investments	8(a)	94 220	-
Finance income	8(a)	45 001	20 524
Finance expenses	8(b)	(491)	(19 068)
<b>Profit before tax</b>		<b>1 413 458</b>	<b>3 235 605</b>
Corporate income tax	9	(312 286)	(473 105)
Increase / (decrease) of deferred tax asset	9	(102 863)	(610)
<b>Profit for the year</b>		<b>998 309</b>	<b>2 761 890</b>

The accompanying notes on pages 17 to 38 are an integral part of these financial statements.

### AS „Augstsprieguma tīkls” Management Board:



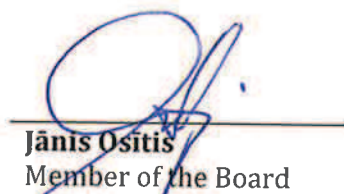
**Varis Boks**  
Chairman of the Board



**Inese Bambāne**  
Member of the Board



**Arnis Staltmanis**  
Member of the Board



**Jānis Osītis**  
Member of the Board



**Imants Zviedris**  
Member of the Board

Riga, 17 June 2015

## Balance sheet as of 31 December 2014

	Notes	31.12.2014 EUR	31.12.2013 EUR
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	10	90 216	22 892
Fixed assets	10	1 886 775	143 321
Other non-current financial assets	11	1 902 887	1 902 888
Deferred tax asset	9	-	49 256
<b>Total non-current assets</b>		<b>3 879 878</b>	<b>2 118 357</b>
<b>Current assets</b>			
Inventories	12	353 824	-
<b>Receivables</b>			
Trade accounts receivable, net	13	3 482 051	12 131 912
Other receivables	14	1 551 817	3 185 822
Deferred expenses		11 123	6 746
Accrued income	15	9 103 771	3 477 942
<b>Total receivables</b>		<b>14 148 762</b>	<b>18 802 422</b>
<b>Cash and cash equivalents</b>		<b>59 109 563</b>	<b>22 504 938</b>
<b>Total current assets</b>		<b>73 612 149</b>	<b>41 307 360</b>
<b>TOTAL ASSETS</b>		<b>77 492 027</b>	<b>43 425 717</b>

The accompanying notes on pages 17 to 38 are an integral part of these financial statements.

### AS „Augstsprieguma tīkls” Management Board:




**Varis Boks**  
Chairman of the Board



**Inese Bambāne**  
Member of the Board



**Arnis Staltmanis**  
Member of the Board



**Jānis Osītis**  
Member of the Board



**Imants Zviedris**  
Member of the Board

Riga, 17 June 2015

## Balance sheet as of 31 December 2014 (continued)

	Notes	31.12.2014 EUR	31.12.2013 EUR
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	17	5 691 487	5 691 487
Reserves		2 501 675	2 225 485
Profit for the year		998 309	2 761 890
<b>Total equity</b>		<b>9 191 470</b>	<b>10 678 862</b>
<b>Non-current liabilities</b>			
Provisions for post-employment benefits and anniversaries	18	263 395	218 358
Provisions for deferred tax	9	53 607	-
Deferred income	18	51 500 463	17 352 003
<b>Total non-current liabilities</b>		<b>51 817 465</b>	<b>17 570 361</b>
<b>Current liabilities</b>			
Trade payables		3 007 074	8 494 863
Taxes and state social security contributions	21	73 438	396 802
Advance payments received	19	2 541 787	3 086 731
Other liabilities	19	180 157	137 266
Accrued liabilities	20	10 680 636	3 060 832
<b>Total current liabilities</b>		<b>16 483 092</b>	<b>15 176 494</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>77 492 027</b>	<b>43 425 717</b>

The accompanying notes on pages 17 to 38 are an integral part of these financial statements.

### AS „Augstsprieguma tīkls” Management Board:



**Varis Boks**  
Chairman of the Board



**Inese Bambāne**  
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**Arnis Staltmanis**  
Member of the Board



**Jānis Osītis**  
Member of the Board



**Imants Zviedris**  
Member of the Board

Riga, 17 June 2015

## Statement of Changes in Equity for the year 2014

	Notes	Share capital EUR	Retained earnings / (accumulated losses) EUR	Reserves EUR	Total EUR
<b>AS OF 31 DECEMBER 2012</b>	<b>17</b>	<b>5 691 487</b>	<b>7 356 431</b>	<b>1 489 842</b>	<b>14 537 760</b>
Dividends paid out for the year 2012		-	(6 620 788)	-	(6 620 788)
Transfer to reserves		-	(735 643)	735 643	-
Profit for the year		-	2 761 890	-	2 761 890
<b>AS OF 31 DECEMBER 2013</b>	<b>17</b>	<b>5 691 487</b>	<b>2 761 890</b>	<b>2 225 485</b>	<b>10 678 862</b>
Dividends paid out for the year 2013		-	(2 485 701)	-	(2 485 701)
Transfer to reserves		-	(276 189)	276 189	-
Profit for the year		-	998 309	-	998 309
<b>AS OF DECEMBER 2014</b>	<b>17</b>	<b>5 691 487</b>	<b>998 309</b>	<b>2 501 674</b>	<b>9 191 470</b>

The accompanying notes on pages 17 to 38 are an integral part of these financial statements.

### AS „Augstsprieguma tīkls” Management Board:



**Varis Boks**  
Chairman of the Board



**Inese Bambāne**  
Member of the Board



**Arnis Staltmanis**  
Member of the Board



**Jānis Osītis**  
Member of the Board



**Imants Zviedris**  
Member of the Board

Riga, 17 June 2015

## Statement of Cash Flows for the year 2014

	Notes	31.12.2014 EUR	31.12.2013 EUR
<b>I CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		1 413 458	3 235 605
<b>Adjustments for:</b>			
a) depreciation and amortization	10	44 100	33 489
b) profit from fixed asset disposals	4	(1 030)	-
c) changes in provisions	18	45 037	5 463
d) interest income	8(a)	(45 001)	(20 524)
f) participation income		(94 220)	-
<b>Profit before adjustments for current assets and current liabilities</b>		<b>1 362 344</b>	<b>3 254 033</b>
<b>Adjustments for:</b>			
a)(increase) / decrease of trade receivables, other receivables and accrued income		4 375 877	(3 231 107)
b)(increase) / decrease of inventories	12	(353 824)	1 900
c) increase / (decrease) of trade and other payables and accrued liabilities		35 766 596	17 516 319
<b>Gross cash flows from operating activities</b>		<b>41 150 993</b>	<b>17 541 145</b>
Interest income		45 001	20 524
Corporate income tax paid	21	(287 724)	(2 299 643)
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>		<b>40 908 270</b>	<b>15 262 026</b>

The accompanying notes on pages 17 to 38 are an integral part of these financial statements.

### AS „Augstsprieguma tīkls” Management Board:



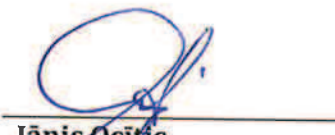
**Varis Boks**  
Chairman of the Board



**Inese Bambāne**  
Member of the Board



**Arnis Staltmanis**  
Member of the Board



**Jānis Osītis**  
Member of the Board



**Imants Zviedris**  
Member of the Board

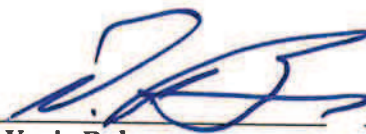
Riga, 17 June 2015

## Statement of Cash Flows for the year 2014 (continued)

Notes	31.12.2014 EUR	31.12.2013 EUR
<b>II CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from loan repayment	14 086	-
Purchase of stock and bonds	-	(1 901 465)
Dividends received	35 904	-
Purchase of intangible assets and fixed assets	(1 867 934)	(189 223)
<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>	<b>(1 817 944)</b>	<b>(2 090 688)</b>
<b>III CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Dividends paid	(2 485 701)	(6 620 787)
<b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>	<b>(2 485 701)</b>	<b>(6 620 787)</b>
<b>IV NET CASH FLOW FOR THE YEAR</b>		
Cash and cash equivalents at the beginning of the reporting year	22 504 938	15 954 387
<b>Cash and cash equivalents at the end of the reporting year</b>	<b>59 109 563</b>	<b>22 504 938</b>

The accompanying notes on pages 17 to 38 are an integral part of these financial statements.

### AS „Augstsprieguma tīkls” Management Board



**Varis Boks**  
Chairman of the Board



**Inese Bambāne**  
Member of the Board



**Arnis Staltmanis**  
Member of the Board



**Jānis Osītis**  
Member of the Board



**Imants Zviedris**  
Member of the Board

Riga, 17 June 2015



## **Notes to the Financial Statements**

### **1. CORPORATE INFORMATION**

AS “Augstsprieguma tīkls” is a transmission system operator which, according to the license No. E12001 issued by the Public Utilities Regulation Commission, provides transmission network services and secures power distribution of the Latvian power system, as well as carries out the following mission: provides transmission services based on published transmission service tariffs and constantly ensures availability of transmission system services. AS “Augstsprieguma tīkls” is engaged in the transmission system’s operational management and ensures secure and stable electricity transmission.

At 31 December 2014 all of AS “Augstsprieguma tīkls” shares are owned by the State of Latvia and are held by the Latvian Ministry of Finance. The registered address of the Company is 86 Darzciema Street, Riga, LV-1073, Latvia.

Financial statements were approved on 17 June 2015 by the Company’s Management Board: Varis Boks (Chairman of the Board), Inese Bambāne (Member of the Board), Arnis Staltmanis (Member of the Board), Jānis Osītis (Member of the Board) and Imants Zviedris (Member of the Board).

The Company’s auditor is a certified auditor’s company “Deloitte Audits Latvia” Ltd and the responsible Sworn auditor is Inguna Staša.

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

This section of the notes discloses the principal accounting policies applied in the preparation of these Financial Statements. These policies have been consistently applied to all the years presented.

#### **2.1. Basis of preparation**

The financial statements have been prepared in accordance with laws of the Republic of Latvia "On Accounting" and "On Annual Reports".

The financial statements have been prepared under the historical cost method.

The statement of Profit and Loss has been prepared under the current period cost method.

The statement of cash flows has been prepared using the indirect method.

In comparison to the previous reporting period, the Company’s accounting policies has not changed.

The information presented in these financial statements is comparable to the information of the prior reporting period, in recognition and classification of accounting items the consistency principle remains.

All amounts shown in these financial statements are presented in euros (EUR), unless stated otherwise.

## **2.2. Financial investments**

Other financial investments are investments in share capital of other companies not exceeding 20% of the company's total share capital. Other financial investments are recognized at acquisition value, less provisions for impairment, if any.

## **2.3. Transactions in foreign currencies**

### ***(a) Functional and presentation currency***

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

### ***(b) Transactions and balances***

All transactions denominated in foreign currencies are translated into euros at the exchange rates set by the Bank of Latvia at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into euros using the exchange rate set by the Bank of Latvia at the last day of the reporting year. The resulting gain or loss that arises from transactions in foreign currencies and recalculation of assets and liabilities denominated in foreign currencies is charged to the statement of profit and loss in the corresponding period.

## **2.4. Intangible and fixed assets**

All intangible assets are shown at historical cost less accumulated amortization. Computer software licenses, computer software and related computer software development costs are recognized as intangible assets and are amortized on a straight line basis over their estimated useful lives which do not exceed five years.

All fixed assets are shown at historical cost less accumulated depreciation and accumulated impairment loss. The cost includes expenses directly attributable to the acquisition of fixed assets. Depreciation of fixed assets is calculated using the straight line method over their estimated useful lives to write off acquisition value of fixed asset to its estimated residual value at the end of the useful life period. The useful life of other fixed assets and inventories (communication devices and equipment, office equipment and inventories) does not exceed 2 – 5 years.

Further costs are included in the value of assets or recognized as a separate asset only when there is a high probability that the operational benefits related to the item will flow to the Company and the cost of the item can be reasonably defined. Such costs are written-off during residual useful life of the asset.

Operating repair costs and maintenance costs of fixed assets are charged to the statement of profit and loss in the period in which they are incurred.

Gain and loss from disposals of fixed assets are calculated as the difference between the fixed asset's carrying value and income gained from selling the asset, and is charged to the statement of profit and loss in the period in which they are incurred.

An asset's carrying value is written down immediately to its recoverable value if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the assets fair value less selling costs or value in use.

## **2.5. Operating lease (the Company as the lessee)**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of profit and loss on a straight-line basis over the period of the lease. Liabilities that arise from operating lease agreements are recognized by the Company as off balance liabilities (see note 22).

## **2.6. Inventories**

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

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

Amount of inventories at the end of the reporting period is verified by performing a stock take.

## **2.7. Trade receivables**

Trade receivables are amounts due in less than one year, which are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method, less provisions for impairment.

Provisions for impairment are established when there is objective evidence that the Company will not be able to collect the amount in full according to the original terms of repayment.

Provisions for doubtful debts are calculated during the year at least once per quarter on the basis of trade receivables aging according to estimates defined by the Company's Management, which are revised at least once a year.

## **2.8. Cash and cash equivalents**

Cash and cash equivalents include cash on hand, in bank, and short-term deposits with original maturity of three months or less.

## **2.9. Deferred income**

Income that has been received before the balance sheet date but is related to the next 12 months (short-term) or the period after 12 months (long-term) – is shown as deferred income in the statement of financial position as short-term or long-term liabilities.

Deferred income from congestion management revenues after their utilization in a particular long-term investment project financing are amortized, gradually recognizing income in the current period statement of profit and loss, in accordance with the established long-term investment amortization/depreciation period. At the moment of disposal income is recognized at its residual value.

## **2.10. Pensions, post-employment and anniversary benefits**

### ***(a) Pension obligations***

The Company makes monthly contributions to a closed fixed-contribution pension plan on behalf of its employees. The plan is managed by a non-profit joint stock company „Pirmais Slēgtais Pensiju Fonds”, where the Company holds a stake. A fixed-contribution plan is a pension plan under which the Company makes contributions into the plan and has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior periods. The contributions amount to 5% of each pension plan member’s salary. The Company recognizes contributions to the plan when the expense is incurred which is when an employee has rendered services in exchange for those contributions.

### ***(b) Provisions for post-employment benefits and one-off anniversary obligations***

In addition to the aforementioned pension plan, the Company provides certain post-employment benefits to employees whose employment meets certain criteria as well as one-off anniversary benefits. Obligations for benefits are calculated taking into account the current level of salary and number of employees eligible to receive the benefits, historical termination rates as well as number of actuarial assumptions. Independent qualified actuaries value these obligations annually. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for fixed-contribution pension plans.

The liability recognized in the statement of financial position in respect of post-employment benefit plan is in present value of the particular balance sheet date less accrued liabilities or income referring to employment relationships until the change of benefit conditions. Post-employment benefit obligations are calculated annually using the expected unit credit method. The present value of the benefit obligations is determined regularly by discounting the estimated future cash outflows. The Company uses the expected unit credit method to measure the present value of its fixed benefit obligations and related current and past employment costs. This method sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the Company’s total post-employment obligations. The Company also uses unbiased and mutually compatible actuarial assumptions about demographic variables and financial variables (including future increases in salaries and certain changes in benefits).

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

Actuary gains and losses arising from experience based adjustments and changes in actuarial assumptions in excess of 10% of the fixed benefit obligations are immediately charged to the statement of profit and loss. Past employment costs are recognized in the statement of profit and losses using the straight line method over the expected average remaining employment period of employees until the benefits are guaranteed. If benefits are guaranteed promptly after the introduction or a change to a fixed benefit plan, the Company immediately recognizes past employment costs in the statement of profit and loss.

### **2.11. Corporate income tax**

Corporate income tax is calculated in accordance with tax regulations of the Republic of Latvia and is based on the taxable income reported for the taxation period.

Deferred income tax is accrued in full, using the liability method on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Where deferred tax arises from the initial recognition transaction of assets or liabilities, other than a business merger, that at the time of the transaction does not affect profit or loss for financial or tax purposes, the deferred tax is not recognized. Deferred income tax is calculated using tax rates (and laws) that are expected to apply when the temporary differences offset, based on tax rates applied as of the balance sheet date. Temporary differences arise mainly due to different fixed asset depreciation rates used in financial accounting and for tax purposes as well as from accrued expenses.

In cases where the deferred tax asset should be included in the balance sheet, it is recognized in the balance sheet when it is probable that the Company will have sufficient taxable income against which the temporary differences can be offset.

### **2.12. Borrowings and issued loans**

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost. Differences between the proceeds and the redemption value are gradually recognized in the statement of profit and loss over the period of the borrowings using the effective interest rate method. Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability at least for 12 months after the end of reporting period.

Issued loans are recognized initially at fair value, net of transaction costs incurred. Loans are subsequently stated at amortized cost. Differences between the principal amount and the repayable value are gradually recognized in the statement of profit and loss over the period of the loan using the effective interest rate method. Loans are classified as current assets if the maturity term does not exceed 12 months from the end of reporting period.

### **2.13. Provisions**

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

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

Provisions are measured at the present value of the expenditures which are expected to be required for settling the obligation, discounted by the pre-tax rate that reflects current market assessments of the time value of the money and the risks specific to the obligation.

Provisions for unused vacations are made to precisely reflect the Company's liabilities to its employees in connection with their unused vacation, if any. The Company evaluates the amount of

## ***AS „Augstsprieguma tīkls” annual report for the year ended 31 December 2014***

provisions for unused vacations at every balance sheet date. The required provisions are calculated by multiplying every employee's average salary for the past 6 months, including social tax, with the amount of unused vacation days at the end of the reporting year.

### **2.14. Revenue recognition**

Revenue comprises the value of goods sold and services rendered in the Company's ordinary course of business, less value added tax, estimated amount of returns, rebates and discounts.

According to item No 4 in the 1<sup>st</sup> part of the 25<sup>th</sup> article of the law on „Annual Reports”, the statement of profit or loss reflects all of the revenues related to the reporting year. Income arising from services rendered during the year, but for which the invoice is issued in the subsequent financial year, provisions are made and shown as the balance sheet item "Accrued income". Revenue is recognized by the Company only when the outcome of the transaction can be reliably measured.

The Company's most significant types of revenue are as follows:

#### ***(a) Electricity transmission system services***

The Company's main activity is rendering electricity transmission system services. Revenue is recognized based on tariffs approved by the Public Utilities Commission and commercial electricity meter readings.

#### ***(b) Management of congestions and overloads***

According to clause No 4, article No 13 and clause No 6, article No 13<sup>1</sup> of the Electricity Market Law, AS “Augstsprieguma tīkls” realizes management of congestions and overloads within transmission system, as well as receives remuneration for auctioning of limited cross sectional power, according to the mutual transmission system operator compensation mechanism and signed contracts. Utilization of these revenues is governed by European Parliament and European Council regulations in article No 16 of Regulation No 714/2009 „On conditions for access to the network for cross-border exchanges in electricity and repealing Regulation (EC) No 1228/2003” (hereinafter – the Regulation). In respect to the conditions stated in the Regulation, revenues received from management of congestions, which are not used to prevent congestions and overloads in the transmission network are recognized in the statement of financial position as deferred income. After utilization of these revenues in financing of a particular long-term investment project, deferred income is gradually amortized according to the established amortization/depreciation period and recognized at current reporting year statement of profit and loss. Following reconciliation principle of income and expenses, revenues from congestion management which were used in prevention of congestions and overload in transmission system are recognized at statement of profit and loss according to the costs associated with the level of overload and congestion in the transmission system.

#### ***(c) Connection fees***

AS “Augstsprieguma tīkls” provides system participants with necessary connection to the transmission system or permission to increase load in the current connections, in accordance with the system participants' connection regulations issued by the Public Utilities Commission on connection fees, which are defined by the transmission system operator in accordance with the connection fee calculation methodology issued by the Public Utilities Commission. Advance payments for services are reflected in the statement of financial position as short-term liabilities and short-term debts, but not included in the statement of profit and loss.

### **2.15. Cost recognition**

Costs are recognized on an accrual basis. Calculating reporting year expenses, all expected costs and liabilities, which arise from the current reporting period or past reporting periods are taken into account, even when they become known in the period between the balance sheet date and financial statement compilation date and irrespective to the date when invoice was received, because the Company's business transactions are recorded and recognized in the financial statements taking in to the account economic substance of the transaction, not merely its legal form.

Cost of sales and other operating expenses included in the statement of profit and loss are explained and broken down in details in the notes to the financial statements.

### **2.16. Long term and short term liabilities**

The Company's trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method. Trade payables are recognized in the financial statements according to the supporting documents and records in accounting registers on amounts received by suppliers but not yet paid at the end of the reporting year.

Accrued expenses incurred during the reporting year are included as item in accrued liabilities, if the amount of these expenses or payment date during the reporting period is known for certain, but invoices from the suppliers have not been received yet.

Income that has been received before the balance sheet date and is attributable to the next 12 month period (short-term) or the period after the subsequent 12 months (long-term) is included in deferred income which is shown in the statement of financial position as short-term or long-term accounts payable.

### **2.17. European Union contribution**

The Company ensures project management, effective internal control and accounting according to the EU guidelines and regulations of the Republic of Latvia when receiving financing from the European Union.

### **2.18. Critical accounting estimates and judgments**

In preparing the financial statements the Company's management must make calculations and assumptions, which affect the valuation of assets and liabilities at the date of compilation of financial statements, as well as affect income and expenses of the reporting period. The following estimates used by the Company' management have a significant impact on the financial statements:

- Based on the statistical and analytical information and forecasts made by experts, the Company makes estimates and assumptions concerning the revenues and expenses related to participation in the mechanism developed by ENTSO-E on compensation of losses from transit traffic flow. The Company's management believes that as of 31 December 2014 accrued income is sufficient and reasonable, and there is no need to make adjustments to the financial statements.
- The Company's Management evaluates the carrying amounts of accounts receivable and evaluates their recoverability, making provisions for doubtful debts if necessary. The Company's Management has evaluated the accounts receivable and considers that it is not necessary to make significant additional provisions as at 31 December 2014.

The Company's financial statements do not include items that are subject to highly subjective or complex estimates, except for post-employment benefits and anniversary benefits described in section 2.10. of the notes to these financial statements.

### 3. Revenues

	2014	2013
	EUR	EUR
<b>Electricity transmission services:</b>		
Transmission service	74 000 531	74 574 563
Electricity balancing service	19 116 635	15 873 805
Management of congestions and overloads*	4 799 297	837 932
Electricity transit services	3 385 744	4 537 835
Power regulation service	1 101 397	7 654 905
Reactive power management	538 168	245 100
	<b>102 941 772</b>	<b>103 724 140</b>
Mandatory procurement component**	6 285 103	2 769 732
Power reserve maintenance service	401 435	343 706
Other services	874 447	229 482
<b>TOTAL REVENUES</b>	<b>110 502 757</b>	<b>107 067 060</b>

According to the Energy Law, the Electricity Market Law and the Network Codex, AS “Augstsprieguma tīkls” is responsible for implementing the operational management of the transmission system and providing secure, stable electricity transmission.

\* In accordance with the Company's accounting policies and congestion management revenues in the income statement presented in accordance with the amount of costs associated with overload and congestion prevention transmission network size. According to Public Utilities Commission given instructions in the letter on 3 December, 2013 to provide instruments for the purpose of decrease of electricity traders financial risks, from 1 January, 2014 Company together with the Estonian transmission system operator AS „Elering” is organising power auctions on the border of Latvia and Estonia in the direction Estonia-Latvia, as a result of increasing costs of power congestion management and the congestion management income in the profit or loss statement.

\*\* According to Latvian Republic rules of Cabinet of Ministers on 29 November 2011 „Electricity trade terms” paragraph 41, AS „Augstsprieguma tīkls” from 1 April, 2014 as transmission system operator collecting mandatory procurement of components from all electricity end-users, including those, who have delegated payments for electricity traders. Received payments for mandatory procurement of components according to laws and regulations are transferred to AS „Energijas publiskais tirgotājs” (see Note 7).



**4 OTHER OPERATING INCOME**

	<b>2014</b>	<b>2013</b>
	<b>EUR</b>	<b>EUR</b>
Other income*	140 996	41 895
Received grants and compensation for losses	-	51 323
Fixed asset disposal income	1 030	-
<b>TOTAL OTHER OPERATING INCOME</b>	<b>142 026</b>	<b>93 218</b>

\* According to the interim report of AS “Augstsprieguma tīkls” on implementation of the project “Feasibility of interconnection options to integrate Baltic countries into the internal electricity market of EU” and according to the approval of the European Commission in 22 September 2014 AS “Augstsprieguma tīkls” has received EU grant in amount of EUR 140 996.

**5. RAW MATERIALS AND CONSUMABLES USED, REPAIR EXPENSES**

	<b>2014</b>	<b>2013</b>
	<b>EUR</b>	<b>EUR</b>
Purchase of balancing electricity	17 638 805	13 120 822
Electricity transmission losses and technological consumption	10 634 541	9 868 855
Electricity transit losses	2 240 268	2 341 003
Purchase of regulating electricity*	1 209 118	7 431 214
Used materials and repair costs	115 912	871
Electricity for self consumption	206	212
<b>TOTAL RAW MATERIALS AND CONSUMABLES USED, REPAIR COSTS</b>	<b>31 838 850</b>	<b>32 762 977</b>

\* Reduction of costs is due to the fact that the neighbouring PSO used less Latvian power reserves in 2014.

**6. PERSONNEL EXPENSES**

	<b>2014</b>	<b>2013</b>
	<b>EUR</b>	<b>EUR</b>
Remuneration for work	1 674 344	1 613 668
Mandatory state social security contributions and benefits defined in the collective agreement	451 279	464 095
Contributions to pension plans	75 075	73 741
<b>TOTAL PERSONNEL COSTS (INCLUDING COMPENSATION OF THE COMPANY'S MANAGEMENT)</b>	<b>2 200 698</b>	<b>2 151 504</b>

**Compensation of the Company's management**

	<b>2014</b>	<b>2013</b>
	<b>EUR</b>	<b>EUR</b>
Remuneration for work	161 497	153 717
Mandatory state social security contributions and benefits defined in the collective agreement	39 646	35 987
Contributions to pension plans	6 002	5 726
<b>TOTAL COMPANY'S MANAGEMENT COMPENSATIONS</b>	<b>207 145</b>	<b>195 430</b>

Remuneration of Board Members is included in compensation of the Company's management.

**AMOUNT OF EMPLOYEES**

	<b>2014</b>	<b>2013</b>
Number of employees at the end of the reporting year	71	62
Average number of employees during reporting year	66	64

## 7. OTHER OPERATING EXPENSES

	2014	2013
	EUR	EUR
Rent of fixed assets (transmission assets)	37 490 055	36 128 276
Asset management services	19 665 614	18 972 381
Mandatory procurement component*	6 285 103	2 769 732
Electrical power overload elimination**	5 507 951	914 510
Electric power reserve maintenance costs***	4 259 470	6 598 363
Replacement power reserve	722 042	286 680
Electric power balancing services	226 309	619 375
Providing telecommunication services	46 421	47 530
Electricity transit services	2 196	8 088
Guaranteed expenses for electric power		1 290 633
Miscellaneous operating expenses	1 081 246	1 342 591
<b>TOTAL OTHER OPERATING EXPENSES</b>	<b>75 286 407</b>	<b>68 978 159</b>

\* According to the terms of electricity trading and use, AS „Augstsprieguma tīkls” receives mandatory procurement component payments from end-users that, according to laws and regulations, shall be transferred to a public trader.

\*\* According to PUBLIC UTILITIES COMMISSION given instructions in the letter on 3 December, 2013 to provide instruments for the purpose of decrease of electricity traders financial risks, from 1 January, 2014 Company together with the Estonian transmission system operator AS „Elering” is organising power auctions on the border of Latvia and Estonia in the direction Estonia-Latvia. Costs are covered by appropriate incomes.

\*\*\*Decrease is due to the fact that in the reporting year the neighbouring power systems used less the Latvian power capacity reserve. Costs are covered by appropriate incomes.

## 8. FINANCE INCOME/(EXPENSES), NET

	2014	2013
	EUR	EUR
<b>a) Finance income</b>		
Participation income	94 220	-
Interest income from credit institutions	45 001	20 524
<b>Total finance income</b>	<b>139 221</b>	<b>20 524</b>
<b>b) Finance expenses</b>		
Net expenses from foreign currency exchange rate fluctuations	491	19 068
<b>Total finance expenses</b>	<b>491</b>	<b>19 068</b>
<b>FINANCE INCOME / (EXPENSES), NET</b>	<b>138 730</b>	<b>1 456</b>

**9. CORPORATE INCOME TAX AND DEFERRED TAX**

	<b>2014</b>	<b>2013</b>
	<b>EUR</b>	<b>EUR</b>
Corporate income tax	(312 286)	(473 105)
(Increase) / decrease of deferred tax asset	(102 863)	(610)
<b>TOTAL CORPORATE INCOME TAX</b>	<b>(415 149)</b>	<b>(473 715)</b>

Corporate income tax differs from the theoretical amount that would arise if the tax rate of 15% as stated by law is applied to the Company's profit before tax:

	<b>2014</b>	<b>2013</b>
	<b>EUR</b>	<b>EUR</b>
Profit before corporate income tax	1 413 458	3 235 606
Corporate income tax at the statutory rate of 15%	212 019	485 342
Non- deductible expenses	4 800	3 668
Other	1 050	(339)
Unrecognized deferred tax asset	211 413	-
Dividends received	(14 133)	-
Corporate income tax reduction for retained earnings	-	(14 956)
<b>TAX EXPENSES</b>	<b>415 149</b>	<b>473 715</b>

The Company offsets deferred tax assets and liabilities when there is a legally enforceable right to offset current reporting year tax assets against current reporting year tax liabilities and when the deferred income taxes relate to the same tax authority. The offset amounts are as follows:

	<b>2014</b>	<b>2013</b>
	<b>EUR</b>	<b>EUR</b>
<b>Deferred tax assets:</b>		
Deferred tax assets to be recovered after more than 1 year	(37 314)	(32 753)
Deferred tax assets from provisions	(211 413)	-
Unrecognised deferred tax asset	211 413	-
Deferred tax assets to be recovered within 1 year	(29 183)	(23 113)
<b>TOTAL DEFERRED TAX ASSETS</b>	<b>(66 497)</b>	<b>(55 866)</b>
<b>Deferred tax liabilities:</b>		
Deferred tax liabilities to be recovered after more than 1 year	24 021	1 322
Deferred tax liabilities to be recovered within 1 year	96 083	5 289
<b>TOTAL</b>	<b>53 607</b>	<b>(49 255)</b>

*AS „Augstsprieguma tīkls” annual report for the year ended 31 December 2014*

**Movement of deferred tax:**

	2014	2013
	EUR	EUR
<b>At the beginning of the year</b>	<b>(49 256)</b>	<b>(49 866)</b>
Recorded in the statement of profit and loss	102 863	610
<b>At the end of the year</b>	<b>53 607</b>	<b>(49 256)</b>

**Deferred tax:**

	2013	2013
	EUR	EUR
<b>Deferred tax liabilities:</b>		
Temporary difference in fixed asset depreciation	120 104	6 611
<b>Deferred tax assets:</b>		
Provisions for post-employment benefits	(31 286)	(28 331)
Temporary difference in provisions for unused vacations	(16 381)	(11 675)
Accrued bonuses	(11 667)	(10 539)
Provisions for anniversary benefits	(6 028)	(4 423)
Provisions for contributions to pension plans	(1 135)	(899)
<b>TOTAL DEFERRED TAX</b>	<b>53 607</b>	<b>(49 256)</b>

**10. INTANGIBLE ASSETS, FIXED ASSETS**

**10.1. Intangible assets**

	Computer software	Total
	EUR	EUR
<b>As of 31 December 2012</b>		
Historical cost	108 603	76 327
Accumulated amortization	(99 049)	(66 720)
<b>Residual value</b>	<b>9 554</b>	<b>9 554</b>
<b>2013</b>		
Residual value at the beginning of the year	9 554	9 554
Additions	20 071	20 071
Amortization charged	(6 733)	(6 733)
<b>Residual value at the end of the year</b>	<b>22 892</b>	<b>22 892</b>
<b>As of 31 December 2013</b>		
Historical cost	128 674	128 674
Additions	20 071	20 071
Amortization charged	(105 782)	(105 782)
<b>Residual value</b>	<b>22 892</b>	<b>22 892</b>
<b>2014</b>		
Residual value at the beginning of the year	22 892	22 892
Additions	76 296	76 296
Accumulated amortization	(8 972)	(8 972)
<b>Residual value</b>	<b>90 216</b>	<b>90 216</b>
<b>As of 31 December 2014</b>		
Historical cost	204 970	204 970
Accumulated amortization	(114 754)	(114 754)
<b>Residual value</b>	<b>90 216</b>	<b>90 216</b>

## 10.2. Fixed assets

	Technological equipment and machinery	Other fixed assets and inventory	Total
	EUR	EUR	EUR
<b>As of 31 December 2012</b>			
Historical cost	-	8 571	8 571
Accumulated amortization	-	(7 646)	(7 646)
<b>Residual value</b>	-	<b>925</b>	<b>925</b>
<b>2013</b>			
Residual value at the beginning of the year	-	925	925
Additions	-	169 152	169 152
Depreciation	-	(26 756)	(26 756)
<b>Residual value at the end of the year</b>	-	<b>143 321</b>	<b>143 321</b>
<b>As of 31 December 2013</b>			
Historical cost	-	177 723	177 723
Accumulated amortization	-	(34 402)	(34 402)
<b>Residual value</b>	-	<b>143 321</b>	<b>143 321</b>
<b>2014</b>			
Residual value at the beginning of the year	-	143 321	143 321
Additions*	12 505	1 779 133	1 791 638
Written off	-	(13 056)	(13 056)
Disposed historical cost	-	(5 077)	(5 077)
Depreciation	-	(35 128)	(35 128)
Disposed depreciation	-	(5 077)	(5 077)
<b>Residual value at the end of the year</b>	<b>12 505</b>	<b>1 874 270</b>	<b>1 886 775</b>
<b>As of 31 December 2014</b>			
Historical cost	12 505	1 938 723	1 951 228
Accumulated amortization	-	(64 453)	(64 453)
<b>Residual value</b>	<b>12 505</b>	<b>1 874 270</b>	<b>1 886 775</b>

\* Given the Public Utilities Commission Council decision of 30 January, 2013 No. 18 "On the electricity transmission system operator certification" AST from 1 January, 2015 has taken over from the AS "Latvijas elektriskie tīkli" electricity transmission system service and maintenance of fixed assets, the transmission system development new network construction, the existing network of rebuilding and restoration of function, as well as of the transmission system service and maintenance of fixed assets in working order.

In order to ensure business continuity of economic activity in 2014 was purchased to ensure the necessary movable property.

## 11. NON-CURRENT FINANCIAL ASSETS

	2014	2013
	EUR	EUR
AS "Nord Pool Spot"*	1 901 465	1 901 465
AS "Pirmais slēgtais pensiju fonds"***	1 422	1 422

Name of the company	Location	Type of business	Share
AS "Nord Pool Spot"*	Norway	Electricity stock exchange	2.0%
AS "Pirmais slēgtais pensiju fonds"***	Latvia	Pension plan management	1.9%

\* Stocks bought in accordance by Latvian Cabinet of the Ministers ordinance No. 370 as of 14 August 2013 "For joint stock company "Augstsprieguma tīkls" participation in joint stock company "Nord Pool Spot"". According to the AS "Nord Pool Spot" statement on 21 May 2015, AS "Augstsprieguma tīkls" on May 22, 2015 received dividends for year 2014 in the amount of 58 315 EUR. In the year 2014 accruals were made.

\*\* The Company owns 1.9% of JSC "Pirmais slēgtais pensiju fonds" shares. The Company is a nominal shareholder, as all of the risks and profits arising from the fund's activities are undertaken or received by the Company's employees – pension plan members. For this reason investment is valued at acquisition value.

## 12. INVENTORIES

	31.12.2014	31.12.2013
	EUR	EUR
<b>INVENTORIES</b>		
Raw materials and spare parts*	353 824	-
<b>TOTAL INVENTORIES</b>	<b>353 824</b>	<b>-</b>

\* Given the Public Utilities Commission Council decision of 30 January, 2013 No. 18 "On the electricity transmission system operator certification" AST from 1 January, 2015 has taken over from the AS "Latvijas elektriskie tīkli" electricity transmission system service and maintenance of fixed assets, the transmission system development new network construction, the existing network of rebuilding and restoration of function, as well as of the transmission system service and maintenance of fixed assets in working order.

In order to ensure business continuity of economic activity in 2014 was purchased to ensure the necessary supplies.

### 13. TRADE RECEIVABLES, NET

	31.12.2014	31.12.2013
	EUR	EUR
<b>Receivables</b>		
Electricity transmission service debts	3 494 677	1 685 965
Other trade receivables	7 486	10 459 383
<b>Total receivables</b>	<b>3 502 163</b>	<b>12 145 348</b>
<b>Provisions for bad and doubtful debts</b>		
Provisions for electricity transmission service debts	(12 626)	(2 053)
Provisions for other trade receivables	(7 486)	(11 383)
<b>Total provisions for bad and doubtful debts</b>	<b>(20 112)</b>	<b>(13 436)</b>
<b>Receivables, net</b>		
Electricity transmission service debts	3 482 051	1 683 912
Other trade receivables	-	10 448 000
<b>TRADE RECEIVABLES, NET</b>	<b>3 482 051</b>	<b>12 131 912</b>
<b>Impaired receivables:</b>		
	2014	2013
	EUR	EUR
At the beginning of the year	13 436	15 690
Included in the statement of profit and loss	6 676	(2 254)
<b>At the end of the year</b>	<b>20 112</b>	<b>13 436</b>



#### 14. OTHER RECEIVABLES

	31.12.2014	31.12.2013
	EUR	EUR
Non-deductible VAT	441 030	156 867
Overpaid taxes (see Note 21), including:	1 051 367	844 232
VAT	232 045	349
Personnel Income Tax	27	27
Income Tax	819 295	843 857
Dividends from AS “Nord Pool Spot” for year 2014	58 315	-
Advances for connections (see Note 23.(c))	613	2 184 232
Other receivables	492	491
<b>TOTAL OTHER RECEIVABLES</b>	<b>1 551 817</b>	<b>3 185 822</b>

#### 15. ACCRUED INCOME

	31.12.2014	31.12.2013
	EUR	EUR
<b>Accruals for income from services rendered during reporting year</b>		
Transmission system service revenues	6 467 906	-
Balancing electricity sales revenue	1 110 970	-
Mandatory procurement components of revenue	759 523	-
Regulating electricity sales revenue	121 322	-
Reactive power revenue	61 055	-
For electricity transit service income	4 485	53 471
For balancing administration services income	3 201	-
For other services income	43 614	-
<b>Total accruals for income from services rendered during reporting year</b>	<b>8 572 076</b>	<b>53 471</b>
For electricity transit service income	512 483	2 365 665
For reduction of costs of asset management	-	1 049 197
Short-term interest income	15 383	-
Balancing electricity sales revenue	2 668	9 609
Other services revenue	1 160	-
<b>TOTAL ACCRUED INCOME</b>	<b>9 103 771</b>	<b>3 477 942</b>

## 16. CASH AND CASH EQUIVALENTS

	31.12.2014	31.12.2013
	EUR	EUR
<b>CASH AT BANK</b>	<b>59 109 563</b>	<b>22 504 938</b>

During the reporting year the Company received interest income on a daily basis for the cash balance at bank account, calculated on the basis of variable bank deposit rates.

## 17. SHARE CAPITAL

As of 31 December 2014 the paid-in share capital of AS “Augstsprieguma tīkls” amounts to EUR 5 691 487 (31 December 2013: EUR 5 691 487) and consists of 5 691 487 (31 December 2013: 4 000 000) ordinary shares with a nominal value of EUR 1 (31 December 2013: LVL 1) per share. All shares have been fully paid.

## 18. NON-CURRENT LIABILITIES

	2014	2013
	EUR	EUR
<b>Provisions for post-employment benefits and anniversary benefits:</b>		
<b>At the beginning of the reporting year</b>	<b>218 358</b>	<b>212 896</b>
Provisions made during the reporting year	45 037	5 462
<b>At the end of the reporting year</b>	<b>263 395</b>	<b>218 358</b>
<b>Deferred income:</b>		
Provisions for deferred tax	53 607	-
Long-term part of congestion management income*	51 500 463	17 352 003
<b>Total non-current liabilities</b>	<b>51 817 465</b>	<b>17 570 361</b>

\* According to clause No 4, article No 13 and clause No 6, article No 13<sup>1</sup> of the Electricity Market Law, AS “Augstsprieguma tīkls” realizes management of congestions and overloads within transmission system, as well as receives remuneration for auctioning of limited cross sectional power, according to the mutual transmission system operator compensation mechanism and signed contracts. Utilization of these revenues is governed by European Parliament and European Council regulations No 714/2009 "The conditions for access to the network for cross-border trade and repealing Regulation (EC) No. 1228/2003 cancellation " in article No 16. In Regulation of respect to the conditions stated in the Regulation, revenues received from management of congestions, which are not used to prevent congestions and overloads in the transmission network are recognized in the statement of financial position as deferred income.

## 19. ADVANCE PAYMENTS AND OTHER LIABILITIES

	2014	2013
	EUR	EUR
Connection fees received in advance	2 541 787	3 086 731
Payables to employees	75 123	63 454
Other creditors	105 034	73 812
<b>TOTAL ADVANCE PAYMENTS AND OTHER LIABILITIES</b>	<b>2 721 944</b>	<b>3 223 997</b>

\* AS “Augstsprieguma tīkls” provides system participants with necessary connection to the transmission system or permission to increase load in the current connections, in accordance with the system participants’ connection regulations issued by the Public Utilities Commission on connection fees, which are defined by the transmission system operator in accordance with the connection fee calculation methodology issued by the Public Utilities Commission.

## 20. ACCRUED LIABILITIES

	2014	2013
	EUR	EUR
<b>Accrued liabilities for the services received during the reporting period</b>		
Transmission asset rent	3 629 411	907 778
Asset management services	1 639 799	-
Purchase of balancing electricity	902 430	934 437
Transmission electricity loss and technological consumption	902 100	680 662
Mandatory procurement component	759 523	183 649
Electric power overload liquidation costs	657 177	-
Electric power reserve maintenance costs	297 501	-
Electricity transit losses	111 012	161 386
Purchase of regulating electricity	98 230	-
Balancing services	35 806	14 194
The use of synchronous compensator	15 812	-
IT services	9 382	-
Transportation service costs	3 930	-
Telecommunication costs	-	63
Provisions for other services	7 273	3 978
<b>Total accrued liabilities for the services received during the reporting period</b>	<b>9 069 386</b>	<b>2 886 147</b>

**ACCRUED LIABILITIES (CONTINUED)**

	2014 EUR	2013 EUR
<b>Provisions</b>		
Provisions for transmission losses and technological consumption costs *	1 409 417	-
Provisions for unused vacations	110 443	77 830
Accrued premium costs for prior year results	77 779	70 264
Accrued benefit costs and pension plan contributions	7 618	5 992
Accrued liabilities for transit loss compensation	5 993	20 599
<b>Total provisions</b>	<b>1 611 250</b>	<b>174 685</b>
<b>TOTAL ACCRUED LIABILITIES</b>	<b>10 680 636</b>	<b>3 060 832</b>

\* Provisions established in accordance with the electricity transmission system service tariff calculation methodology paragraph 7.1. conditions, PUBLIC UTILITIES COMMISSION councils decision No. 59 „On AS „Augstsprieguma tīkls” electricity transmission system service tariff proposal of conversion” on 12 March, 2015.

**21. TAXES AND STATE SOCIAL SECURITY CONTRIBUTIONS**

	31.12.2013 EUR	Calculated EUR	Paid EUR	31.12.2014 EUR
Corporate income tax	843 857	(312 286)	287 724	819 295
Value added tax	(311 189)	539 909	3 325	232 045
State social security contributions	(52 767)	(563 529)	558 945	(57 351)
Personal income tax	(30 339)	(320 655)	339 771	(11 223)
Risk duty	(22)	(287)	283	(26)
Vehicle tax	(2 109)	(2 702)	-	(4 811)
<b>TOTLA TAXES</b>	<b>447 431</b>	<b>(659 550)</b>	<b>1 190 048</b>	<b>977 929</b>
Tax liabilities	(396 802)			(73 438)
Tax overpayments	844 233			1 051 367

## 22. OPERATING LEASE CONTRACTS

According to the lease agreements, the Company has following non-cancellable lease commitments at the end of the reporting year:

	31.12.2014	31.12.2013
	EUR	EUR
<b>Real estate lease payment obligations</b>		
Due within one year	87 050	116 569
<b>TOTAL</b>	<b>87 050</b>	<b>116 569</b>
<b>The transmission system network asset leases</b>		
Due within one year, including:		
Transmission system network asset maintenance	44 749 699	56 603 409
	-	19 829 307
Due between one and five years	201 134 315	215 369 881
<b>TOTAL</b>	<b>245 884 014</b>	<b>271 973 290</b>

According to the lease agreement on December 30, 2014 for assets transmission system that is necessary for the economic activities and that are being leased from AS „Latvijas elektriskais tīkls”. Long-term assets lease payment liabilities from 2015 to 2019 are calculated according to AS „Latvijas elektriskie tīkli” management’s estimates of the change of value of the transmission asset system, Electricity transmission system service calculation methodology, approved by PUBLIC UTILITIES COMMISSION council decision No. 1/6, paragraph 91. Considering Public Utilities Commission Council’s decision No. 18 „On the electricity transmission system operator certification” on 30 January, 2013, AS „Augstsprieguma tīkls” from the year 2015 makes transmission asset systems servicing and the maintenance on the agenda itself.

## 23. FINANCIAL RISK MANAGEMENT

### *(a) Turnover risk*

Turnover risk is identified as changes in external environment that can cause an unplanned effect on the Company’s net turnover volumes, thus affecting the Company’s ability to settle its short-term and long-term financial liabilities (solvency). The Company’s operating activities are subject to such turnover risks as service tariff and service volume. Taking in to the account, that according to the 9<sup>th</sup> article of the law on Public Utilities Regulators, Public Utilities Commission contributes to the development of public service providers, according to the 20<sup>th</sup> article public service tariffs are defined at level to cover economically justified costs of public service providers, and maintain public services profitability. The effect of turnover risk on the Company’s short-term liquidity is assessed as low. Turnover risks are managed according to the management’s defined strategic and operational risk management policy and risk prevention actions, providing constant monitoring of service tariff correspondence to the costs related to the service rendering.

### *(a) Cash flow risk/balance sheet risk*

Financial assets, which potentially subject the Company to a certain degree of risk concentration, consist mainly of cash and trade receivables. Although the Company has a significant concentration of risk with regard to a single counterparty or group of related counterparties, the risk is assessed

## INDEPENDENT AUDITORS' REPORT

To the shareholder of Augstsprieguma tīkls AS

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**Translation from Latvian**

### Report on the Financial Statements

We have audited the financial statements of Augstsprieguma tīkls AS (the "Company") out on pages 11 to 38 of the accompanying annual report for 2014, which comprise the balance sheet as of 31 December 2014, and the income statement, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Law of the Republic of Latvia on Annual Reports, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

#### Basis for qualified opinion

As stated in Note 20 to these financial statements, as of 31 December 2014 the Company has recognized in its balance sheet the provision for transmission loss expenses in the amount of EUR 1,409 thousand. The Company established this provision based on the Public Utilities Commission Council decision No. 59, dated 12 March 2015, adopted on the basis of the current tariff calculation methodology, as well as taking into account the requirements of the Law on Budget and Financial Management Article 5, 2nd section. According to the mentioned tariff calculation methodology, in case transmission system operator's actual profit from transmission services is higher than the planned profit included in the existing tariff calculation, in the projected transmission tariff calculation cost adjustment amount is determined so that in the subsequent period the excess of the profit is used to reduce the costs included in tariff project. The Law on Budget and Financial Management Article 5, 2nd section states that public companies make annual payments for state capital prescribed by the Cabinet of Ministers at a level which according to the Cabinet of Ministers Regulations No 1471 "Procedures for the Determination and Transfer into the State Budget of the Profit Share to be Disbursed for the Use of the State Capital" Article 4.2 dated 15 December 2009 is 90% of the net profit of the company. The Company has established this provision with a purpose to more appropriately reflect the Company's financial position and its operational results, taking into account the impact of statutory tariff methodology. The present law on Annual Accounts and rules governing its implementation do not prescribe methodology for recognition of such type of future tariff adjustment impacts on the financial position of companies. In accordance with the Law on Annual Accounts, provisions are recognized only when all the conditions for the recognition of provisions are met. Considering that this provision does not fulfill all the conditions stated in the Law on Annual accounts, as of 31 December 2014 the Company's provisions would be EUR 1,409 thousand smaller and net profit for the year would be EUR 1,409 thousand bigger. The above mentioned provision has been created by the Company in accordance with its economic activities influencing regulatory documents.

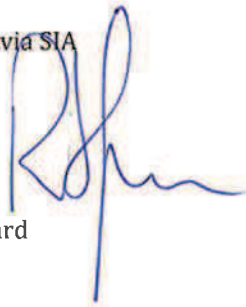
## *Qualified opinion*

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above give a true and fair view of the financial position of Augstsprieguma tīkls AS as of 31 December 2014, and of its financial performance and its cash flows for the year then ended in accordance with the Law of the Republic of Latvia on Annual Reports.

## **Report on Other Legal and Regulatory Requirements**

We have read the management report for 2014 set out on pages 4 to 10 of the accompanying annual report for 2014 and have not identified any material inconsistencies between the financial information contained in the management report and the financial statements for 2014.

Deloitte Audits Latvia SIA  
Licence No. 43



Roberts Stūģis  
Member of the Board



Inguna Staša  
Republic of Latvia Sworn Auditor  
Certificate No. 145

Rīga, Latvia  
17 June 2015