LATVENERGO CONSOLIDATED ANNUAL REPORT 2015

Latvenergo

CONSOLIDATED ANNUAL REPORT 2015

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WITH INTERNATIONAL FINANCIAL REPORTING STANDARTS
AS ADOPTED BY THE EU AND INDEPENDENT AUDITORS'S REPORT

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Financial figures

	2015	2014	2013	2012	2011
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Revenue	929,128	1,010,757	1,099 893	1,063,691	962,453
EBITDA[1)]	307,015	236,838	248,694	244,103	254,670
Operating profit[2)]	108,188	49,243	61,091	70,234	74,053
Profit before tax[3)]	92,535	31,510	48,841	59,859	60,711
Profit	85,039	29,790	46,149	50,856	62,290
Dividends	77,413	31,479	23,605	40,618	56,773
Total assets	3,517,372	3,486,576	3,575,358	3,517,752	3,255,536
Non–current assets	3,113,719	3,109,253	3,128,064	3,102,019	2,883,583
Total equity	2,096,702	2,020,801	2,021,714	2,006,975	1,923,119
Borrowings	797,483	827,222	944,675	846,961	730,408
Net debt[4)]	692,940	706,211	689,252	604,468	575,492
Net cash flows from operating activities	246,278	135,329	146,540	214,526	256,685
Capital expenditure	190,461	177,607	224,868	264,260	282,757

Financial ratios

	2015	2014	2013	2012	2011
Net debt / EBITDA ratio	2.3	3.0	2.8	2.5	2.3
EBITDA margin[5)]	33.0 %	23.4 %	22.6 %	22.9 %	26.5 %
Operating profit margin[6)]	11.6 %	4.9 %	5.6 %	6.6 %	7.7 %
Profit before tax margin[7)]	10.0 %	3.1 %	4.4 %	5.6 %	6.3 %
Profit margin[8)]	9.2 %	2.9 %	4.2 %	4.8 %	6.5 %
Equity-to-asset ratio[9)]	60 %	58 %	57 %	57 %	59 %
Return on assets (ROA)[10)]	2.4 %	0.8 %	1.3 %	1.5 %	1.9 %
Return on equity (ROE)[11)]	4.1 %	1.5 %	2.3 %	2.6 %	3.2 %
Current ratio[12)]	1.9	1.3	1.6	1.3	1.2
Dividend pay-out ratio[13)]	82 %	90 %	90 %	90 %	49.6 %

Operational figures

		2015	2014	2013	2012	2011
Retail electricity supply	GWh	7,869	8,688	7,954	8,287	8,980
Electricity generated	GWh	3,882	3,625	4,854	5,077	5,285
Thermal energy supply	GWh	2,318	2,442	2,517	2,669	2,524
Number of employees		4,177	4,563	4,512	4,457	4,490
Moody's credit rating		Baa2 (stable)	Baa3 (stable)	Baa3 (stable)	Baa3 (stable)	Baa3 (stable)

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

Latvenergo Group is the largest power supply company in the Baltic States, operating in generation and supply of electricity and thermal energy, provision of electricity distribution services and lease of transmission system assets.

Latvenergo Group – the largest power supply company in the Baltic States

Latvenergo Group has successfully maintained the leading electricity supplier position in the Baltics with around 1/3 market share. In 2015 the total amount of supplied electricity to the Baltic retail customers reached 7,869 GWh (2014: 8,688 GWh), of which the amount supplied outside Latvia was about one third.

As of 1st of January 2015 the electricity market is open for households in Latvia

As a result of focused trade activities, in 2015 compared to last year the number of business clients in Estonia and Lithuania was increased by about 33 % compared to the previous year.

Electricity market for households in Latvia is open since 1st of January 2015. Until 31st of December 2015, the majority of households have chosen Latvenergo AS to keep as their electricity supplier. According to the Electricity Market Law, in 2015, Latvenergo AS has supplied electricity to vulnerable customers (poor or low-income persons, large families) at lower electricity price.

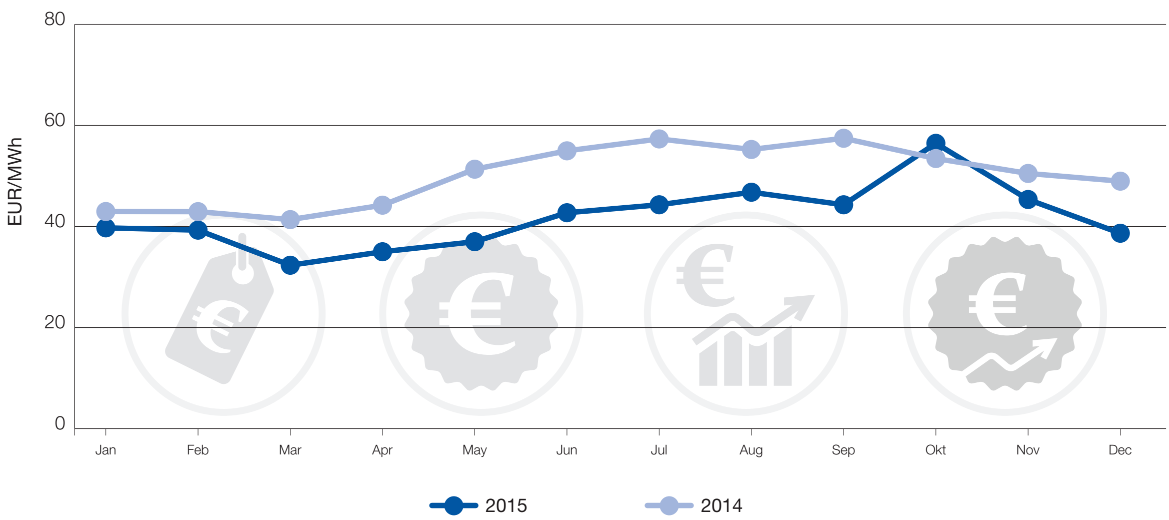
Amount generated by the power plants of Latvenergo Group in 2015 was 3,882 GWh (2014: 3,625 GWh). In Riga CHPPs the electricity generation has increased by 23 %, reaching 2,025 GWh. The increased generation was fostered by 15 % decrease in the average natural gas price compared to 2014. The amount of power generated by Daugava HPPs has decreased by 6% compared to 2014, reaching 1,805 GWh. This was due to unusually low water inflow in the Daugava River. The last time such a low water inflow was observed was back in 1976.

In 2015 the total amount of generated thermal energy was 2,408 GWh (2014: 2,560 GWh). The decrease was due to warmer weather.

In 2015, Latvenergo Group's revenue was EUR 929.1 million (2014: EUR 1,010.8 million). Revenue decline was due to change in accounting principles along with entrance into operation of Enerģijas publiskais tirgotājs AS since 1st of April 2014. Mandatory procurement public service obligation (hereinafter – PSO) fee revenues are no longer recognised in the revenue of the Group. Likewise, there was a negative impact on the revenue from: 6 % lower thermal energy output, which was due to a warmer weather; by 2 % lower volume of distributed electricity, which contributed to a EUR 13.0 million decrease in distribution segment revenue; as well as revenue decrease in the transmission system asset lease segment by EUR 14.1 million, due to transmission system asset construction and maintenance function transfer to transmission system operator Augstsprieguma tīkls AS on 1st of January 2015.

EBITDA of Latvenergo Group has increased by 30 % reaching EUR 307 million (2014: EUR 236.8 million). EBITDA margin in 2015 has improved and increased to 33 % (in 2014: 23 %).

Electricity Nord Pool price in Latvia



Latvenergo Group's profit in 2015 is EUR 85.0 million (2014: EUR 29.8 million). The results of the Group were mainly positively impacted by the opening of electricity market for households in Latvia as of 1st of January 2015. Until that Latvenergo AS supplied electricity to households at the regulated tariff, which was lower than the market price. In 2014, lost revenues due to electricity supply at the regulated tariff were EUR 48.2 million. Likewise, the results were positively impacted by lower electricity prices in the market.

EBITDA of the Group has increased

The average electricity spot price in Latvia and Lithuania bidding areas were 16 %, in Estonia – 17 % lower and the natural gas price was 15 % lower than in 2014. The results were negatively affected by 6 % lower output from Daugava HPPs. Additionally the results were negatively affected by lower distributed electricity and thus, lower distribution revenue.

Investments in environmentally friendly and environmental development projects

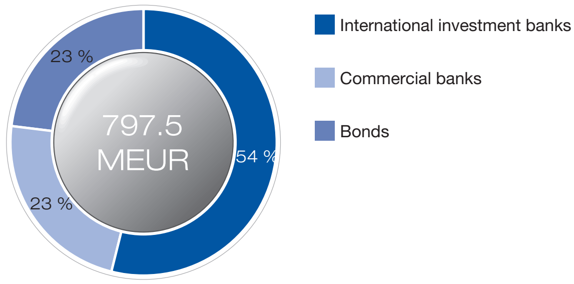
In 2015, the total amount of investments was EUR 190.5 million, which is 7 % higher than in 2014. Increase in investments was mainly determined by implementation of Daugava HPPs hydropower unit reconstruction programme thereby contributing to environmentally friendly and environmental development projects. In 2015, the amount invested in Daugava HPPs hydropower unit reconstruction was EUR 31.9 million. To improve the quality of network services, technical parameters and safety of the operations, a significant amount is invested in modernisation of power network. In 2015, the amount invested in the networks represented 62 % of the total investments.

Diversified borrowing sources

Latvenergo Group finances its investment projects from its own resources and external long-term borrowed funds, which are regularly and timely sourced in financial and capital markets. Latvenergo AS issued *green* bonds in the amount of EUR 75 million, the issue was carried out under the second bond offering programme. Total amount of bonds represent more than 1/5 of the total amount of borrowings.

As of 31st of December 2015, the net borrowings of Latvenergo Group are EUR 692.9 million (2014: EUR 706.2 million), while the net debt/EBITDA ratio was 2.3 (3.0). Latvenergo Group's capital structure remains strong and at the end of 2015 the capital ratio is 60 % (2014: 58 %).

Latvenergo group borrowings by categories of lenders



At the beginning of 2015 international rating agency Moody's Investors Service upgraded Latvenergo AS credit rating to Baa2 with a stable outlook. Likewise, in August 2015 the green bonds issued by Latvenergo AS received a Baa2 rating. After the end of the reporting period, on 12th of February 2016 *Moody's Investors Service* reconfirmed the rating of Latvenergo AS at the same level.

Latvenergo Group results of 2015 indicate a progress in achieving the goals set in Group strategy 2013-2016. The Group has managed to strengthen its position as the leading electricity supplier in the Baltic States after the full market opening in Latvia. Generation source reconstruction program is continued as set by the plan and it is expected that at the end of the strategy period, the objectives for financial indicators will be met. At the end of 2015, work on strategy for the following period (2017-2020) was started. The new strategy will take into account the challenges expected in that particular period. The new strategy of Latvenergo Group is expected to be finalised in 2016.

Financial risk management

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

Events after the reporting period

Fulfilling the requirements of the "State Administration Structure Law" and the Directive No. 235 of the Cabinet of Ministers of the Republic of Latvia, dated 29th of March 2016 – "On the establishment of the Supervisory Boards for State-Owned Companies", the Ministry of Economics of the Republic of Latvia as the owner of Latvenergo AS shares must ensure the establishment of the Supervisory Board of Latvenergo AS until 30th of September 2016.

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

Statement of management responsibility

Based on the information available to the Management Board of Latvenergo AS, in all material aspects Latvenergo Consolidated Annual Report 2015 has been prepared in accordance with applicable laws and regulations and gives a true and fair view of assets, liabilities, financial position, profit or loss, equity and cash flows of the Latvenergo Group. All information included in the Management report is true.

Profit distribution

Fulfilling the requirements of the law "On the State budget 2016" and law "On the Management of State–Owned Capital Shares and Capital Companies", the Management Board of Latvenergo AS proposes to allocate profit for the year of Latvenergo AS in the amount of EUR 77.4 million to be paid out in dividends and the rest of the profit to be transferred to Latvenergo AS reserves.

The distribution of profit for 2015 is subject to a resolution of Latvenergo AS Shareholders' Meeting

The Management Board of Latvenergo AS:

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

Guntis Stafeckis
Member of the Management Board

Riga 19th of April 2016

Consolidated Statement of Profit or Loss

	Notes	2015	2014
		EUR'000	EUR'000
Revenue	6	929,128	1,010,757
Other income	7	4,880	5,273
Raw materials and consumables used	8	(470,444)	(621,285)
Personnel expenses	9	(94,609)	(97,954)
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	13 a,14 a	(198,827)	(187,595)
Other operating expenses	10	(61,940)	(59,953)
Operating profit		**108,188**	**49,243**
Finance income	11 a	2,926	3,004
Finance costs	11 b	(18,579)	(20,380)
Share of profit / (loss) of associates	15	–	(357)
Profit before tax		**92,535**	**31,510**
Income tax	12	(7,496)	(1,720)
Profit for the year		**85,039**	**29,790**
Profit attributable to:			
– Equity holders of the Parent Company		83,509	28,515
– Non–controlling interests		1,530	1,275
Basic earnings per share (in euros)	20 c	0.065	0.023
Diluted earnings per share (in euros)	20 c	0.065	0.023

The notes on pages 14 to 65 are an integral part of these Consolidated Financial Statements.

Consolidated Statement of Other Comprehensive Income

	Notes	2015	2014
		EUR'000	EUR'000
Profit for the year		**85,039**	**29,790**
Other comprehensive income / (loss) to be reclassified to profit or loss in subsequent periods (net of tax):			
Gains / (losses) from change in hedge reserve	20 a, 21 c	4,077	(6,495)
Losses on currency translation differences	20 a	–	(14)
Net other comprehensive income / (loss) to be reclassified to profit or loss in subsequent periods		4,077	**(6,509)**
Other comprehensive income / (loss) not to be reclassified to profit or loss in subsequent periods (net of tax):			
Gains on revaluation of property, plant and equipment	20 a	20,485	14
(Losses) / gains as a result of re–measurement on defined post–employment benefit plan	22 a	(1,158)	159
Net other comprehensive income / (loss) not to be reclassified to profit or loss in subsequent periods		**19,327**	**173**
Other comprehensive income / (loss) for the year, net of tax		**23,404**	**(6,336)**
Total other comprehensive income for the year		**108,443**	**23,454**
Attributable to:			
– Equity holders of the Parent Company		106,913	22,179
– Non–controlling interests		1,530	1,275

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The Management Board of Latvenergo AS:

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Guntis Stafeckis
Member of the Management Board

Riga 19th of April 2016

Consolidated Statement of Financial Position

	Notes	31/12/2015	31/12/2014
		EUR'000	EUR'000
ASSETS			
Non–current assets			
Intangible assets	13 a	14,405	13,011
Property, plant and equipment	14 a	3,076,256	3,066,316
Investment property	14 b	696	1,343
Non–current financial investments	15	41	41
Other non–current receivables		1,712	14
Investments in held–to–maturity financial assets	21 a	20,609	28,528
Total non–current assets		**3,113,719**	**3,109,253**
Current assets			
Inventories	16	24,791	22,560
Trade receivables and other receivables	17 a, b	263,452	233,045
Deferred expenses		3,008	707
Investments in held-to-maturity financial assets	21 a	7,859	–
Cash and cash equivalents	18	104,543	121,011
Total current assets		**403,653**	**377,323**
TOTAL ASSETS		**3,517,372**	**3,486,576**
EQUITY			
Share capital	19	1,288,531	1,288,446
Reserves	20 a	669,596	645,829
Retained earnings		131,662	79,995
Equity attributable to equity holders of the Parent Company		**2,089,789**	**2,014,270**
Non–controlling interests		6,913	6,531
Total equity		**2,096,702**	**2,020,801**
LIABILITIES			
Non–current liabilities			
Borrowings	21 b	714,291	688,297
Deferred income tax liabilities	12	273,987	268,026
Provisions	22	15,984	15,588
Derivative financial instruments	21 c	8,291	11,698
Other liabilities and deferred income	23	196,386	194,474
Total non–current liabilities		**1,208,939**	**1,178,083**
Current liabilities			
Trade and other payables	24	117,249	139,909
Income tax payable		4,007	3
Borrowings	21 b	83,192	138,925
Derivative financial instruments	21 c	7,283	8,855
Total current liabilities		**211,731**	**287,692**
TOTAL EQUITY AND LIABILITIES		**3,517,372**	**3,486,576**

The notes on pages 14 to 65 are an integral part of these Consolidated Financial Statements.

The Management Board of Latvenergo AS:

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Riga 19th of April 2016

Consolidated Statement of Changes in Equity

	Notes	Attributable to equity holders of the Parent Company				Non–controlling interests	TOTAL
		Share capital	Reserves	Retained earnings	Total		
		EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
As of 31st of December 2013		**1,288,011**	**652,418**	**74,832**	**2,015,261**	**6,453**	**2,021,714**
Increase in share capital	19	435	–	–	435	–	435
Dividends for 2013	20 b	–	–	(23,605)	(23,605)	(1,197)	(24,802)
Total contributions and profit distributions recognised directly in equity		**435**	**–**	**(23,605)**	**(23,170)**	**(1,197)**	**(24,367)**
Profit for the year		–	–	28,515	28,515	1,275	29,790
Other comprehensive (loss) / income	20 a	–	(6,589)	253	(6,336)	–	(6,336)
Total comprehensive (loss) / income		**–**	**(6,589)**	**28,768**	**22,179**	**1,275**	**23,454**
As of 31st of December 2014		**1,288,446**	**645,829**	**79,995**	**2,014,270**	**6,531**	**2,020,801**
Increase in share capital	19	85	–	–	85	–	85
Dividends for 2014	20 b	–	–	(31,479)	(31,479)	(1,148)	(32,627)
Total contributions and profit distributions recognised directly in equity		**85**	**–**	**(31,479)**	**(31,394)**	**(1,148)**	**(32,542)**
Profit for the year		–	–	83,509	83,509	1,530	85,039
Other comprehensive income / (loss)	20 a	–	23,767	(363)	23,404	–	23,404
Total comprehensive income		**–**	**23,767**	**83,146**	**106,913**	**1,530**	**108,443**
As of 31st of December 2015		**1,288,531**	**669,596**	**131,662**	**2,089,789**	**6,913**	**2,096,702**

The notes on pages 14 to 65 are an integral part of these Consolidated Financial Statements.

Consolidated Statement of Cash Flows

	Notes	2015	2014
		EUR'000	EUR'000
Cash flows from operating activities			
Profit before tax		92,535	31,510
Adjustments:			
– Amortisation, depreciation and impairment of intangible assets and property, plant and equipment	13 a, 14 a	198,828	187,595
– Loss from disposal of non–current assets		4,075	2,470
– Losses on investments accounting at equity method	15	–	357
– Interest costs	11 b	18,693	20,351
– Interest income	11 a	(1,578)	(2,045)
– Fair value gains on derivative financial instruments	8, 11	(902)	(8,759)
– (Decrease) / increase in provisions	22	(762)	150
– Unrealised losses on currency translation differences	11 b	27	65
Operating profit before working capital adjustments		**310,916**	**231,694**
(Increase) / decrease in inventories		(2,231)	2,468
(Increase) in trade and other receivables		(27,626)	(93,285)
(Decrease) / increase in trade and other payables		(20,825)	19,062
Cash generated from operating activities		**260,234**	**159,939**
Interest paid		(19,189)	(20,915)
Interest received		1,606	2,082
Repaid / (paid) corporate income tax and real estate tax		3,627	(5,777)
Net cash flows from operating activities		**246,278**	**135,329**
Cash flows from investing activities			
Purchase of intangible assets and PPE		(188,915)	(177,988)
Proceeds from sales of investments	15	–	5,779
Proceeds on financing from EU funds and other financing		17,972	2,161
Proceeds from redemption of held–to–maturity assets		70	60
Net cash flows used in investing activities		**(170,873)**	**(169,988)**
Cash flows from financing activities			
Proceeds from issued debt securities (bonds)	21 b	74,893	–
Proceeds on borrowings from financial institutions	21 b	30,000	22,600
Repayment of borrowings	21 b	(134,875)	(139,695)
Dividends paid to non–controlling interests		(1,148)	(1,197)
Dividends received from associates		–	1,924
Dividends paid to equity holders of the Parent Company		(31,479)	(12,649)*
Net cash flows (used in) / generated from financing activities		**(62,609)**	**(129,017)**
Net increase / (decrease) in cash and cash equivalents		**12,796**	**(163,676)**
Cash and cash equivalents at the beginning of the year	18	91,747	255,423
Cash and cash equivalents at the end of the year	**18**	**104,543**	**91,747****

* dividends declared for 2013 in the amount of EUR 23,605 thousand are settled partly by corporate income tax overpayment in the amount of EUR 10,956 thousand

** at the end of 2014 received government grant for mandatory procurement public service obligation costs compensation in the amount of EUR 29,264 was not included in cash and cash equivalents because it was defined as restricted cash and cash equivalents (Note 18)

The notes on pages 14 to 65 are an integral part of these Consolidated Financial Statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

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

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

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

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

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

On 12th of February 2014 the Cabinet of Ministers of the Republic of Latvia adopted decision No. 67 „On Latvenergo AS termination of partnership in Nordic Energy Link AS" and on 19th of March 2014 at the Nordic Energy Link AS Shareholders' meeting was approved decision to liquidate Nordic Energy Link AS. In December 2014 Latvenergo AS terminated its shareholding in Nordic Energy Link AS with 25 % interest held.

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

Since 15th of August 2011 until 19th of June 2015 the Management Board of Latvenergo AS includes the following members: Āris Žīgurs (Chairman), Uldis Bariss, Māris Kuņickis, Arnis Kurgs and Zane Kotāne. Reposing on Shareholder's resolution, Zane Kotāne as of 20th of June 2015, and Arnis Kurgs as of 16th of November 2015, were excluded from the composition of the Management Board of Latvenergo AS. Since 16th of November 2015 Guntars Baļčūns and Guntis Stafeckis have been acting as a members of the Management Board of Latvenergo AS and until the date of approving of the 2015 Annual Report, the Management Board of Latvenergo AS includes the following members: Āris Žīgurs (Chairman), Uldis Bariss, Māris Kuņickis, Guntars Baļčūns and Guntis Stafeckis.

The Consolidated Financial Statements for year 2015 include the financial information in respect of the Parent Company and its subsidiaries for the year ending 31st of December 2015 and comparative information for year 2014. Financial Statements for year 2015 are prepared by comparability of financial results, and where it is necessary, comparatives for year 2014 are reclassified using the same principles applied for preparation of the 2015 Annual Report.

The Management Board of Latvenergo AS has approved the Consolidated Financial Statements for year 2015 on 19th of April 2016. The decision on approval of the Consolidated Financial Statements is made by Shareholder's Meeting.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1. Basis of Preparation

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

The Consolidated Financial Statements are prepared under the historical cost convention, except for some financial assets and liabilities (including derivative financial instruments) measured at fair value through profit or loss and for the revaluation of property, plant and equipment carried at revalued amounts to other comprehensive income as disclosed in accounting policies presented below.

All amounts shown in these Consolidated Financial Statements are presented in thousands of euros (EUR).

The preparation of the Consolidated Financial Statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on the Parent Company Management's best knowledge of current events and actions, actual results ultimately may differ from those. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Consolidated Financial Statements are disclosed in Note 4.

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

The following new and/or amended International Financial Reporting Standards or interpretations published or revised during the reporting year, which became effective for the reporting period started from 1st of January 2015, have been adopted by the Group:

Annual Improvements to IFRSs 2011 – 2013 Cycle is a collection of amendments to the following IFRSs

- *IFRS 3 Business Combinations:* This improvement clarifies that IFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.

- *IFRS 13 Fair value Measurement:* This improvement clarifies that the scope of the portfolio exception defined in paragraph 52 of *IFRS 13* includes all contracts accounted for within the scope of *IAS 39 Financial Instruments:* Recognition and Measurement or *IFRS 9 Financial Instruments*, regardless of whether they meet the definition of financial assets or financial liabilities as defined in *IAS 32 Financial Instruments: Presentation*.

- *IAS 40 Investment property:* This improvement clarifies that determining whether a specific transaction meets the definition of both a business combination as defined in *IFRS 3 Business Combinations* and investment property as defined in *IAS 40 Investment Property* requires the separate application of both standards independently of each other.

The implementation of these annual improvements had no effect on the financial statements of the Group.

IFRIC Interpretation 21 Levies

This interpretation addresses the accounting for levies imposed by governments. Liability to pay a levy is recognized in the financial statements when the activity that triggers the payment of the levy occurs. The implementation of this interpretation had no effect on the financial statements of the Group.

Standards issued but not yet effective

The Group has not applied the following amendments to *IAS*, *IFRS* and its amendments that have been issued as of the date of authorisation of these financial statements for issue, but which will become effective for the reporting periods started from 1st of January 2016 or later. At present the Management of the Group evaluates the impact or expected effect from adoption of these standards, but does not consider that these amendments will have significant effect to the Consolidated Financial Statements, except IFRS 9 "Financial Instruments", IFRS 15 "Revenue from Contracts with Customers" and IFRS 16 "Leases".

- *Amendments to IAS 1 Presentation of financial statements: Disclosure Initiative* (effective for financial years beginning on or after 1st of January 2016). The amendments to *IAS 1* further encourage companies to apply professional judgment in determining what information to disclose and how to structure it in their financial statements. The Group has not yet evaluated the impact of the implementation of these amendments, but considers that these amendments will have an effect to the Consolidated Financial Statements.

- *Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative* (effective for financial years beginning on or after 1st of January 2017, once endorsed by the EU). The amendments improve information provided to users of financial statements about an entity's financing activities. Entities are required to disclose changes in liabilities arising from financing activities, including both changes arising from cash flows and non–cash changes, for example, by providing reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities. The implementation of these amendments will not have any impact on the financial position or performance of the Group but may result in changes in disclosures.

- *Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealized Losses* (effective for financial years beginning on or after 1st of January 2017, once endorsed by the EU). The amendments clarify how to account for deferred tax assets for unrealized losses on debt instruments measured at fair value. The Group has not yet evaluated the impact of the implementation of these amendments, but considers that they will not have an effect to the Consolidated Financial Statements.

- *Amendments to IAS 16 Property, Plant & Equipment and IAS 38 Intangible assets: Clarification of Acceptable Methods of Depreciation and Amortization* (effective for financial years beginning on or after 1st of January 2016). The amendment provides additional guidance on how the depreciation or amortisation of property, plant and equipment and intangible assets should be calculated. It is clarified that a revenue–based method is not considered to be an appropriate manifestation of consumption. The implementation of these amendments will not have an effect to the Consolidated Financial Statements as the Group does not use revenue based depreciation and amortisation methods.

- *IFRS 9 "Financial Instruments"* (effective for financial years beginning on or after 1st of January 2018, once endorsed by the EU). *IFRS 9* replaces *IAS 39* and introduces new requirements for classification and measurement, impairment and hedge accounting. The Group has not yet evaluated the impact of the implementation of this standard, but considers that this standard will have an effect to the Consolidated Financial Statements.

- *Amendments to IFRS 10 and IAS 28 – "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"* (endorsement deferred indefinitely). The amendments address an acknowledged inconsistency between the requirements in *IFRS 10* and those in *IAS 28*, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business and partial gain or loss is recognised when a transaction involves assets that do not constitute a business. The Group has not yet evaluated the impact of the implementation of these amendments, but does not consider that any of them will have significant effect to the Consolidated Financial Statements.

- *IFRS 15 "Revenue from Contracts with Customers"* (effective for financial years beginning on or after 1st of January 2018, once endorsed by the EU). *IFRS 15* establishes a five–step model that will apply to revenue earned from a contract with a customer, regardless of the type of revenue transaction or the industry. Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. The management of the Group has assessed that adoption of this *IFRS* will have an impact on the presentation of revenue disclosures in the Consolidated Financial Statements and financial position or performance of the Group.

- *IFRS 16 "Leases"* (effective for financial years beginning on or after 1st of January 2019, once endorsed by the EU). *IFRS 16* replaces *IAS 17* and specifies how to recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessor accounting is substantially unchanged. The management of the Group has assessed that adoption of this IFRS will have an impact on the recognition, measurement and disclosures of the Group's leases.

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

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

- *Amendments to IAS 19 "Employee Benefits"* (effective for financial years beginning on or after 1st of February 2015). The amendments address accounting for the employee contributions to a defined benefit plan. Since the Group's employees do not make such contributions, the implementation of these amendments will not have any impact on the financial statements of the Group.

- Amendments to IAS 27 "Equity method in separate financial statements" (effective for financial years beginning on or after 1st of January 2016). The amendments reinstate the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements. The implementation of these amendments will have no impact on the financial statements of the Group since these are only applicable for the separate financial statements of the Parent Company.

- *Amendments to IFRS 10, IFRS 12 and IAS 28 – "Investment Entities: Applying the consolidation exception"* (effective for financial years beginning on or after 1st of January 2016, once endorsed by the EU). The amendments address issues that have arisen in the context of applying the consolidation exception for investment entities. The implementation of these amendments will have no impact on the financial statements of the Group, as the parent of the Group is not an investment entity.

- *Amendment to IFRS 11 "Joint arrangements: Accounting for Acquisitions of Interests in Joint Operations"* (effective for financial years beginning on or after 1st of January 2016). *IFRS 11* addresses the accounting for interests in joint ventures and joint operations. The amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business in accordance with IFRS and specifies the appropriate accounting treatment for such acquisitions. Management has assessed that this amendment will have no impact on the financial statements of the Group, as the Group has not any interests in joint ventures and joint operations.

- *IFRS 14 "Regulatory Deferral Accounts"* (effective for financial years beginning on or after 1st of January 2016, once endorsed by the EU). *IFRS 14* provides first–time adopters of *IFRS* with relief from derecognising rate–regulated assets and liabilities. However, to enhance comparability with entities that already apply *IFRS* and do not recognise such amounts, the standard requires that the effect of rate regulation must be presented separately from other items. An entity that already presents *IFRS* financial statements is not eligible to apply the standard. The implementation of this standard will not have any impact on the Group since the Group is not first–time adopter of *IFRS*.

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

Improvements to IFRSs

- In December 2013 *IASB* (International Accounting Standards Board) issued the *Annual Improvements to IFRSs 2010 – 2012 Cycle* (effective for financial years beginning on or after 1st of February 2015): *IFRS 2 Share–based Payment; IFRS 3 Business Combinations; IFRS 8 Operating Segments; IFRS 13 Fair value Measurement; IAS 16 Property, Plant and Equipment; IAS 24 Related Party Disclosures; IAS 38 Intangible Assets*.

- In September 2014 *IASB* issued the *Annual Improvements to IFRSs 2012 – 2014 Cycle* (effective for financial years beginning on or after 1st of January 2016): *IFRS 5 Non–current Assets Held for Sale and Discontinued Operation, IFRS 7 Financial Instruments: Disclosures, IAS 19 Employee Benefits and IAS 34 Interim Financial Reporting*.

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

2.2. Consolidation

a) Subsidiaries

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

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

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

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

b) Transactions with non–controlling interests

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

c) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20 % and 50 % of the voting rights. Investments in associates are accounted for using the equity method of accounting in the consolidated financial statements and are initially recognised at cost. Under this method the Group's share of its associate's post–acquisition profits and losses is recognised in the Consolidated Statement of Profit or Loss, and its share of post–acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post–acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in associate equals or exceeds its interest in associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

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

2.3. Disclosures of reportable segments

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

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

2.4. Foreign currency translation

a) Functional and presentation currency

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

b) Transactions and balances

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

c) Consolidation of the Group's foreign companies

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

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

2.5. Intangible assets

a) Licenses and software

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

b) Greenhouse gas emission allowances

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

2.6. Property, plant and equipment

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

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

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

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

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see point 2.9).

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

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

2.7. Investment property

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

2.8. Revaluation of property, plant and equipment

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

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

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

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

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

Increase in the carrying amount arising on revaluation net of deferred tax is credited to the 'Other comprehensive income' as "Property, plant and equipment revaluation reserve" in shareholders' equity. Decreases that offset previous increases of the same asset are charged in 'Other comprehensive income' and debited against the revaluation reserve directly in equity; all other decreases are charged to the current year's Consolidated Statement of Profit or Loss.

Any gross carrying amounts and accumulated depreciation at the date of revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after the revaluation equals its revalued amount.

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

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

2.9. Impairment of assets

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

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

2.10. Leases

a) The Group is the lessee

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

b) The Group is the lessor

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

2.11. Inventories

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

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

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

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

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

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

2.12. Trade and other receivables

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

Trade receivables are classified in groups:

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

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

Individual impairment assessments are performed for the debtors:

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

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

2.13. Cash and cash equivalents

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

2.14. Dividend distribution

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

2.15. Pensions and employment benefits

a) Pension obligations

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

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

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

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

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

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

2.16. Income tax

a) Corporate income tax

Latvia and Lithuania

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

Estonia

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

b) Deferred income tax

Latvia and Lithuania

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

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

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

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

Estonia

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

2.17. Subsidised Energy Tax

In order to limit the increase of the mandatory procurement PSO fee for electricity consumers in Latvia, a Subsidised Energy Tax (SET) has been introduced for a four–year period as of 1st of January 2014, which applies to state support for generators of subsidised electricity. The SET applies both to income from electricity supplied under the mandatory procurement process as well as to mandatory procurement capacity payments for installed capacity at cogeneration plants. The tax is differentiated according to the type of energy sources used. For cogeneration plants that use fossil energy sources a 15 % tax rate applies to the received support (taxable income) amount, 10 % tax rate – plants that use renewable energy sources, 5 % – cogeneration plants that use gas, biogas and biomass energy sources and installed electrical capacity in cogeneration plants is below 4 MW. Payers of SET are all producers of subsidised electricity. Revenues from SET are used as a funding for the grant included in the State Budget programme “Electricity user support” to limit the increase of mandatory procurement PSO fee. SET applied for the subsidised electricity produced by the Group are recognised in the Consolidated Statement of Profit or Loss as ‘Other operating expenses’ (Note 10) at gross amount, but SET for subsidised electricity produced by other producers – as ‘Other financial current payables’ in the Consolidated Statement of Financial Position (Note 24).

2.18. Borrowing costs

General and specific borrowing costs directly attributable to the acquisition or construction of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

2.19. Provisions

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

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

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

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

2.20. Grants

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

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

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

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

2.21. Financial instruments – initial recognition, subsequent measurement and de–recognition

a) Financial assets

I) Initial recognition and measurement

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

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

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

II) Subsequent measurement

Financial assets at fair value through profit or loss

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

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

Loans and receivables

Loans and receivables are non–derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the EIR method, less impairment. The losses arising from impairment are recognised in the Consolidated Statement of Profit or Loss in finance costs for loans and in other operating expenses for receivables.

Held–to–maturity investments

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

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

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

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

Available–for–sale financial assets

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

III) De–recognition

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

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

b) Financial liabilities

I) Initial recognition and measurement

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

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

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

II) Subsequent measurement

Financial liabilities at fair value through profit or loss

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

Loans and borrowings

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

Trade and other payables

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

III) De–recognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the de–recognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

2.22. Derivative financial instruments and hedging activities

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

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

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

The Group designates certain derivatives as hedges of a particular risk associated with specific variable rate borrowings (cash flow hedge). Other derivatives are accounted for at fair value through profit or loss.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

i) Accrued income on mandatory procurement public service obligation fee
Before the applying of agent principle (until 1st of April 2014) revenue on mandatory procurement PSO fee was recognised as accrued income as the amount of income on mandatory procurement can be reliably measured and it was virtually certain that the economic benefits from mandatory procurement will flow to the Group with collected mandatory procurement PSO fees from electricity end users. Income from mandatory procurement component was calculated as difference between mandatory procurement expenses above the electricity market price and collected mandatory procurement component payments from all end users of electricity.

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

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

By applying agent principle revenue from sale of electricity (generated by subsidised electricity producers) in Nord Pool power exchange by market price, received mandatory procurement PSO fee, received government grant for compensating the increase of mandatory procurement costs, costs of purchased electricity under the mandatory procurement from electricity producers who generate electricity in efficient cogeneration process or using renewable energy sources, as well as guaranteed fees for installed electrical capacity in cogeneration plants (over 4 MW), are recognised in net amount in assets as unsettled revenue on mandatory procurement PSO fee or in net amount in liabilities. Fee from mandatory procurement administration or agent fee is recognised in the Consolidated Statement of Profit or Loss in ‘Other revenue’ (Note 6).

2.25. Related parties

The parties are considered related when one party has a possibility to control the other one or has significant influence over the other party in making financial and operating decisions. Related parties of the Group are associates, Shareholder of the Parent Company who could control or who has significant influence over the Group’s entities in accepting operating business decisions, key management personnel of the Group’s entities including members of Supervisory body – Audit Committee and close family members of any above–mentioned persons, as well as entities over which those persons have control or significant influence.

2.26. Non–current assets held for sale

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

2.27. Share capital

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

2.28. Events after the reporting period

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

3. FINANCIAL RISK MANAGEMENT

3.1. Financial risk factors

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

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

Financial assets by categories:

	Notes	Loans and receivables	Derivatives used for hedging	Held–to–maturity assets
		EUR'000	EUR'000	EUR'000
Financial assets as of 31st of December 2015				
Trade receivables, net	17 a	112,163	–	–
Other non–current receivables		1,712	–	–
Accrued income and other financial current receivables	17 b	144,182	–	–
Held–to–maturity financial assets	21 a	–	–	28,468
Cash and cash equivalents	18	104,543	–	–
		362,600	**–**	**28,468**
Financial assets as of 31st of December 2014				
Trade receivables, net	17 a	122,293	–	–
Other non–current receivables		14	–	–
Accrued income and other financial current receivables	17 b	99,210	–	–
Held–to–maturity financial assets	21 a	–	–	28,528
Cash and cash equivalents	18	121,011	–	–
		342,528	**–**	**28,528**

Financial liabilities by categories:

	Notes	Derivatives used for hedging	Other financial liabilities at amortised cost	Liabilities at fair value through the profit or loss
		EUR'000	EUR'000	EUR'000
Financial liabilities as of 31st of December 2015				
Borrowings	21 b	–	797,483	–
Derivative financial instruments	21 c, l	12,256	–	3,318
Trade and other payables	24	–	80,948	–
		12,256	**878,431**	**3,318**
Financial liabilities as of 31st of December 2014				
Borrowings	21 b	–	827,222	–
Derivative financial instruments	21 c, l	16,333	–	4,220
Trade and other payables	24	–	101,940	–
		16,333	**929,162**	**4,220**

a) Market risk

I) Foreign currencies exchange risk

The introduction of euro in Latvia as of 1st of January 2014 prevented the euro currency risk, which primarily was arising from settlements in foreign currencies for borrowings, capital expenditures and imported electricity. As of 31st of December 2015 the Group had borrowings denominated only in euros (Note 21 b).

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

The Group Treasury's Financial Risk Management Policy is to hedge all anticipated cash flows (capital expenditure and purchase of inventory) in each major foreign currency that might create significant currency risk. During 2015 the Group had not any capital expenditure project which expected transactions would create significant currency risk (Note 21 c, IV).

In 2015 the Parent Company had not any certain investments, which were exposed to foreign currency risks. The introduction of euro in Lithuania as of 1st of January 2015 prevented the euro currency risk arising from Parent Company's investments in subsidiary in Lithuania.

II) Cash flow and fair value interest rate risk

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

During 2015, if euro interest rates had been 50 basis points higher or lower with all other variables held constant, the Group's income from the cash reserves held at bank for the year would have been EUR 638 thousand higher or lower (2014: EUR 314 thousand).

The Group's cash flow interest rate risk mainly arises from long–term borrowings at variable rates. They expose the Group to a risk that finance costs might increase significantly when interest rates rise up. The Group's policy is to maintain at least 35% of its borrowings as fixed interest rates borrowings (taking into account the effect of interest rate swaps) with duration between 2–4 years.

The Group analyses its interest rate risk exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and hedging. Based on these scenarios, the Group calculates the impact on profit and loss as well as on cash flows of a defined interest rate shift.

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

To hedge cash flow interest rate risk the Group has entered into rate swap agreements with total notional amount of EUR 221.5 million (2014: EUR 320.0 million) (Note 21 c, II). As of 31st of December 2015 55 % of the total Group's borrowings (31/12/2014: 42 %) had fixed interest rate (taking into account the effect of the interest rate swaps) and average fixed rate duration was 2.4 years (2014: 2.2 years).

During 2015, if interest rates on euro denominated borrowings at floating base interest rate (after considering hedging effect) had been 50 basis points higher with all other variables held constant, the Group's profit for the year net of taxes would have been EUR 1,929 thousand lower (2014: EUR 2,164 thousand), while if the rates had been 50 basis points lower – profit for the year net of taxes would have been EUR 1,894 higher.

The Group's borrowings with floating rates do not impose fair value interest rate risk. Derivatives such as interest rate swaps are the only source of fair value interest rate risk.

At 31st of December 2015, if short and long term euro interest rates had been 50 basis points higher with all other variables held constant fair value of interest rate swaps would have been EUR 4,126 thousand higher (31/12/2014: EUR 5,321 thousand), of which EUR 52 thousand (2014: EUR 209 thousand) would have been attributable to Consolidated Statement of Profit or Loss and EUR 4,074 thousand (2014: EUR 5,112 thousand) to the Consolidated Statement of Other Comprehensive Income as hedge accounting item, while if the rates had been 50 basis points lower, fair value of interest rate swaps would have been EUR 4,269 lower, of which EUR 53 thousand (2014: EUR 209 thousand) would have been attributable to Consolidated Statement of Profit or Loss and EUR 4,216 thousand (2014: EUR 5,112 thousand) to the Consolidated Statement of Other Comprehensive Income as hedge accounting item.

III) Price risk

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

The most significant price risk is related to purchase of electricity. To hedge the risk related to changes in the price of electricity the Parent Company during 2015 has purchased electricity forward and future contracts (Note 21 c, III).

b) Credit risk

Credit risk is managed at the Group level. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks, outstanding receivables. Credit risk exposure in connection with trade receivables is limited due to broad range of the Group's customers. The Group has no significant concentration of credit risk with any single counterparty or group of counterparties having similar characteristics. Impairment loss has been deducted from gross accounts receivable (Note 17).

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

Assessment of maximum possible exposure to credit risk

	Notes	31/12/2015	31/12/2014
		EUR'000	EUR'000
Trade receivables	17 a	112,163	122,293
Accrued income	17 b	1,148	17,063
Other non–current financial receivables		1,712	14
Other current financial receivables	17 b	1,974	19,001
Cash and cash equivalents	18	104,543	121,011
Held–to–maturity financial assets	21 a	28,468	28,528
		250,008	**307,910**

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

For estimation of the credit quality of fully performing trade receivables two rating categories are used:
- Customers with no overdue receivables,
- Customers with overdue receivables.

Credit limits are regularly monitored.

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

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

	31/12/2015	31/12/2014
	EUR'000	EUR'000
Investment level credit rating*	99,069	95,325
No or non–investment level credit rating	5,474	25,686
	104,543	**121,011**

* investment level credit rating assigned for the parent companies of Baltic banks

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

c) Liquidity risk

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

The Group entities' management is monitoring rolling forecasts of the Group's liquidity reserve, which comprises of undrawn borrowing facilities (Note 21 b), and cash and cash equivalents (Note 18).

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

Liquidity analysis (contractual undiscounted cash flows)

	Less than 1 year	From 1 to 2 years	From 3 to 5 years	Over 5 years	TOTAL
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
At 31st of December 2015					
Borrowings from banks	88,727	81,556	307,390	175,820	653,493
Issued debt securities (bonds)	4,365	74,519	41,864	77,751	198,499
Derivative financial instruments	17,320	4,950	5,727	1,683	29,680
Trade and other payables*	80,948	–	–	–	80,948
	191,360	**161,025**	**354,981**	**255,254**	**962,620**
At 31st of December 2014					
Borrowings from banks	148,268	96,802	312,507	211,340	768,917
Issued debt securities (bonds)	2,940	2,940	74,900	35,980	116,760
Derivative financial instruments	10,704	5,351	7,029	3,146	26,230
Trade and other payables*	101,940	–	–	–	101,940
	263,852	**105,093**	**394,436**	**250,466**	**1,013,847**

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

3.2. Capital risk management

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

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

This ratio is calculated by dividing the equity by the sum of total assets and nominal value of issued and outstanding financial guarantees. According to the Group's strategy and defined loan covenants as per loan agreements the capital ratio shall be maintained at least at 30 % level.

The capital ratio figures were as follows:

	31/12/2015	31/12/2014
	EUR'000	EUR'000
Total equity	2,096,702	2,020,801
Total assets	3,517,372	3,486,576
Capital Ratio	**60 %**	**58 %**

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

a) Estimates concerning property, plant and equipment

I) Useful lives of property, plant and equipment

The Group makes estimates concerning the expected useful lives and residual values of property, plant and equipment. These are reviewed at the end of each reporting period and are based on the past experience as well as industry practice. Previous experience has shown that the actual useful lives have sometimes been longer than the estimates. As of 31st of December 2015, the net book amount of property, plant and equipment of the Group totalled EUR 3,076 million (31/12/2014: EUR 3,066 million), and the depreciation charge for the reporting period was EUR 179.1 million (2014: EUR 174.1 million) (Note 14 a). If depreciation rates were changed by 10 %, the annual depreciation charge would change by EUR 17.9 million (2014: EUR 17.4 million).

II) Recoverable amount of property, plant and equipment

When the events and circumstances indicate a potential impairment, the Group performs impairment tests for items of property, plant and equipment. According to these tests assets are written down to their recoverable amounts, if necessary. When carrying out impairment tests management uses various estimates for the cash flows arising from the use of the assets, sales, maintenance, and repairs of the assets, as well as in respect of the inflation and growth rates. The estimates are based on the forecasts of the general economic environment, consumption and the sales price of electricity. If the situation changes in the future, either additional impairment could be recognised, or the previously recognised impairment could be partially or fully reversed. Such factors as high maintenance and reconstruction costs, low load of several auxiliaries, comparatively substantial maintenance expense, limited facilities to sell property, plant and equipment in the market and other essential factors have an impact of decreasing of the recoverable amounts. If discount rate used for the purposes of impairment charge calculation would be lower or higher by one per cent point the current year's impairment charge on technological equipment would be by EUR 29.0 million higher or lower (2014: EUR 32.5 million). Impairment charges recognised during the current reporting year are disclosed in Note 14 d.

III) Revaluation

External, certified valuers have performed revaluation for part of the Group's property, plant and equipment by applying the depreciated replacement cost model. Valuation has been performed according to international standards on property valuation and *IAS 16, Property, plant and equipment*, based on current use of property, plant and equipment that is estimated as the highest and best use of these assets. As a result of valuation, depreciated replacement cost was determined for each asset. Depreciated replacement cost is calculated as property, plant and equipment instant market value at its current use, increased by the replacement cost of existing buildings, machinery and equipment as well as refinements on the said property, plant and equipment decreased by the depreciation expenses and other impairment losses. In 2015 the Group started revaluation process for property, plant and equipment of distribution system. Amounts of revalued property, plant and equipment categories had been determined as of 1st of January 2015, but considering the large amount of revalued assets, the revaluation process had been finished in December 2015. Respectively, after the recognition of revaluation results (see Note 14 c), the impairment charge in the amount of EUR 14,564 thousand for revalued distribution system technology equipment and machinery recognised in 2014 had been reversed. For property, plant and equipment of Daugava hydropower plants revaluation was performed as of 1st of January 2012 and for property, plant and equipment of transmission system as of 1st of January 2011.

b) Recoverable amount of trade receivables

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

c) Fair value estimation for financial instruments

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

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

d) Recognition of connection service fees
Connection and other service fees are recognised as income over the estimated customer relationship period, which is 20 years (see Note 23). The estimated customer relationship period is based on the Management's estimate. In the reporting period the Group's received connection fees totalled EUR 16.2 million (2014: EUR 18.2 million), and to the Consolidated Statement of Profit or Loss credited EUR 11.6 million (2014: EUR 10.9 million), see Note 23.

As of 31st of December 2015	Notes	Level 1	Level 2	Level 3	Total balance
		EUR'000	EUR'000	EUR'000	EUR'000
Liabilities					
Financial liabilities at fair value through profit or loss:					
– Electricity trading derivatives	21 c, III	–	2,558	–	2,558
– Interest rate derivatives	21 c, II	–	760	–	760
Interest rate derivatives used for hedging	21 c, II	–	12,256	–	12,256
Total liabilities		**–**	**15,574**	**–**	**15,574**

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

If the estimated customer relationship period is reduced/increased by 25 %, the annual income from connection service fees would increase/decrease by EUR 2.9 million (2014: EUR 2.7 million).

e) Recognition and revaluation of provisions
As of 31st of December 2015, the Group had set up provisions for environmental protection and post–employment benefits totalling EUR 16.0 million (31/12/2014: EUR 15.6 million) (Note 22). The amount and timing of the settlement of these obligations is uncertain. A number of assumptions and estimates have been used to determine the present value of provisions, including the amount of future expenditure, inflation rates, and the timing of settlement of the expenditure. The actual expenditure may also differ from the provisions recognised as a result of possible changes in legislative norms, technology available in the future to restore environmental damages, and expenditure covered by third parties. For revaluation of provisions for post–employment obligations probabilities of retirement in different employees' aging groups as well as variable demographic factors and financial factors (including expected remuneration increase and determined changes in benefit amounts) have been estimated. The probabilities and other factors are determined on the basis of previous experience.

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

g) Held–to–maturity financial assets
The management of the Group applies judgement in assessing whether financial assets can be categorised as held–to–maturity at initial recognition, in particular (a) its intention and ability to hold the assets to maturity and (b) whether the assets are quoted in an active market. If the Group fails to keep these investments to maturity other than in certain specific circumstances – for example, selling an insignificant amount or settle

a position close to maturity – it will be required to reclassify the entire category as available–for–sale. The investments would therefore be measured at fair value rather than amortised cost. For the estimated fair value of investment securities held–to–maturity as of 31st of December 2015 refer to Note 21 a.

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

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

i) Use of agent principle
The Group has applied significant judgement for use of agent principle for recognition of net revenue on mandatory procurement PSO fee (difference between revenue from sale of electricity in Nord Pool power exchange by market price, received mandatory procurement PSO fee, received government grant for compensating the increase of mandatory procurement costs and costs of purchased electricity under the mandatory procurement from electricity generators who generate electricity in efficient cogeneration process or using renewable energy sources, as well as guaranteed fees for installed electrical capacity in cogeneration plants). Since 1st of April 2014 net revenue from mandatory procurement PSO fees is not recognised in the Consolidated Statement of Profit or Loss, but as assets or liabilities in the Consolidated Statement of Financial Position by applying agent accounting principle as subsidiary Enerģijas publiskais tirgotājs AS is acting in management of the mandatory procurement process as an agent because it does not have exposure to the significant risks and rewards associated with mandatory procurement PSO fees according to IAS 18. PSO fee by its nature is considered as part of service that is compensated to administrator of the mandatory procurement process by electricity suppliers and distribution system operators.

5. OPERATING SEGMENT INFORMATION

Operating segments

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

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

Generation and supply comprises the Group's electricity and thermal energy generation operations, which are organised into the legal entities: Latvenergo AS and Liepājas enerģija SIA; electricity supply (including electricity wholesale), in the Baltics carried out by Latvenergo AS, Elektrum Eesti OÜ and Elektrum Lietuva UAB, as well as administration of the mandatory procurement process provided by Enerģijas publiskais tirgotājs AS.

The operations of the distribution operating segment relates to the provision of electricity distribution services in Latvia and is managed by the subsidiary Sadales tīkls AS (the largest distribution system operator in Latvia) and by Latvenergo AS – the owner of real estate assets related to distribution system assets.

The operations of the lease of transmission system assets operating segment is managed both by Latvijas elektriskie tīkli AS – the owner of transmission system assets (330 kV and 110 kV transmission lines, substations and distribution points), which provides financing of investments in these assets, and Latvenergo AS – the owner of real estate assets related to the transmission system assets, providing the lease of these assets to the transmission system operator Augstsprieguma tīkls AS.

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

	Generation and supply	Distribution system services	Lease of transmission system assets*	Corporate Functions	TOTAL segments	Adjustments and eliminations	Consolidated
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Year ended 31st of December 2015							
Revenue							
External customers	593,937	282,752	44,151	8,288	**929,128**	–	**929,128**
Inter–segment	16,173	1,599	2,459	46,198	**66,429**	(66,429)	**–**
TOTAL revenue	**610,110**	**284,351**	**46,610**	**54,486**	**995,557**	**(66,429)**	**929,128**
Results							
Amortisation, depreciation and property, plant and equipment impairment loss	(76,709)	(85,865)	(24,206)	(12,047)	**(198,827)**	–	**(198,827)**
Segment profit	**87 221**	**(4 177)**	**20 750**	**4 394**	**108 188**	**(15 653)**	**92 535**
Segment assets at the end of the year	**1,548,341**	**1,312,819**	**432,028**	**89,350**	**3,382,538**	**134,834**	**3,517,372**
Segment liabilities at the end of the year	**63,880**	**179,257**	**45,818**	**6,685**	**295,640**	**1,125,030**	**1,420,670**
Capital expenditure	57,305	101,283	17,453	14,420	**190,461**	–	**190,461**
Year ended 31st of December 2014							
Revenue							
External customers	652,778	295,314	57,795	4,870	**1,010,757**	–	**1,010,757**
Inter–segment	24,603	2,040	2,933	46,432	**76,008**	(76,008)	**–**
TOTAL revenue	**677,381**	**297,354**	**60,728**	**51,302**	**1,086,765**	**(76,008)**	**1,010,757**
Results							
Amortisation, depreciation and property, plant and equipment impairment loss	(74,492)	(77,498)	(24,293)	(11,312)	**(187,595)**	–	**(187,595)**
Segment profit	**11,935**	**15,010**	**16,416**	**5,882**	**49,243**	**(17,733)**	**31,510**
Segment assets at the end of the year	**1,514,218**	**1,272,355**	**456,723**	**87,283**	**3,330,579**	**155,997**	**3,486,576**
Segment liabilities at the end of the year	**73,185**	**185,019**	**48,934**	**6,300**	**313,438**	**1,152,337**	**1,465,775**
Capital expenditure	33,542	99,830	31,836	12,399	**177,607**	–	**177,607**

* in accordance with European Union Directive 2009/72/EC and concerning common rules for the internal market of electricity and the Electricity Market Law of the Republic of Latvia, Latvijas elektriskie tīkli AS on 1st of January 2015 transferred to Augstsprieguma tīkls AS functions of the reconstruction or renewal, operation and routine maintenance of the existing transmission system network as well as development of the transmission system and construction of new networks. Due to transfer of these functions has been changed the name of operating segment from "Management of transmission system assets" to "Lease of transmission system assets"

Adjustments and eliminations

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

Capital expenditure consists of additions of property, plant and equipment, intangible assets and investment properties including assets from the acquisition of subsidiaries.

Reconciliation of profit

	Notes	2015	2014
		EUR'000	EUR'000
Segment profit		**108,188**	**49,243**
Finance income	11 a	2,926	3,004
Finance costs	11 b	(18,579)	(20,380)
Share of profit / (loss) of associates	15	–	(357)
Profit before tax		**92,535**	**31,510**

Reconciliation of assets

	Notes	31/12/2015	31/12/2014
		EUR'000	EUR'000
Segment operating assets		**3,382,538**	**3,330,579**
Non–current financial investments	15	41	41
Held–to–maturity financial assets	21 a	28,468	28,528
Other assets and assets held for sale		1,782	6,417
Cash and cash equivalents	18	104,543	121,011
Group operating assets		**3,517,372**	**3,486,576**

Reconciliation of liabilities

	Notes	31/12/2015	31/12/2014
		EUR'000	EUR'000
Segment operating liabilities		**295,640**	**313,438**
Deferred income tax liabilities	12	273,987	268,026
Current corporate income tax liabilities		4,007	3
Borrowings	21 b	797,483	827,222
Derivative financial instruments	21 c	15,574	20,553
Trade and other payables		33,979	36,533
Group operating liabilities		**1,420,670**	**1,465,775**

Geographical information on segments

	2015	2014
	EUR'000	EUR'000
Revenue from external customers		
Baltics	914,927	997,445
Scandinavian countries	14,201	13,312
TOTAL revenue	**929,128**	**1,010,757**

Non–current assets are located in the Group's country of domicile – Latvia and consist of intangible assets, property, plant and equipment and investment properties.

Revenue from major customer in 2015 amounted to EUR 83,137 thousand (2014: EUR 98,410 thousand) arising from sales by the generation and supply segment.

6. REVENUE

	2015	2014
	EUR'000	EUR'000
Electricity supply and electricity services	495,010	540,157*
Distribution system services	267,189	280,366
Heat sales	92,525	108,963
Lease and management of transmission system assets	43,630	57,161
Other revenue	30,774	24,110
TOTAL revenue	**929,128**	**1,010,757**

* revenue from mandatory procurement PSO fee since the 1st of April 2014 was recognised as assets in the Consolidated Statement of Financial Position by applying agent accounting principle (Note 2.24. j)

7. OTHER INCOME

	2015	2014
	EUR'000	EUR'000
Net gain from sale of assets held for sale and PPE	291	754
Net gain from sale of current assets and other income	4,589	4,519
TOTAL other income	**4,880**	**5,273**

8. RAW MATERIALS AND CONSUMABLES USED

	2015	2014
	EUR'000	EUR'000
Electricity:		
Purchased electricity	196,602	338,551*
Fair value loss / (income) on electricity forwards and futures (Note 21 c, III)	446	(7,800)
Electricity transmission services costs	73,849	73,824
	270,897	**404,575**
Fuel expense	164,397	178,033
Raw materials, spare parts and maintenance costs	35,150	38,677
TOTAL raw materials and consumables used	**470,444**	**621,285**

* costs of purchased electricity under the mandatory procurement from electricity generators who generate electricity in efficient cogeneration process or using renewable energy sources, as well as guaranteed fee for installed electrical capacity in cogeneration plants (over 4 MW) since the 1st of April 2014 are recognised as assets or respective liabilities in the Consolidated Statement of Financial Position by applying agent accounting principle (Note 2.24. j)

Decrease of purchased electricity costs was impacted by lower average electricity spot prices in Baltics and lower purchased electricity amount (see Management report).

9. PERSONNEL EXPENSES

	2015	2014
	EUR'000	EUR'000
Wages and salaries	70,437	74,770
Expenditure of employment termination	2,031	1,824
Pension costs – defined contribution plan	2,599	3,243
State social insurance contributions and other benefits defined in the Collective Agreement	17,374	18,376
Life insurance costs	2,286	40
Capitalised personnel expenses	(118)	(299)
TOTAL personnel expenses, including remuneration to the management	**94,609**	**97,954**

Including remuneration to the management:		
Wages and salaries	1,509	1,459
Expenditure of employment termination	171	–
Pension costs – defined contribution plan	45	58
Life insurance costs	34	6
State social insurance contributions and other benefits defined in the Collective Agreement	235	251
TOTAL remuneration to the management*	**1,994**	**1,774**

	2015	2014
Number of employees at the end of the year	4,177	4,563
Average number of employees during the year	4,162	4,559

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

10. OTHER OPERATING EXPENSES

	2015	2014
	EUR'000	EUR'000
Selling expenses and customer services	7,873	8,172
Information technology maintenance	4,428	3,694
Transportation expenses	6,120	7,546
Environment protection and work safety	4,431	4,224
Real estate maintenance and utilities expenses	5,760	5,351
Telecommunications services	2,009	1,737
Electric power transit and capacity services	272	270
Real estate tax	1,064	1,063
Public utilities regulation fee	1,172	987
Subsidised energy tax (SET)*	15,284	15,338
Audit fee	88	80
Other expenses	13,439	11,491
TOTAL other operating expenses	**61,940**	**59,953**

* subsidised energy tax according to the "Subsidised energy tax Law" has been introduced for a four–year period as of 1st of January 2014 and applies to state support for generators of subsidised electricity (Note 2.17.)

11. FINANCE INCOME AND COSTS

a) Finance income

	2015	2014
	EUR'000	EUR'000
Interest income on bank accounts and deposits	33	501
Interest income from held–to–maturity financial assets	1,545	1,544
Fair value gain on interest rate swaps (Note 21 c, II)	1,348	943
Fair value gain on forward foreign currencies exchange contracts (Note 21 c, IV)	–	16
TOTAL finance income	**2,926**	**3,004**

b) Finance costs

	2015	2014
	EUR'000	EUR'000
Interest expense on borrowings	8,013	9,856
Interest expense on issued debt securities (bonds)	3,748	2,940
Interest expense on interest rate swaps	6,932	7,555
Net losses on redemption of held–to–maturity financial assets	60	60
Net losses on issued debt securities (bonds)	9	1
Capitalised borrowing and finance costs (Note 14 a)	(268)	(167)
Net losses on currency exchange rate fluctuations	27	65
Other finance costs	58	70
TOTAL finance costs	**18,579**	**20,380**

12. INCOME TAX

	2015	2014
	EUR'000	EUR'000
Current tax	5,011	2,796
Deferred tax	2,485	(1,076)
TOTAL income tax	**7,496**	**1,720**

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

	2015	2014
	EUR'000	EUR'000
Profit before tax	**92,535**	**31,510**
Corporate income tax at the statutory rate 15 %	13,880	4,727
Expense non–deductible for tax purpose	253	639
Impairment of receivables	640	186
Previous years losses that reduce the tax base covered by profit of the year	1,276	–
(Losses) / income as a result of re–measurement on defined post–employment benefit plan	(174)	24
Real estate tax	(160)	(159)
Tax discounts on donations	(141)	–
Other expenses	(76)	222
Tax incentives for new technological equipment*	(8,002)	(3,919)
TOTAL income tax:	**7,496**	**1,720**

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

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

The movement on the deferred income tax accounts

	2015	2014
	EUR'000	EUR'000
At the beginning of the year	**268,026**	**269,116**
(Income) credited / expense charged to the Consolidated Statement of Profit or Loss	2,485	(1,076)
Attributable to non–current assets revaluation reserve in equity (Note 20 a)	3,476	(14)
Deferred tax liabilities at the end of the year	**273,987**	**268,026**

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

	2015	2014
	EUR'000	EUR'000
Deferred tax liabilities		
	Accelerated tax depreciation	
At the beginning of the year	**278 453**	**275,167**
(Income) credited / expense charged to the Consolidated Statement of Profit or Loss	(2,803)	3,300
Attributable to non–current assets revaluation reserve in equity (Note 20 a)	3,476	(14)
At the end of the year	**279,126**	**278,453**
Deferred tax assets		
	Accruals/provisions	
At the beginning of the year	**(10,427)**	**(6,051)**
Expense charged / (income) credited to the Consolidated Statement of Profit or Loss	5,288	(4,376)
At the end of the year	**(5,139)**	**(10,427)**

13. INTANGIBLE ASSETS

a) Intangible assets

	Licenses	Software	Assets under construction	TOTAL
	EUR'000	EUR'000	EUR'000	EUR'000
At 31st of December 2013				
Cost	2,490	30,654	3,805	36,949
Accumulated amortisation	(1,438)	(24,381)	–	(25,819)
Net book amount	**1,052**	**6,273**	**3,805**	**11,130**
Year ended 31st of December 2014				
Additions	–	268	4,740	5,008
Transfers	–	8,217	(8,217)	–
Disposals	(210)	(27)	–	(237)
Amortisation charge	–	(2,890)	–	(2,890)
Closing net book amount	**842**	**11,841**	**328**	**13,011**
At 31st of December 2014				
Cost	2,490	38,992	328	41,810
Accumulated amortisation	(1,648)	(27,151)	–	(28,799)
Net book amount	**842**	**11,841**	**328**	**13,011**
Year ended 31st of December 2015				
Additions	17	720	4,350	5,087
Transfers	–	4,335	(4,335)	–
Disposals	(211)	–	–	(211)
Amortisation charge	–	(3,482)	–	(3,482)
Closing net book amount	**648**	**13,414**	**343**	**14,405**
At 31st of December 2015				
Cost	2,507	44,038	343	46,888
Accumulated amortisation	(1,859)	(30,624)	–	(32,483)
Net book amount	**648**	**13,414**	**343**	**14,405**

b) Greenhouse gas emission allowances:

	2015	2014
	Number of allowances	Number of allowances
At the beginning of the year	**2,021,259**	**2,619,839**
Allowances allocated free of charge	427,669	494,041
Purchased allowances	18,000	–
Used allowances	(932,725)	(1,092,621)
Sold allowances	(18,000)	–
At the end of the year	**1,516,203**	**2,021,259**

Allowances are allocated free of charge in accordance with the law "On Pollution" and Directives of the Ministry of Environmental Protection and Regional Development of the Republic of Latvia and are recognised as off–balance sheet assets.

As of 31st of December 2015 the number of allowances in the Group received in 2015 from the Government free of charge was 427,669 (31/12/2014: 494,041). Therefore their carrying amount as of 31st of December 2015 was nil (31/12/2014: nil).

The fair value of greenhouse gas emission allowances as of 31st of December 2015 was EUR 12,509 thousand (31/12/2014: EUR 14,755 thousand). For estimation of the fair value of allowances was used fixed daily price in NASDAQ Commodities Exchange for European Union Allowances (EUA) on 30th of December 2015 what was the last trade date in 2015 – 8.25 EUR/t (30/12/2014: 7.30 EUR/t).

Received European Union Allowances (EUA) must be used until the end of 2020.

All greenhouse gas emission allowances purchased in 2015 are sold (31/12/2014: nil).

14. PROPERTY, PLANT AND EQUIPMENT

a) Property, plant and equipment

	Revalued buildings and facilities			Non–re-valued buildings and facilities	Land and buildings, Total	Revalued technology equipment, machinery (TEM)			Non–re-valued TEM	TEM TOTAL	Revalued other property, plant and equipment (PPE)			Non–re-valued other PPE	Other PPE, Total	Assets under con-struction	PPE TOTAL
	Hydro-power plants'	Trans-mission system	Distri-bution system			Hydro-power plants'	Trans-mission system	Distri-bution system			Hydro-power plants'	Trans-mission system	Distri-bution system				
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
At 31st of December 2013																	
Cost or valuation	1,499,501	457,126	1,945,801	429,211	**4,331,639**	329,450	402,886	709,077	604,840	**2,046,253**	13,657	9,409	8,734	121,952	**153,752**	115,063	**6,646,707**
Accumulated depreciation and impairment	(862,778)	(297,093)	(1,125,961)	(97,407)	**(2,383,239)**	(213,422)	(223,970)	(381,523)	(238,687)	**(1,057,602)**	(8,209)	(6,150)	(5,625)	(92,459)	**(112,443)**	(6,648)	**(3,559,932)**
Net book amount	**636,723**	**160,033**	**819,840**	**331,804**	**1,948,400**	**116,028**	**178,916**	**327,554**	**366,153**	**988,651**	**5,448**	**3,259**	**3,109**	**29,493**	**41,309**	**108,415**	**3,086,775**
Year ended 31st of December 2014																	
Additions	–	–	–	49	**49**	–	–	1,067	6	**1,073**	–	602	2,986	6,264	**9,852**	161,190	**172,164**
Invested in share capital (Note 19)*	–	–	–	435	**435**	–	–	–	–	**–**	–	–	–	–	**–**	–	**435**
Transfers	–	56,772	60,266	29,432	**146,470**	714	22,391	24,665	16,939	**64,709**	1	385	489	3,479	**4,354**	(215,533)	**–**
Reclassified to investment property	–	–	–	(434)	**(434)**	–	–	–	–	**–**	–	–	–	–	**–**	–	**(434)**
Disposals	13,266	(229)	(1,108)	(13,354)	**(1,425)**	–	(400)	(1,130)	(16)	**(1,546)**	–	(1,530)	(7)	(6)	**(1,543)**	(11)	**(4,525)**
Impairment charge	–	–	–	2	**2**	–	–	(14,564)	–	**(14,564)**	–	–	–	–	**–**	601	**(13,961)**
Reclassified depreciation of emergency spare parts	–	–	–	–	**–**	–	–	–	(3 394)	**(3 394)**	–	–	–	–	**–**	–	**(3,394)**
Depreciation	(15,904)	(10,400)	(41,241)	(13,218)	**(80,763)**	(8,958)	(11,960)	(17,517)	(39,652)	**(78,087)**	(503)	(971)	(910)	(9,510)	**(11,894)**	–	**(170,744)**
Closing net book amount	**634,085**	**206,176**	**837,757**	**334,716**	**2,012,734**	**107,784**	**188,947**	**320,075**	**340,036**	**956,842**	**4,946**	**1,745**	**5,667**	**29,720**	**42,078**	**54,662**	**3,066,316**
At 31st of December 2014																	
Cost or valuation	1,512,382	511,341	1,989,627	444,991	**4,458,341**	330,151	414,944	724,848	621,680	**2,091,623**	13,657	6,214	11,708	126,683	**158,262**	60,709	**6,768,935**
Accumulated depreciation and impairment	(878,297)	(305,165)	(1,151,870)	(110,275)	**(2,445,607)**	(222,367)	(225,997)	(404,773)	(281,644)	**(1,134,781)**	(8,711)	(4,469)	(6,041)	(96,963)	**(116,184)**	(6,047)	**(3,702,619)**
Net book amount	**634,085**	**206,176**	**837,757**	**334,716**	**2,012,734**	**107,784**	**188,947**	**320,075**	**340,036**	**956,842**	**4,946**	**1,745**	**5,667**	**29,720**	**42,078**	**54,662**	**3,066,316**
Year ended 31st of December 2015																	
Increase due PPE revaluation (Note 20 a)	–	–	–	–	**–**	–	–	23,782	–	**23,782**	–	–	179	–	**179**	–	**23,961**
Decrease due PPE revaluation	–	–	–	–	**–**	–	–	(30,657)	–	**(30,657)**	–	–	(137)	–	**(137)**	–	**(30,794)**
Additions	–	–	5	48	**53**	–	–	1,220	263	**1,483**	–	24	–	15,628	**15,652**	168,076	**185,264**
Invested in share capital (Note 19)*	–	–	–	85	**85**	–	–	–	–	**–**	–	–	–	–	**–**	–	**85**
Transfers	6,369	234	65,170	12,359	**84,132**	1,400	14,208	25,096	3,193	**43,897**	2,449	504	(1,669)	5,590	**6,874**	(134,903)	**–**
Reclassified to investment property	–	–	–	(12)	**(12)**	–	–	–	–	**–**	–	–	–	–	**–**	–	**(12)**
Disposals	–	(212)	(1,937)	(53)	**(2,202)**	(377)	(110)	(1,154)	(4)	**(1,645)**	–	–	(4)	(137)	**(141)**	(25)	**(4,013)**
Impairment charge	–	–	–	–	**–**	–	–	14,564	–	**14,564**	–	–	–	–	**-**	(58)	**14,506**
Depreciation	(16,116)	(10,797)	(39,857)	(13,792)	**(80,562)**	(8,062)	(11,866)	(24,176)	(41,520)	**(85,624)**	(627)	(574)	(1,315)	(10,355)	**(12,871)**	–	**(179,057)**
Closing net book amount	**624,338**	**195,401**	**861,138**	**333,351**	**2,014,228**	**100,745**	**191,179**	**328,750**	**301,968**	**922,642**	**6,768**	**1,699**	**2,721**	**40,446**	**51,634**	**87,752**	**3,076,256**
At 31st of December 2015																	
Cost or valuation	1,518,751	508,457	1,984,641	457,599	**4,469,448**	331,399	420,117	696,255	624,749	**2,072,520**	16,106	6,358	7,357	143,297	**173,118**	93,858	**6,808,944**
Accumulated depreciation and impairment	(894,413)	(313,056)	(1,123,503)	(124,248)	**(2,455,220)**	(230,654)	(228,938)	(367,505)	(322,781)	**(1,149,878)**	(9,338)	(4,659)	(4,636)	(102,851)	**(121,484)**	(6,106)	**(3,732,688)**
Net book amount	**624,338**	**195,401**	**861,138**	**333,351**	**2,014,228**	**100,745**	**191,179**	**328,750**	**301,968**	**922,642**	**6,768**	**1,699**	**2,721**	**40,446**	**51,634**	**87,752**	**3,076,256**

* in December 2015, in accordance with the Directive No. 583 of the Cabinet of Ministers of the Republic of Latvia, dated 29th of September 2015 "On the Investment of the State's property units in the Share Capital of Latvenergo AS", real estate in the amount of EUR 85 thousand was invested in the share capital of Latvenergo AS (in October 2014: real estate in the amount of EUR 435 thousand)

Impairment charge is included in the Consolidated Statement of Profit or Loss under 'Depreciation, amortisation and impairment of intangible assets and property, plant and equipment'.

As of 31st of December 2015 cost or valuation of fully depreciated PPE amounted to EUR 801,427 thousand (31/12/2014: EUR 929,068 thousand).

In 2015 the Group has capitalised borrowing and finance costs in the amount of EUR 268 thousand (2014: EUR 167 thousand). Rate of capitalised borrowing costs was of 1.50 % (2014: 1.61 %).

Information about the Group's pledged property, plant and equipment is disclosed in Note 21 b, I.

b) Investment property

Land or a building or part of a building held by the Group as the owner to earn rentals or for capital appreciation, rather than for use in the production of goods or supply of services or for administrative purposes, or sale in the ordinary course of business, after decision of the Group's management are initially recognised as investment properties at cost and subsequently measured at acquisition cost net of accumulated depreciation and impairment losses (Note 2.7.).

	Land		Buildings		TOTAL Investment property	
	2015	2014	2015	2014	2015	2014
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Net book amount at the beginning of the year	**430**	**435**	**913**	**1,038**	**1 343**	**1,473**
Reclassified from property, plant and equipment	7	80	5	354	12	434
Sold	(12)	(85)	(373)	(389)	(385)	(474)
Disposal	–	–	(5)	(7)	(5)	(7)
Impairment charge	–	–	(235)	–	(235)	–
Depreciation	–	–	(34)	(83)	(34)	(83)
Net book amount at the end of the year	**425**	**430**	**271**	**913**	**696**	**1,343**

c) Property, plant and equipment revaluation

As of 1st of January 2011 transmission system assets and as of 1st of September 2011 distribution system assets were evaluated for property investment in subsidiaries share capital (Latvijas elektriskie tīkli AS and Sadales tīkls AS respectively). Latvenergo AS revalued assets of Daugava hydropower plants as of 1st of January 2012. In 2015 the Group started revaluation process for property, plant and equipment of distribution system. At the reporting year were revalued categories of distribution system technology equipment and machinery, considering the substantial changes of carrying amounts of these categories. Valuation have been done by independent certified valuators by applying the cost model, which provides, that the assets value comprises replacement or renewal costs of similar asset at the date of revaluation less the accumulated depreciation and impairment losses. To determine original cost replacement value of the revaluated asset current acquisition or purchase cost is used. Amounts of revalued property, plant and equipment categories had been determined as of 1st of January 2015, but considering the large amount of revalued assets, the revaluation process had been finished in December 2015, while the revaluation process for distribution system buildings and facilities will continue in 2016.

As a result of revaluation in 2015 the carrying amounts of revalued distribution system assets decreased by EUR 6,832 thousand. Increase of property, plant and equipment in the amount of EUR 23,961 thousand, net of deferred income tax, is included in the Group's equity as non-current assets revaluation reserve (see Note 20 a), while decrease of property, plant and equipment in the amount of EUR 30,794 thousand – in the Consolidated Statement of Profit or Loss position 'Depreciation, amortisation and impairment of intangible assets and property, plant and equipment'. Respectively, the impairment charge in the amount of EUR 14,564 thousand for distribution system technology equipment and machinery category 'Transformers for AC voltage lowering' recognised in 2014 had been reversed.

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

	Revalued property, plant and equipment categories			
	Buildings and facilities	Technology equipment and machinery	Other property, plant and equipment	TOTAL
	EUR'000	EUR'000	EUR'000	EUR'000
At revalued amounts				
At 31st of December 2014				
Revalued	4,013,350	1,469,943	31,579	**5,514,872**
Accumulated depreciation	(2,335,332)	(853,137)	(19,221)	**(3,207,690)**
Revalued net book amount	**1,678,018**	**616,806**	**12,358**	**2,307,182**
At 31st of December 2015				
Revalued	4,011,849	1,447,771	29,821	**5,489,441**
Accumulated depreciation	(2,330,972)	(827,097)	(18,633)	**(3,176,702)**
Revalued net book amount	**1,680,877**	**620,674**	**11,188**	**2,312,739**
At amounts stated on historical cost basis				
At 31st of December 2014				
Cost	1,019,203	688,276	26,825	**1,734,304**
Accumulated depreciation	(300,559)	(336,857)	(18,640)	**(656,056)**
Net book amount	**718,644**	**351,419**	**8,185**	**1,078,248**
At 31st of December 2015				
Cost	1,088,555	725,157	25,286	**1,838,998**
Accumulated depreciation	(323,428)	(350,822)	(17,626)	**(691,876)**
Net book amount	**765,127**	**374,335**	**7,660**	**1,147,122**

d) Impairment

As of the end of reporting period the Group has been performed impairment evaluation for PPE. There are no additional impairment loss recognised and the accumulated impairment as of 31st of December 2015 amounted to EUR 93,770 thousand and consists of impairment charge on technological equipment and machinery of the Riga combined heat and power plant (carried in non–revalued technology equipment and machinery) (31/12/2014: impairment charge in the amount of EUR 93,770 thousand on technological equipment and machinery of the Riga combined heat and power plant and partial impairment charge on PPE category's 'Technology equipment and machinery' subcategory 'Transformers for AC voltage lowering' – EUR 14,564 (carried in revalued distribution system's technology equipment and machinery)). Impairment review performed in accordance with *IAS 36 Impairment of Assets* resulted in an impairment charge on technological equipment and machinery of the Riga combined heat and power plant (carried in non–revalued technology equipment and machinery) based on value in use calculations. The recognised impairment charge is included in the Consolidated Statement of Profit or Loss position 'Depreciation, amortisation and impairment of intangible assets and property, plant and equipment'.

The cash–generating unit is defined as the assets of Riga combined heat and power plant. In 2015 has been prepared impairment review for Riga combined heat and power plants (Riga CHHPs) and as a result of this review there is no additional impairment loss has been recognised (2014: no additional impairment has been recognised). Nominal pre–tax discount rate used to determine value in use of cash–generating unit by discounting cash flows is 7.5 % (2014: 7.2 %). Forecasts for cash–generating unit were performed for 5 years period.

For sensitivity analysis see Note 4 a, II.

e) Operating leases

	2015	2014
	EUR'000	EUR'000
Rental income (the Group is the lessor)	**45,208**	**38,933**
of which:		
Transmission system assets lease	43,630	37,490
Rental expense (the Group is the lessee)	**1,310**	**1,228**

Future minimum lease receivables under non–cancellable operating lease contracts by due dates:

	2015	2014
	EUR'000	EUR'000
– < 1 year	46,471	37,490
– 1–5 years	185,885	178,999
– > 5 years	232,356	287,867
TOTAL rental income	**464,712**	**504 356**

Future minimum lease payments under non–cancellable operating lease contracts by due dates:

	2015	2014
	EUR'000	EUR'000
– < 1 year	1,417	1,349
– 1–5 years	5,913	5,458
– > 5 years	8,129	7,375
TOTAL rental income	**15,459**	**14,182**

Transmission system assets had been leased out to Augstsprieguma tīkls AS under non–cancellable operating lease agreement.

15. NON–CURRENT FINANCIAL INVESTMENTS

	2015	2014
	EUR'000	EUR'000
At the beginning of the year	**41**	**41**
Share of profit / (loss) in Nordic Energy Link AS using the equity method	–	(357)
Received dividends from Nordic Energy Link AS	–	1,924
Net loss from disposal of investment in Nordic Energy Link AS*	–	(1,567)
At the end of the year	**41**	**41**

* on 12th of February 2014 the Cabinet of Ministers of the Republic of Latvia adopted decision No. 67 "On Latvenergo AS termination of partnership in Nordic Energy Link AS" and on 19th of March 2014 at the Nordic Energy Link AS Shareholders' meeting was approved decision to liquidate Nordic Energy Link AS. In December 2014 Latvenergo AS terminated its partnership as a shareholder of Nordic Energy Link AS with 25 % interest held

The table below discloses the Group's share of profit from investments in significant associates and summarised financial information on the amounts of assets, liabilities and net sales of these entities.

	Assets	Liabilities	Net sales	Share of profit / (loss)
	EUR'000	EUR'000	EUR'000	EUR'000
As of 31st of December 2015				
Nordic Energy Link AS	–	–	–	–
	–	**–**	**–**	**–**
As of 30th of September 2014*				
Nordic Energy Link AS	21,163	6	7	–
	21,163	**6**	**7**	**–**

* final financial data before liquidation

Participating interest in subsidiaries and other non–current financial investments:

Name	Country of incorporation	Business activity held	Interest held, %	
			31/12/2015	31/12/2014
Subsidiaries:				
Latvijas elektriskie tīkli AS	Latvia	Management of transmission system assets	100 %	100 %
Sadales tīkls AS	Latvia	Electricity distribution	100 %	100 %
Enerģijas publiskais tirgotājs AS*	Latvia	Management of the mandatory procurement process	100 %	100 %
Elektrum Eesti OÜ	Estonia	Electricity supply	100 %	100 %
Elektrum Latvija SIA	Latvia	Electricity supply	100 %	100 %
Elektrum Lietuva UAB	Lithuania	Electricity supply	100 %	100 %
Liepājas enerģija SIA	Latvia	Thermal energy generation and supply in Liepaja city, electricity generation	51 %	51 %
Other non–current financial investments:				
Pirmais Slēgtais Pensiju Fonds AS	Latvia	Management of pension plans	48.15 %	48.15 %
Rīgas siltums AS	Latvia	Thermal energy generation and supply in Riga, electricity generation	0.0051 %	0.0051 %

* in order to improve the transparency of administration of electricity mandatory procurement process, new subsidiary Enerģijas publiskais tirgotājs AS was established on 25th of February 2014. The subsidiary as of 1st of April 2014 has taken over the mandatory procurement administration functions from Latvenergo AS

The Group owns 48.15 % of the shares of the closed pension fund Pirmais Slēgtais Pensiju Fonds AS. However, the Group is only a nominal shareholder as all risks and benefits arising from associate's activities will accrue to the Group's employees who are members of the pension fund. Therefore, investment in Pirmais Slēgtais Pensiju Fonds AS is valued at cost and equity method is not applied.

16. INVENTORIES

	31/12/2015	31/12/2014
	EUR'000	EUR'000
Raw materials and materials	17,983	15,510
Other inventories	8,422	8,437
Allowance for raw materials and other inventories	(1,614)	(1,387)
TOTAL inventories	**24,791**	**22,560**

Changes in the allowance for raw materials and materials at warehouses are included in the Consolidated Statement of Profit or Loss position 'Raw materials and consumables used'.

Movement on the allowance for raw materials, spare parts and technological fuel:

	2015	2014
	EUR'000	EUR'000
At the beginning of the year	**1,387**	**4,259**
Inventories written off	(106)	(32)
Reclassified to property, plant and equipment	–	(3 394)
Charged to the Consolidated Statement of Profit or Loss	333	554
At the end of the year	**1,614**	**1,387**

17. TRADE RECEIVABLES AND OTHER CURRENT RECEIVABLES

a) Trade receivables, net

	2015	2014
	EUR'000	EUR'000
Receivables		
– Electricity supply and electricity services customers	121,112	117,942*
– Heating customers	11,735	17,477
– Other trade receivables	25,405	30,877
	158,252	**166,296**
Allowances for impairment of receivables		
– Electricity supply and electricity services customers	(43,319)	(41,080)
– Heating customers	(423)	(393)
– Other trade receivables	(2,347)	(2,530)
	(46,089)	**(44,003)**
Receivables, net		
– Electricity supply and electricity services customers	77,793	76,862
– Heating customers	11,312	17,084
– Other trade receivables	23,058	28,347
	112,163	**122,293**

* reclassified accrued income on electricity supply and electricity services from other accrued income (Note 17 b) in the amount of EUR 14,186 thousand

There is no significant concentration of credit risk with respect to trade receivables, as the Group has a large number of customers except the major heating customer the net debt of which as of 31st of December 2015 amounted to EUR 9,683 thousand (31/12/2014: EUR 14,658 thousand).

Electricity supply and electricity services receivables grouped by past due days and calculated impairment loss:

	31/12/2015	31/12/2014
	EUR'000	EUR'000
Electricity supply and electricity services receivables:		
Fully performing receivables	67,351	67,858
Receivables past due but not impaired:		
– Receivables past due by 1–45 days	7,833	5,351
Impaired receivables:		
– Receivables past due by 46–90 days	2,012	683
– Receivables past due by 91–180 days	2,842	621
– Receivables past due by more than 181 day	12,281	11,275
– Individually impaired receivables with scheduled payments*	28,793	32,154
	121,112	**117,942**
Allowances for impaired electricity supply and electricity services receivables:		
– Receivables past due by 46–90 days	(1,011)	(341)
– Receivables past due by 91–180 days	(2,133)	(466)
– Receivables past due by more than 181 day	(12,281)	(11,275)
– Individually impaired receivables with scheduled payments*	(27,894)	(28,998)
	(43,319)	**(41,080)**
Electricity supply and electricity services receivables, net:		
Fully performing receivables	67,351	67,858
Receivables past due but not impaired:		
– Receivables past due by 1–45 days	7,833	5,351
Net impaired receivables:		
– Receivables past due by 46–90 days	1,001	342
– Receivables past due by 91–180 days	709	155
– Individually impaired receivables with scheduled payments*	899	3,156
	77,793	**76,862**

* receivables under insolvency process and other individually impaired receivables

Heating and other receivables grouped by past due days and calculated impairment loss:

	31/12/2015	31/12/2014
	EUR'000	EUR'000
Heating and other trade receivables:		
Fully performing receivables	33,557	44,605
Receivables past due but not impaired:		
– Receivables past due by 1–30 days	570	713
Impaired receivables:		
– Receivables past due by 31–90 days	255	211
– Receivables past due by more than 91 day	2,473	2,645
– Individually impaired receivables with scheduled payments*	285	180
	37,140	**48,354**
Allowances for impaired heating and other trade receivables:		
– Receivables past due by 31–90 days	(128)	(105)
– Receivables past due by more than 91 day	(2,473)	(2,645)
– Individually impaired receivables with scheduled payments*	(169)	(173)
	(2,770)	**(2,923)**
Heating and other trade receivables, net		
Fully performing receivables	33,557	44,605
Receivables past due but not impaired:		
– Receivables past due by 1–30 days	570	713
Net impaired receivables:		
– Receivables past due by 31–90 days	127	106
– Individually impaired receivables with scheduled payments*	116	7
	34,370	**45,431**

* receivables under insolvency process and other individually impaired receivables

The Group's Management has estimated allowances for impairment of receivables on the basis of aging of trade receivables and by evaluating liquidity and history of previous payments of each significant debtor (see point 2.12). The carrying amount of trade receivables, less allowances for impairment, is assumed to approximate their fair values.

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

Receivables credit quality:

	31/12/2015	31/12/2014
	EUR'000	EUR'000
Fully performing electricity supply and electricity services receivables:		
– customers with no overdue receivables	53,428	60,060
– customers with overdue receivables	13,923	7,798
	67,351	**67,858**
Fully performing heating and other receivables:		
– customers with no overdue receivables	32,584	43,527
– customers with overdue receivables	973	1,078
	33,557	**44,605**

The basis for estimating the credit quality of fully performing trade receivables not due yet and not written down are internal ratings by reference to earlier credit behaviour of clients.

Movements in allowances for impairment of trade receivables are as follows:

	2015	2014
	EUR'000	EUR'000
At the beginning of the year	**44,003**	**43,494**
Receivables written off during the year as uncollectible	(2,143)	(934)
Allowance for impaired receivables	4,229	1,443
At the end of the year	**46,089**	**44,003**

The charge and release of allowance for impaired trade receivables due to delayed payments have been recorded in the Consolidated Statement of Profit or Loss position 'Other operating expenses' as selling expenses and customer services costs (Note 10).

b) Other current receivables

	31/12/2015	31/12/2014
	EUR'000	EUR'000
Compensated accrued revenue on mandatory procurement PSO	–	15,887
Unsettled revenue on mandatory procurement PSO fee recognised as assets	141,060	63,146
Other accrued income	1,148	1,176*
Pre–tax and overpaid taxes	4,387	9,268
Other current financial receivables	1,974	19,001
Other current non–financial receivables	2,720	2,274
Total other current receivables	**151,289**	**110,752**

* reclassified accrued income on electricity supply and electricity services to electricity supply and electricity services trade receivables (Note 17 a) in the amount of EUR 14,186 thousand

Accrued revenue on mandatory procurement public service obligation fee is calculated as difference between procurement expenditure above electricity market price and collected payments from electricity end users for mandatory procurement public service obligation fees for period from 1st of January 2013 through 31st of March 2014. Since 1st of April 2014 according to the conditions included in the article No. 37 of transition terms of the Electricity Market Law of the Republic of Latvia, Public Supplier licence holder (established in 2014) was obliged to compensate the uncollected difference of mandatory procurement service obligation for period from 1st of January 2013 until transfer of Public Supplier licence.

By applying agent principle unsettled revenue on mandatory procurement PSO fee is recognised as assets in net amount as difference between revenue from sale of electricity in Nord Pool power exchange by market price, received mandatory procurement PSO fees, received government grant for compensating the increase of mandatory procurement costs and costs of purchased electricity under the mandatory procurement from electricity generators who generate electricity in efficient cogeneration process or using renewable energy sources, as well as guaranteed fees for installed electrical capacity in cogeneration plants (over 4 MW).

The growth of other current financial receivables is affected by accounting of accepted, but unsettled financing from European Union funds for The European Energy Development Program – 330 kV Kurzeme Ring.

None of the receivables are secured with pledges or otherwise. The carrying amounts of other receivables are assumed to approximate their fair values.

18. CASH AND CASH EQUIVALENTS

	31/12/2015	31/12/2014
	EUR'000	EUR'000
Cash at bank	89,391	38,141
Short–term bank deposits	10,000	52,000
Restricted cash and cash equivalents*	5,152	30,870
TOTAL cash and cash equivalents	**104,543**	**121,011**

* restricted cash and cash equivalents as of 31st of December 2015 consist of the financial security for participating in NASDAQ OMX Commodities Exchange in the amount of EUR 5,152 thousand (31/12/2014 – EUR 1,606 thousand) and as of 31st of December 2014 – government grant for compensation of the increase of mandatory procurement public service obligation costs in the amount of EUR 29,264 thousand that was restricted until acceptance from European Union and was not included in the Consolidated Statement of Cash Flows

Cash at bank balances earns daily interest mostly based on floating interbank deposit rates. Short–term deposits are placed for different periods between several days and three months depending on the immediate cash needs of the Group and cash flow forecasts. During 2015 the average annual effective interest rate earned on short–term cash deposits was 0.16 % (2014: 0.32 %). See also Note 3.1.b.

The carrying amounts of cash and cash equivalents are assumed to be approximate to their fair values.

19. SHARE CAPITAL

As of 31st of December 2015, the registered share capital of the Latvenergo AS is EUR 1,288,531 thousand (31/12/2014: EUR 1,288,446 thousand) and consists of 1,288,531 thousand ordinary shares (31/12/2014: 1,288,446 thousand) with the nominal value of EUR 1 per share (31/12/2014: EUR 1 per share). On 25th of February 2014 due to introduction of euro in Latvia new articles of association for Latvenergo AS had been approved and as a result of denomination of shares registered share capital amounted to EUR 1,288,011 thousand, consisting of 1,288,011 thousand ordinary shares with nominal value of EUR 1. All shares have been fully paid.

In December 2015, in accordance with the Directive No. 583 of the Cabinet of Ministers of the Republic of Latvia, dated 29th of September 2015 – "On the Investment of the State's property units in the Share Capital of Latvenergo AS", real estate in the amount of EUR 85 thousand was invested in the share capital of Latvenergo AS (2014: real estate in the amount of EUR 435 thousand). The value of real estate was determined by independent certified valuation experts applying amortised cost model, based on construction or acquisition costs of similar assets. Increase in the share capital was approved by the Latvenergo AS Shareholders' Meeting on 5th of October 2015 and registered with the Commercial Register of the Republic of Latvia on 10th of December 2015.

20. RESERVES, DIVIDENDS AND EARNINGS PER SHARE

a) Reserves

As of 31st of December 2015, the Group's reserves are in the amount EUR 669,596 thousand (31/12/2014: EUR 645,829 thousand) and consist of the property, plant and equipment revaluation reserve, hedge reserve, currency translation reserve and other reserves. The Group cannot distribute as dividends the property, plant and equipment revaluation reserve, currency translation and hedge reserves. Other reserves are maintained with the aim to maintain stability in the operations of the Group entities.

	Notes	Non–current assets re-valuation reserve	Hedge reserve	Currency transla-tion	Other reserves	TOTAL
		EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
As of 31st of December 2013		**662,132**	**(9,838)**	**111**	**13**	**652,418**
Disposal of non–current assets revaluation reserve		(94)	–	–	–	**(94)**
Deferred tax related to non–current assets revaluation reserve	12	14	–	–	–	**14**
Currency translation differences		–	–	(14)	–	**(14)**
Losses from fair value changes in derivative financial instruments	21 c, I	–	(6,495)	–	–	**(6,495)**
As of 31st of December 2014		**662,052**	**(16,333)**	**97**	**13**	**645,829**
Increase of non–current assets revaluation reserve as a result of revaluation	14 a	23,961	–	–	–	**23,961**
Disposal of non–current assets revaluation reserve		(795)	–	–	–	**(795)**
Deferred tax related to non–current assets revaluation reserve	12	(3,476)	–	–	–	**(3,476)**
Gains from fair value changes in derivative financial instruments	21 c, I	–	4,077	–	–	**4,077**
As of 31st of December 2015		**681,742**	**(12,256)**	**97**	**13**	**669,596**

b) Dividends

The dividends declared to equity holders of the Parent Company for 2014 were EUR 31,479 thousand or EUR 0.02443 per share (2013: EUR 23,605 thousand or EUR 0.02608 per share) and to non–controlling interests – EUR 1,148 thousand or EUR 0.336 per share (2013: EUR 1,197 thousand or EUR 0.35 per share). Dividends declared for 2013 and paid in 2014 were settled partly by corporate income tax overpayment in the amount of EUR 10,956 thousand (see Consolidated Statement of Cash Flows).

The Management Board of Latvenergo AS proposes to allocate profit of Latvenergo AS for the year ended 31st of December 2015 in the amount of EUR 77,413 thousand to be paid out in dividends. These financial statements do not reflect this amount as a liability as the dividends have not been approved as of 31st of December 2015.

The distribution of net profit for the 2015 is subject to a resolution of the Parent Company's Shareholders Meeting.

c) Earnings per share

Basic earnings per share are calculated by dividing profit attributable to the equity holders of the Parent Company by the weighted average number of ordinary shares outstanding (Note 19). As there are no potential ordinary shares, diluted earnings per share are equal to basic earnings per share in all comparable periods.

	2015	2014
Profit attributable to the equity holders of the Parent Company (in thousand EUR)	83,509	28,515
Weighted average number of shares (thousand)	1,288,489	1,230,405
Basic earnings per share (in euros)	0.065	0.023
Diluted earnings per share (in euros)	0.065	0.023

21. FINANCIAL ASSETS AND LIABILITIES

a) Held–to–maturity financial assets

As of 31st of December 2015 the entire Group's held–to–maturity financial assets were State Treasury bonds with 5 year and 10 year maturity, which were purchased with the purpose to invest liquidity reserve in the low risk financial instruments with higher yield. During 2015 and 2014 there were no gains or losses recognised in association with the disposal of held–to–maturity financial assets. All held–to–maturity financial assets are denominated in euros. The maximum exposure to credit risk at the reporting date is the carrying amount of held–to–maturity financial assets.

In 2015 the fair value of held–to–maturity financial assets is greater than the carrying amount by EUR 5,959 thousand (2014: EUR 6,403 thousand). The fair value of financial assets is calculated by discounting their future cash flows and using as discount factor the banks quoted prices of the financial instruments at the end of the reporting period.

Held–to–maturity financial assets carrying amount:

	31/12/2015	31/12/2014
	EUR'000	EUR'000
Held–to–maturity financial assets:		
– current	7,859	–
– non–current	20,609	28,528
TOTAL held–to–maturity financial assets	**28,468**	**28,528**

b) Borrowings

	31/12/2015	31/12/2014
	EUR'000	EUR'000
Non–current borrowings from financial institutions	534,586	583,494
Issued debt securities (bonds)	179,705	104,803
TOTAL non–current borrowings	**714,291**	**688,297**
Current portion of non–current borrowings from financial institutions	80,842	136,809
Accrued interest on non–current borrowings	848	1,422
Accrued coupon interest on issued debt securities (bonds)	1,502	694
TOTAL current borrowings	**83,192**	**138,925**
TOTAL borrowings	**797,483**	**827,222**

Movement in borrowings:

	2015	2014
	EUR'000	EUR'000
At the beginning of the year	**827,222**	**944 675**
Borrowings received	30,000	22,600
Borrowings repaid	(134,875)	(139,695)
Change in accrued interest on borrowings	234	(358)
Issued debt securities (bonds)	74,902	–
At the end of the year	**797,483**	**827,222**

Borrowings by categories of lenders:

	31/12/2015	31/12/2014
	EUR'000	EUR'000
Foreign investment banks	432,979	482,869
Commercial banks	183,298	238,856
Issued debt securities (bonds)	181,207	105,497
TOTAL borrowings	**797,483**	**827,222**

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

	31/12/2015	31/12/2014
	EUR'000	EUR'000
Fixed rate non–current and current borrowings:		
– < 1 year (current portion of non–current borrowings)	1,703	1,099
– 1–5 years	172,985	70,433
– > 5 years	74,902	34,570
TOTAL fixed rate borrowings	**249,590**	**106,102**
Floating rate non–current and current borrowings:		
– < 1 year (current portion of non–current borrowings)	81,489	137,826
– 1–5 years	300,669	383,220
– > 5 years	165,735	200,074
TOTAL floating rate borrowings	**547,893**	**721,120**
TOTAL borrowings	**797,483**	**827,222**

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

	31/12/2015	31/12/2014
	EUR'000	EUR'000
– < 1 year	360,578	482,528
– 1–5 years	282,003	230,124
– > 5 years	154,902	114,570
TOTAL borrowings:	**797,483**	**827,222**

At 31st of December 2015 and at 31st of December 2014 all of the Group's borrowings were denominated in euros.

The fair value of current and non–current borrowings with floating rates equals their carrying amount, as their actual floating interest rates approximate the market price of similar financial instruments available to the Group, and the effect of fair value revaluation is not significant. The fair value of current and non–current borrowings with fixed rates (excluding the effect of derivative financial instruments) exceeds their carrying amounts by EUR 5.7 thousand (2014: EUR 32.6 thousand). The fair value calculations are based on discounted cash flows using discount factor of respective EUR swap rates increased by the Group's credit risk margin. The average interest rate for discounting cash flows of non–current borrowings was 0.9 % (2014: 1.1 %).

I) Pledges

As of 31st of December 2015 the Group's assets are not pledged to secure the borrowings, except the pledge on assets of Liepājas Enerģija SIA of maximum secured claims in the amount of EUR 31.0 million (31/12/2014: EUR 33.5 million) to secure its current and non–current borrowings. As of the end of the reporting year there has been pledged the property, plant and equipment in the net book amount of EUR 28.5 million and the claims on the receivables accounts in the amount of EUR 2.5 million (31/12/2014: EUR 30.2 million and EUR 3.3 million, respectively).

II) Un–drawn borrowing facilities

As of 31st of December 2015 the un–drawn portion of committed non–current credit facilities amounts to EUR 290 million (31/12/2014: EUR 320 million).

As of 31st of December 2015 the Group had entered into three overdraft agreements with total notional amount of EUR 34.2 million (31/12/2014: EUR 34.2 million) and in respect of those all conditions precedent had been met. At the end of the reporting year overdrafts were not used.

III) Weighted average effective interest rate

During the reporting year the weighted average effective interest rate (including interest rate swaps) on non–current borrowings was 2.40 % (2014: 2.47 %), weighted average effective interest rate for current borrowings was 0.87 % (2014: 1.06 %). At 31st of December 2015 interest rates for non–current borrowings in euros were 3, 6 and 12 month EURIBOR+0.78 % (31/12/2014: +1.09 %). At 31st of December 2015 the total notional amount of interest rate swap agreements concluded by the Group amounts to EUR 221.5 million (31/12/2014: EUR 320.0 million) and the interest rate was fixed for the initial periods from 6 to 10 years.

IV) Bonds issued

The Parent company (Latvenergo AS) in 2012 and 2013 issued bonds in the amount of EUR 70 million with the maturity date – 15th of December 2017 (ISIN code – LV0000801090) in the amount of EUR 35 million with maturity date – 22nd of May 2020 (ISIN code – LV0000801165), both of them with the annual coupon rate of 2.8 %. In 2015, Latvenergo AS issued bonds in the amount of EUR 75 million with the maturity date 10th of June 2022 (ISIN code – LV0000801777) with the annual coupon rate of 1.9 %. Thus the total nominal amount of issued bonds amounts to EUR 180 million. All issued bonds are quoted in NASDAQ Baltic Stock Exchange. At the end of reporting year the issued debt securities (bonds) are measured at amortised cost.

In 2015 the fair value of issued debt securities (bonds) exceeds their carrying amount by EUR 5,040 thousand (2014: EUR 4,899 thousand). The fair value of debt securities (bonds) issued is calculated by discounting their future cash flows and using the banks' quoted prices of the financial instruments at the end of the reporting year as discount factor.

c) Derivative financial instruments

I) Outstanding fair values of derivatives and their classification

In the table below outstanding fair values of derivatives are disclosed as follows:

	Notes	31/12/2015		31/12/2014	
		EUR'000		EUR'000	
		Assets	Liabilities	Assets	Liabilities
Interest rate swaps	21 c, II	–	13,016	–	18,441
Electricity forwards and futures	21 c, III	–	2,558	–	2,112
TOTAL outstanding fair values of derivatives:		**–**	**15,574**	**–**	**20,553**

	31/12/2015		31/12/2014	
	EUR'000		EUR'000	
	Assets	Liabilities	Assets	Liabilities
Non–current	–	8,291	–	11,698
Current	–	7,283	–	8,855
TOTAL fair values of derivative financial instruments	**–**	**15,574**	**–**	**20,553**

(Gains) / losses on fair value changes as a result of realised hedge agreements:

	Notes	2015	2014
		EUR'000	EUR'000
Included in the Consolidated Statement of Profit or Loss			
Interest rate swaps	11	(1,348)	(943)
Electricity forwards and futures	8	446	(7,800)
Forward foreign currencies exchange contracts	11	–	(16)
		(902)	**(8,759)**
Included in the Statement of Other Comprehensive Income			
Interest rate swaps	20	(4,077)	6,495
Electricity forwards and futures	20	–	–
Forward foreign currencies exchange contracts	20	–	–
		(4,077)	**6,495**

According to amendments to *IAS 1* a financial liability or asset that is not held for trading purposes should be presented as current or non–current on the basis of its settlement date. Derivatives that have a maturity of more than twelve months and are expected to be held for more than twelve months after the end of the reporting period have been classified as non–current assets or liabilities.

II) Interest rate swaps

As of 31st of December 2015 the Group had interest rate swap agreements with total notional amount of EUR 221.5 million (31/12/2014: EUR 320.0 million). Interest rate swaps are concluded with 6 to 10 year initial maturities and hedged floating rates are 6 month EURIBOR. As of 31st of December 2015 fixed interest rates vary from 0.7725 % to 4.4925 % (31/12/2014: from 0.7725 % to 4.4925 %).

At the end of the year 91 % of all outstanding interest rate swap agreements or agreements with notional amount of EUR 201.5 million are designated to comply with hedge accounting and were re–measured prospectively and retrospectively to test whether they are effective within the hedging period (31/12/2014: 88 % with notional amount of EUR 280.0 million). All contracts are designed as cash flow hedges. It was established that they are fully effective and therefore there is no ineffective portion to be recognised within profit or loss in the Consolidated Statement of Profit or Loss.

Fair value changes of interest rate swaps:

	2015		2014	
	EUR'000		EUR'000	
	Assets	Liabilities	Assets	Liabilities
Outstanding fair value at the beginning of the year	**–**	**18,441**	**(617)**	**13,506**
Included in the Consolidated Statement of Profit or Loss, net (Note 11 a)	–	(1,348)	–	(943)
Included in other comprehensive income (Note 20 a)	–	(4,077)	617	5,878
Outstanding fair value at the end of the year	**–**	**13,016**	**–**	**18,441**

The main interest rate hedging criteria stated in the Financial Risk Management policy is to ensure average fixed rate duration from 2 to 4 years and fixed rate portion at more than 35 % of borrowings. As of 31st of December 2015 55 % (31/12/2014: 42 %) of the Group's borrowings had fixed interest rates (taking into account the effect from the interest rate swaps), and average remaining time to interest re–pricing was 2.4 years (2014: 2.2 years).

III) Electricity forwards and futures

As of 31st of December 2015 the Group has entered into electricity forward and future contracts with total outstanding volume of 2,880,436 MWh (31/12/2014: 1,144,162 MWh) and notional value of EUR 64.1 million (31/12/2014: EUR 38.0 million). Electricity forward and future contracts are concluded for the maturities from one quarter to one year during the period from 1st of January 2015 to 31st of December 2018.

Since the Parent company (Latvenergo AS) has become a member of NASDAQ Commodities Exchange in 2014, it has started to conclude future contracts in NASDAQ Commodities Exchange, as well as has continued concluding forward contracts with other counterparties. Electricity forward and future contracts are agreed for electricity price hedging purposes in order to fix electricity purchase price in the Nord Pool power exchange. All purchased forward and future contracts were contracts with fixed amount of electricity and price in euros.

As of 31st of December 2015 none of the electricity forward and future contracts is designated to comply with hedge accounting treatment (31/12/2014: no contracts) and consequently as of 31st of December 2015 all outstanding fair value changes of valid electricity forward and future contracts are included in the Consolidated Statement of Profit or Loss (see Note 8).

Fair value changes of electricity forward and future contracts:

	2015		2014	
	EUR'000		EUR'000	
	Assets	Liabilities	Assets	Liabilities
Outstanding fair value at the beginning of the year	**–**	**2,112**	**–**	**9,912**
Included in the Consolidated Statement of Profit or Loss (Note 8)	–	446	–	(7,800)
Outstanding fair value at the end of the year	**–**	**2,558**	**–**	**2,112**

IV) Forward foreign currencies exchange contracts

As of 31st of December 2015 the Group has no outstanding forward foreign currencies exchange contracts.

In 2014 fair value changes of EUR/USD forward foreign currencies exchange contract in the amount of EUR 16 thousand are included in the Consolidated Statement of Profit or Loss – see Note 11.

Fair value changes of forward foreign currencies exchange contracts:

	2015		2014	
	EUR'000		EUR'000	
	Assets	Liabilities	Assets	Liabilities
Outstanding fair value at the beginning of the year	**–**	**–**	**–**	**16**
Included in the Consolidated Statement of Profit or Loss (Note 11 a, b)	–	–	–	(16)
Outstanding fair value at the end of the year	**–**	**–**	**–**	**–**

d) Fair values and fair value measurement

In this Note are disclosed the fair value measurement hierarchy for the Group's assets and liabilities.

Quantitative disclosures of fair value measurement hierarchy for assets at the end of the year:

	Date of valuation	Fair value measurement using			
		Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobserva-ble inputs (Level 3)	TOTAL
		EUR'000	EUR'000	EUR'000	EUR'000
Assets for which fair values are disclosed					
Revalued property, plant and equipment (Note 14 c)	31/12/2015	–	–	2,312,739	**2,312,739**
	31/12/2014	–	–	2,307,182	**2,307,182**
Investment property	31/12/2015	–	–	1,726	**1,726**
	31/12/2014	–	–	1,904	**1,904**
Held–to–maturity financial assets	31/12/2015	–	34,427	–	**34,427**
	31/12/2014	–	34,931	–	**34,931**

There have been no transfers for assets between Level 1 and Level 2 during the reporting period.

Quantitative disclosures of fair value measurement hierarchy for liabilities at the end of the year:

	Date of valuation	Fair value measurement using			
		Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	TOTAL
		EUR'000	EUR'000	EUR'000	EUR'000
Liabilities measured at fair value					
Derivative financial instruments, including:					
Interest rate swaps	31/12/2015	–	13,016	–	**13,016**
	31/12/2014	–	18,441	–	**18,441**
Electricity forwards and futures	31/12/2015	–	2,558	–	**2,558**
	31/12/2014	–	2,112	–	**2,112**
Liabilities for which fair values are disclosed					
Issued debt securities (bonds)	31/12/2015	–	186,247	–	**186,247**
	31/12/2014	–	110,395	–	**110,395**
Floating rate borrowings	31/12/2015	–	616,074	–	**616,074**
	31/12/2014	–	721,120	–	**721,120**
Fixed rate borrowings	31/12/2015	–	206	–	**206**
	31/12/2014	–	633	–	**633**

There have been no transfers for liabilities between Level 1 and Level 2 during the reporting period.

The fair value hierarchy for the Group's financial instruments that are measured at fair value, by using specific valuation methods, is disclosed in Note 4 c.

Set out below, is a comparison by class of the carrying amounts and fair value of the Group's financial instruments, other than those with carrying amounts which approximates their fair values:

	Carrying amount		Fair value	
	31/12/2015	**31/12/2014**	**31/12/2015**	**31/12/2014**
	EUR'000	EUR'000	EUR'000	EUR'000
Financial assets				
Held–to–maturity financial assets	28,468	28,528	34,427	34,931
Financial liabilities				
Interest–bearing liabilities, including:				
issued debt securities (bonds)	181,207	105,496	186,247	110,395
– floating rate borrowings	616,074	721,120	616,074	721,120
– fixed rate borrowings	202	605	206	633
Derivative financial instruments not designated for hedging, including:				
– electricity forwards and futures	2,558	2,112	2,558	2,112
interest rate swaps	760	2,108	760	2,108
Derivative financial instruments used for hedging, including:				
interest rate swaps	12,256	16,333	12,256	16,333

The management assessed that cash and short–term deposits, trade receivables, trade payables, bank overdrafts and other current liabilities approximate their carrying amounts largely due to the short–term maturities of these instruments. The fair value of the financial assets and liabilities is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The following methods and assumptions were used to estimate the fair values:

a) The fair values of borrowings with floating interest rates are equal their carrying amount, as their actual floating interest rates approximate the market price of similar financial instruments available to the Group;

b) The borrowings with fixed interest rates had the fixed repayment period and the financial instrument is not traded in the active market; the financial instrument, which is not traded in the active market, the fair value is measured, using valuation techniques. The Groups uses various methods and models and make assumptions, which are based on the market conditions regarding the interest rates and other market conditions, existing at the end of reporting period. The fair value calculations are based on discounted cash flows using discount factor of respective EUR swap rates increased by the Group`s credit risk margin;

c) The Group enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. The derivative financial instruments are determined by using various valuation methods and models with market observable inputs. The models incorporate the credit quality of counterparties, foreign exchange spot and forward rates; the fair value of interest rate swaps is calculated as the present value of the estimated future cash flows, by discounting their future contractual cash flows at current market interest rates for similar financial instruments. The fair value of electricity forward and future contracts is calculated as discounted difference between actual market and settlement prices for the volume set in the agreements. If counterparty is a bank, calculated fair values of financial instruments are compared to bank's revaluation reports and the bank's calculated fair values of the financial instruments are used in the financial reports;

d) The fair value of the bonds issued and held–to–maturity financial assets are calculated, based on the bank's quoted prices of the financial instruments at the end of the reporting period.

22. PROVISIONS

a) Provisions for post–employment benefits

	2015	2014
	EUR'000	EUR'000
At the beginning of the year	**12,650**	**12,195**
Provisions transferred to transmission system operator*	(1,254)	–
Current service cost	1,604	507
Past service cost	–	9
Interest cost	195	459
Post–employment benefits paid	(734)	(361)
Losses / (income) as a result of changes in actuarial assumptions	1,158	(159)
At the end of the year	**13,619**	**12,650**

* provisions were transferred due transmission system assets construction and maintenance functions transfer as of 1st of January 2015 that also comprised transition of 430 employees from the Group to transmission system operator

Total charged/credited provisions are included in the Consolidated Statement of Profit or Loss position 'Personnel expenses' within state social insurance contributions and other benefits defined in the Collective agreement (Note 9):

	2015	2014
	EUR'000	EUR'000
At the beginning of the year	**12,650**	**12,195**
Charged to the Consolidated Statement of Other Comprehensive Income	1,158	(159)
Charged to the Consolidated Statement of Profit or Loss	(189)	614
At the end of the year	**13,619**	**12,650**

Weighted average discount rate used for discounting benefit obligations was 1.71 % (2014: 3.63 %), considering the market yields on government bonds at the end of the reporting year. The Group's Collective Agreement provides indexation of employees' wages at least at the level of inflation. Long–term inflation determined at the level of 3.5 % (2014: 2.5 %) when calculating long–term post–employment benefits. In calculation of these liabilities also the probability, determined on the basis of previous experience, of retirement in different employees' aging groups was also considered.

A quantitative sensitivity analysis for significant assumptions as of the end of the year is as shown below:

Assumptions		Date of valuation	Discount rate		Future salary changes		Retirement probability changes	
			1% increase	1% decrease	1% increase	1% decrease	1% increase	1% decrease
Impact on provisions for post–employment benefits	EUR'000	31/12/2015	1,464	(1,199)	1,426	(1,194)	1,581	(1,305)
	EUR'000	31/12/2014	1,981	(1,588)	1,984	(1,617)	1,361	(1,143)

The sensitivity analysis above have been determined based on a method that extrapolates the impact on defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

b) Environmental provisions

	2015	2014
	EUR'000	EUR'000
At the beginning of the year	**2,938**	**3,402**
Charged to the Consolidated Statement of Profit or Loss	(573)	(464)
At the end of the year	**2,365**	**2,938**

The environmental provision in the amount of EUR 2,365 thousand (31/12/2014: EUR 2,938 thousand) represents the estimated cost of cleaning up Riga TEC–1 combined heat and power plant ash–fields in accordance with the requests made by the regional Environmental Authority of Riga and feasibility study on this project in the amount of EUR 1,160 thousand (31/12/2014: EUR 1,205 thousand) and Liepājas Enerģija SIA provision for the environmental recovery measures in the amount of EUR 1,205 thousand (31/12/2014: EUR 1,733 thousand). The amount of the provisions is calculated taking into account the construction cost index (data from the Central Statistical Bureau of the Republic of Latvia).

23. OTHER LIABILITIES AND DEFERRED INCOME

	31/12/2015	31/12/2014
	EUR'000	EUR'000
Deferred non–current income from connection fees	149,378	145,591
Deferred income on financing from European Union funds	46,681	48,515
Deferred income from plant and equipment received free of charge	327	368
TOTAL other liabilities and deferred income	**196,386**	**194,474**

Movement in deferred connection fees (non–current and current part):

	2015	2014
	EUR'000	EUR'000
At the beginning of the year	**156,382**	**149,131**
Received fees	16,172	18,178
Credited to the Consolidated Statement of Profit or Loss (Note 6 "Other revenue")	(11,621)	(10,927)
At the end of the year	**160,933**	**156,382**

24. TRADE AND OTHER PAYABLES

	31/12/2015	31/12/2014
	EUR'000	EUR'000
Financial liabilities:		
Payables for materials and services	44,499	60,231
Payables for electricity	22,518	26,205
Accrued expenses	7,514	7,564
Other financial current payables	6,417	7,940
TOTAL financial liabilities	**80,948**	**101,940**
Non–financial liabilities:		
State social security contributions and other taxes	10,318	12,351
Advances received	8,612	8,852
Deferred income from connection fees	11,555	10,792
Deferred income on financing from European Union funds:		
– The European Energy Development Program – 330 kV Kurzeme Ring	1,121	1,130
– The EU Cohesion Fund – reconstruction of Liepājas enerģija SIA heat source	320	320
– The EU Cohesion Fund – construction of Liepājas enerģija SIA biomass boiler house	196	196
– The EU Cohesion Fund – reconstruction of Liepājas enerģija SIA heating network	244	244
– The EU's Climate change financial instrument – introduction of smart technologies	23	23
– The EU Regional Development Fund – woodchip boiler house construction in Ķegums	16	16
Other non–financial current payables	3,896	4,045
Total non–financial liabilities	**36,301**	**37,969**
TOTAL trade and other current payables	**117,249**	**139,909**

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

25. RELATED PARTY TRANSACTIONS

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

The following transactions were carried out with related parties:

	2015	2014
	EUR'000	EUR'000
Finance income / (loss):		
– Received dividends from associates	–	1,924
– Net loss from disposal of non–current financial investments in associates	–	(1,567)
TOTAL finance income	**–**	**357**

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

	31/12/2015	31/12/2014
	EUR'000	EUR'000
Trade payables to related parties:		
– Other related parties	252	354
TOTAL payables	**252**	**354**

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

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

Remuneration to the key management personnel that is defined as Members of the Management Boards of the Group entities and Supervisory body is disclosed in Note 9.

Dividend payments to Shareholder of the Parent Company and share capital contributions are disclosed in Note 20 b and Note 19, respectively.

26. CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

As of 31st of December 2015 the Group had commitments amounting to EUR 235.8 million (31/12/2014: EUR 152.2 million) for capital expenditure contracted but not delivered at the end of the reporting period.

In 2016 Latvenergo AS has issued support letters to its subsidiaries Enerģijas publiskais tirgotājs AS, Sadales tīkls AS, Latvijas elektriskie tīkli AS and Liepājas enerģija SIA acknowledging that its position as shareholders is to ensure that subsidiaries are managed so that they have sufficient financial resources and are able to carry their operations and settle their obligations.

27. EVENTS AFTER THE REPORTING YEAR

On 20th of January 2016 Sadales tīkls AS has submitted to Public Utilities Commission (PUC) electricity distribution system services tariff (distribution tariff) structure rebalancing project, which determines to decrease by 20 % the price of electricity distributed to households, and at the same time to set the fixed fee for network connection providing regardless of electricity consumption level.

Public Utilities Commission (PUC) on 11th of February 2016 approved mandatory procurement PSO fee submitted by Enerģijas publiskais tirgotājs AS to PUC on 20th of January 2016, and as of 1st of April 2016 mandatory procurement PSO fee is unchanged – EUR 2.679 cents/kWh.

On 12th of February 2016 international credit rating agency Moody's Investors Service has affirmed the credit rating of Latvenergo AS to Baa2 (stable).

On 14th of April 2016 Latvenergo AS issued additional first series notes (*green* bonds) in the total amount of EUR 25 million under the second programme for the issuance of notes of Latvenergo AS. With this issue total of EUR 100 million bonds under the second programme for the issuance of notes has been issued thus covering the entire amount of the programme approved on 25th of May 2015.

There have been no other significant events subsequent to the end of the reporting year that might have a material effect on the Group's Consolidated Financial Statements for the year ended 31st of December 2015.

28. FINANCIAL INFORMATION ON THE PARENT COMPANY

The unconsolidated primary financial statements of the Parent Company have been prepared in accordance with the Annual Accounts Law of the Republic of Latvia and these are not separate financial statements of the Parent Company in the meaning of IAS 27 "Consolidated Financial Statements". According with the Annual Accounts Law of the Republic of Latvia gains on revaluation of property, plant and equipment and gains or losses as a result of re-measurement on defined post-employment benefit plan are disclosed in the Statement of Profit or Loss, but according to IFRS – as other comprehensive income or loss through Statement of Other Comprehensive Income.

The Parent Company financial information below is presented in accordance with the International Financial Reporting Standards as adopted by the European Union:

Statement of Profit or Loss

	2015	2014
	EUR'000	EUR'000
Revenue	521,146	741,108
Other income	1,695	3,277
Raw materials and consumables used	(252,882)	(419,144)
Personnel expense	(38,321)	(35,032)
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	(90,507)	(86,894)
Other operating expenses	(50,656)	(185,157)
Operating profit	**90,475**	**18,158**
Income from investments in subsidiaries	17,739	25,562
Finance income	14,097	12,829
Finance costs	(19,099)	(21,504)
Profit before tax	**103,212**	**35,045**
Income tax	(8,465)	(246)
Profit for the year	**94,747**	**34,799**

Statement of Other Comprehensive Income

	2015	2014
	EUR'000	EUR'000
Profit for the year	**94,747**	**34,799**
Other comprehensive income / (loss) to be reclassified to profit or loss in subsequent periods (net of tax)		
Gains / (losses) from change in hedge reserve	4,077	(6,495)
Losses on currency translation differences	–	(14)
Net other comprehensive income / (loss) to be reclassified to profit or loss in subsequent periods	**4,077**	**(6,509)**
Other comprehensive income / (loss) not to be reclassified to profit or loss in subsequent periods (net of tax)		
Gains on revaluation of property, plant and equipment	21	93
(Losses) / gains as a result of re–measurement on defined post–employment benefit plan	(234)	84
Net other comprehensive income / (loss) not to be reclassified to profit or loss in subsequent periods	**3,864**	**177**
Other comprehensive income / (loss) for the year, net of tax	**98,650**	**(6,332)**
TOTAL other comprehensive income for the year	**98,611**	**28,467**

Statement of Financial Position

	31/12/2015	31/12/2014
	EUR'000	EUR'000
ASSETS		
Intangible assets	19,846	18,687
Property, plant and equipment	1,415,711	1,429,916
Investment property	522	1,136
Financial investment	1,201,968	1,184,411
Total non–current assets	**2,638,047**	**2,634,150**
Inventories	8,388	8,742
Trade and other receivables	367,941	372,734
Derivative financial instruments	–	–
Current financial investments	7,859	–
Cash and cash equivalents	101,819	88,966
Total current assets	**486,007**	**470,442**
TOTAL ASSETS	**3,124,054**	**3,104,592**
EQUITY		
Share capital	1,288,531	1,288,446
Non–current assets revaluation reserve	662,055	662,146
Hedge reserve	(12,256)	(16,333)
Other reserves	82,021	78,524
Retained earnings	94,747	34,799
Total equity	**2,115,098**	**2,047,582**
LIABILITIES		
Provisions	6,371	5,799
Borrowings	701,822	673,817
Deferred income tax liabilities	127,934	123,102
Derivative financial instruments	8,291	11,698
Other non–current liabilities	1,133	749
Total non–current liabilities	**845,551**	**815,165**
Borrowings	81,143	136,864
Trade and other payables	61,356	82,911
Derivative financial instruments	7,283	8,855
Other current liabilities	13,623	13,215
Total current liabilities	**163,405**	**241,845**
TOTAL EQUITY AND LIABILITIES	**3,124,054**	**3,104,592**

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INDEPENDENT AUDITORS' REPORT

To the shareholder of AS Latvenergo

Report on the financial statements

We have audited the accompanying consolidated financial statements of AS Latvenergo and its subsidiaries (the "Group"), set out on pages 9 through 65 of the accompanying 2015 Consolidated Annual Report, which comprise the consolidated statement of financial position as at 31 December 2015, and consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing.

Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of AS Latvenergo and its subsidiaries as of 31 December 2015, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Report on other legal and regulatory requirements

Furthermore, we have read the management report for the year ended 31 December 2015 (set out on pages 6 through 8 of the accompanying 2015 Consolidated Annual Report) and have not noted any material inconsistencies between the financial information included in it and the consolidated financial statements for the year ended 31 December 2015.

We have assured ourselves that the Group has prepared the corporate management report for the year 2015 and verified information presented in the report according to requirements listed in the section 56.1 first paragraph clauses 3, 4, 6, 8 and 9 and the section 56.2 second paragraph clause 5 in the Law on Financial Instruments Market of Republic of Latvia.

SIA Ernst & Young Baltic
Licence No. 17

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

Riga, 19 April 2016