Latvenergo

2016
CONSOLIDATED ANNUAL REPORT

CONTENT

FINANCIAL CALENDAR

Interim Condensed Financial Statements:

For the 3 months of 2017 (unaudited) – 31.05.2017.

For the 6 months of 2017 (unaudited) – 31.08.2017.

For the 9 months of 2017 (unaudited) – 30.11.2017.

* CONSOLIDATED FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARTS AS ADOPTED BY THE EU AND INDEPENDENT AUDITORS'S REPORT

Key Figures

Financial figures

	2016	2015	2014	2013	2012
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Revenue	931,619	929,128	1,010,757	1,099,893	1,063,691
EBITDA[1]	393,399	307,015	236,838	248,694	244,103
Operating profit[2]	160,773	108,188	49,243	61,091	70,234
Profit before tax[3]	148,945	92,535	31,510	48,841	59,859
Profit	130,593	85,039	29,790	46,149	50,856
Dividends[17]	90,142	77,413	31,479	23,605	40,618
Total assets	3,901,231	3,517,372	3,486,576	3,575,358	3,517,752
Non–current assets	3,388,955	3,113,719	3,109,253	3,128,064	3,102,019
Total equity	2,418,713	2,096,702	2,020,801	2,021,714	2,006,975
Borrowings	791,566	797,483	827,222	944,675	846,961
Net debt[4]	607,586	692,940	706,211	689,252	604,468
Net cash flows from operating activities	341,186	246,278	135,329	146,540	214,526
Investments	200,677	190,461	177,607	224,868	264,260

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
17) Dividends to the equity holder of the Parent Company. Dividends are proposed as subject to approval by the Shareholder's meeting (see Note 20 b)

Financial ratios

	2016	2015	2014	2013	2012
EBITDA margin[5]	42.2%	33.0%	23.4%	22.6%	22.9%
Operating profit margin[6]	17.3%	11.6%	4.9%	5.6%	6.6%
Profit before tax margin[7]	16.0%	10.0%	3.1%	4.4%	5.6%
Profit margin[8]	14.0%	9.2%	2.9%	4.2%	4.8%
Equity–to–asset ratio[9]	62%	60%	58%	57%	57%
Net debt / EBITDA[10]	1.7	2.3	2.9	2.6	2.4
Net debt / equity[11]	0.25	0.33	0.35	0.34	0.30
Current ratio[12]	1.7	1.9	1.3	1.6	1.3
Return on assets (ROA)[13]	3.5%	2.4%	0.8%	1.3%	1.5%
Return on equity (ROE)[14]	5.8%	4.1%	1.5%	2.3%	2.6%
Return on capital employed (ROCE)[15]	5.3%	3.8%	1.7%	2.1%	2.6%
Dividend pay–out ratio[16]	66%	82%	90%	90%	90%

Operational figures

		2016	2015	2014	2013	2012
Retail electricity supply	GWh	7,580	7,869	8,688	7,954	8,287
Electricity generated	GWh	4,707	3,882	3,625	4,854	5,077
Thermal energy generated	GWh	2,675	2,408	2,560	2,566	2,712
Number of employees		4,131	4,177	4,563	4,512	4,457
Moody's credit rating		Baa2 (stable)	Baa2 (stable)	Baa3 (stable)	Baa3 (stable)	Baa3 (stable)

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) Equity–to–asset ratio = total equity at the end of the year / total assets at the end of the year
10) Net debt / EBITDA = (net debt at the beginning of the year + net debt at the end of the year) * 0.5 / EBITDA (12-months rolling)
11) Net debt / equity = net debt at the end of the year / equity at the end of the year
12) Current ratio = current assets at the end of the year / current liabilities at the end of the year
13) Return on assets (ROA) = profit / average value of assets ((assets at the beginning of the year + assets at the end of the year) / 2)
14) Return on equity (ROE) = profit / average value of equity ((equity at the beginning of the year + equity at the end of the year) / 2)
15) Return on capital employed (ROCE) = operating profit / (average value of equity ((equity at the beginning of the year + equity at the end of the year) / 2) + average value of borrowings ((borrowings at the beginning of the year + borrowings at the end of the year) / 2))
16) Dividend pay–out ratio = dividends / profit of the Parent Company

Management Report

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

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

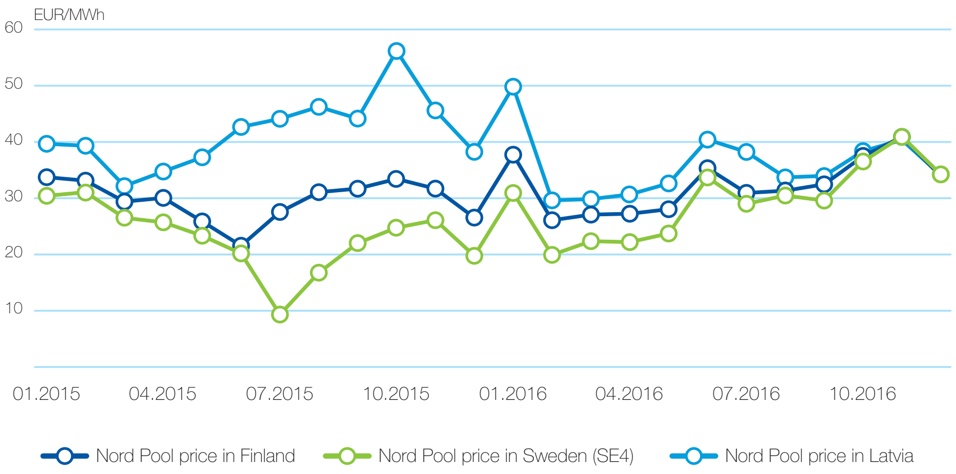
Operating Environment

Year 2016 was marked in the Baltic electricity market by stronger integration of the Baltic and Nordic regions. Two new international interconnections *NordBalt* (700 MW) and *LitPol* (500 MW) were launched. The launch of electricity interconnections contributed to liquidity improvement in the market and convergence of electricity spot prices between the bidding areas.

Operation of new interconnections contributes to electricity price convergence in the Baltics

Compared to the previous year, in 2016, the average electricity spot price was higher in the Nordics and Estonia. The price increase was influenced by colder weather conditions in January, repair works in the Nordic electricity transmission interconnection networks and largest nuclear power plants in summer months, as well as lower level of hydropower reservoir fill in Scandinavia in the last quarter of 2016. The average electricity spot price in Finland bidding area increased by 9% and reached 32.4 EUR/MWh, while in Estonia bidding area it raised by 6% to 33.1 EUR/MWh.

Electricity wholesale price on Nord Pool power exchange



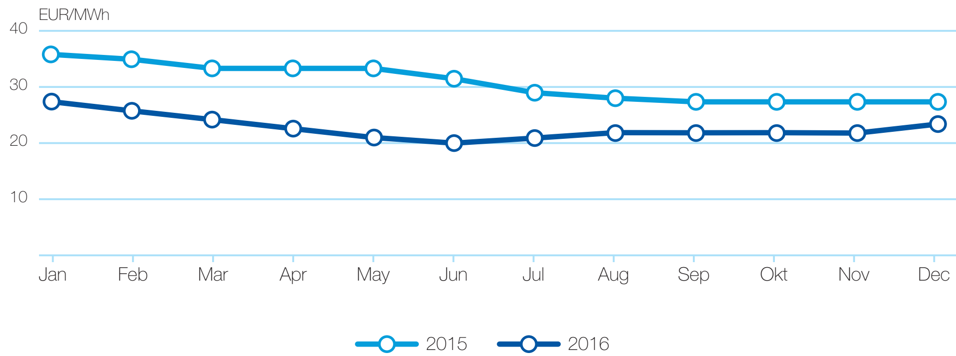
The electricity prices in Latvia and Lithuania in 2016 have decreased. Compared to 2015, the average electricity spot price in Latvia and Lithuania bidding areas decreased by 14% and 13% respectively, and reached 36.1 EUR/MWh in Latvia and 36.5 EUR/MWh in Lithuania bidding area. The decline in electricity price in Latvia and Lithuania was mainly driven by the launch of electricity interconnection NordBalt at the beginning of 2016, consequently contributing to the convergence of electricity spot prices between the bidding areas of the Baltic and Nordic countries. In addition, the decline in electricity price in Latvia and Lithuania was influenced by a fall in natural gas price in Latvia by 24% facilitating a more competitive electricity output of the Riga combined heat and power plants (hereinafter – CHPPs) thus precluding electricity price increase risk in the region. The average electricity price in Latvia bidding area in 2016 was on average by 3.0 EUR/MWh higher than in Estonia (in 2015: 10.7 EUR/MWh). The shortage of transmission capacity between power systems of Latvia and Estonia was an important factor affecting the market price.

Lower natural gas price

The natural gas price in Latvia (incl. the excise tax and transmission costs) for the user group with consumption above 100,000 thousand nm^3 was 23.0 EUR/MWh, which is by 24% lower than in 2015 when it was 30.4 EUR/MWh. The decline of natural gas price is related to the falling prices of crude oil – the average price of Brent oil in 2016 decreased by 17% compared to 2015 reaching 43.6 USD/bbl. (in 2015: 52.4 USD/bbl.).

The decrease in oil prices in 2016 was due to its persistent oversupply in the global oil market. Nevertheless, at the end of the year, after OPEC and other major oil-exporting countries agreed on output cuts, oil prices rose. In December, it reached an average of 53.3 USD/bbl.

Natural gas price in Latvia for the user group with consumption above 100,000 thousand nm^3



Operating Results

In 2016, Latvenergo Group has successfully maintained the leading electricity supplier position in the Baltics. Latvenergo Group has approximately 30% of the market share (2015: approximately 32%) of the Baltic electricity retail market.

Elektrum electricity products are the most purchased in the Baltics

In 2016, we have supplied 7,580 GWh of electricity to the Baltic retail customers (in 2015: 7,869 GWh). The decrease in the amount of electricity supplied is primarily related to intensify price competition environment in large business customers segment. The overall amount of retail electricity trade outside Latvia accounts for almost 1/3 of the total, reaching 2,376 GWh, which is by 20% higher than the amount provided by competing electricity suppliers in Latvia.

The total number of clients outside Latvia exceeds 34.7 thousand. Sales activities in Lithuania and Estonia were mainly focused on small and medium sized enterprises. The total number of our clients in this segment has increased by 3%.

Electricity and thermal energy generation increased

In 2016, the total amount generated by the power plants of Latvenergo Group comprised 4,707 GWh of electricity and 2,675 GWh of thermal energy. Overall, the amount of electricity generated compared to 2015 has increased by 21%.

In 2016, the amount of power generated by Riga CHPPs was increased by 9% , reaching 2,206 GWh. Favourable conditions for power generation at Riga CHPPs were fostered by the decline in average price of the natural gas by 24% compared to 2015. Riga CHPPs ensured effective and operative electricity generation thus precluding the risk of electricity price increase in the region. The role of Riga CHPPs was particularly significant during interruption periods in interconnection operation, as well as, at times when there were fluctuations in generation supply and demand in the neighbouring countries.

In 2016, the amount of power generated by Daugava hydropower plants (hereinafter – HPPs) has increased by 36%, reaching 2,449 GWh (in 2015: 1,805 GWh). The increase was fostered by higher water inflow in the Daugava River during the second half of 2016.

Due to optimal mix of Latvenergo Group's generation at Riga CHPPs and Daugava HPPs and the opportunities to import, consumers in the Baltic States benefit from both the price convergence to the Nordic price level and the price stability on the long-term.

In 2016, the total amount of thermal energy generated by Latvenergo Group increased by 11%. The increase was determined by a comparatively lower average ambient air temperature in January and November.

Financial Results

In 2016, Latvenergo Group's revenue has not changed significantly compared to last year, and comprises EUR 931.6 million. During the reporting period, Latvenergo Group's EBITDA increased by 28% reaching EUR 393.4 million. EBITDA has increased in all of the operating segments. Furthermore, the EBITDA margin has improved and reached 42% (in 2015: 33%). Latvenergo Group's profit in 2016 was EUR 130.6 million (2015: EUR 85.0 million).

EBITDA and profit of the Group increased

The results of the Group were mainly positively impacted by:
- 36% higher electricity output at Daugava HPPs;
- Lower prices of natural gas and electricity in Latvia. Compared to last year, the average natural gas was by 24% and the electricity price – by 14% lower;
- Increase in distribution service revenue by EUR 22.9 million. Growth was determined by the new rebalanced distribution system services tariff that came into force on 1 August 2016. Also, the revenue increase was impacted by 3% higher amount of electricity distributed.

Along with the profit growth, the return on equity has increased to 5.8% , while in the corresponding period last year it was 4.1%.

Investment

In 2016, the total amount of investments into non–current assets has increased by 5% compared to the last year and it is EUR 200.7 million. To ensure high quality of network service, technical parameters and operation safety, a significant amount is invested in the modernisation of power network. In 2016, the amount invested in the networks represented 64% of the total investment.

Investment in network assets – 2/3 of the total

Deeming environmentally friendly and environmental development projects as highly important – in 2016, EUR 35.2 million was invested in the reconstruction of Daugava HPPs hydropower units. Gradual overhaul of eleven Daugava HPPs hydropower units that have not been overhauled yet is planned for completion until 2022. It will provide for further 40–year operation of the units. The estimated total reconstruction costs will exceed EUR 200 million. The completed workload within the contract reached EUR 86.7 million as of 31 December 2016.

In 2016, electricity transmission infrastructure projects – *Kurzeme ring* and Estonia–Latvia third power transmission network interconnection – are continued.

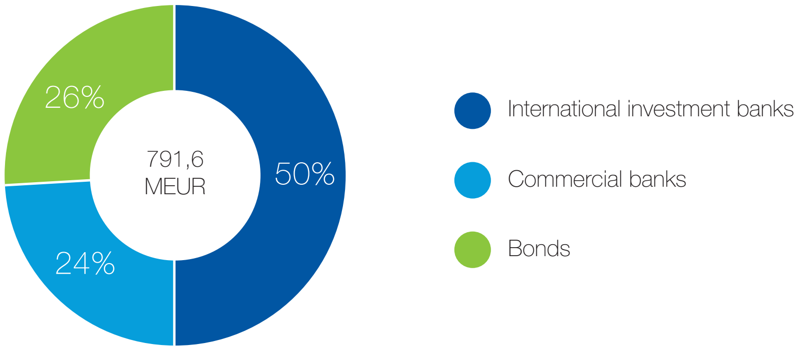
Financing

Latvenergo Group finances its investment projects from its own resources and external long-term borrowed funds, which are regularly and timely sourced and diversified in financial and capital markets.

Diversified borrowing sources

In April 2016, Latvenergo AS issued *green* bonds in the amount of EUR 25 million, thus completing the second bond offering programme of EUR 100 million. In October 2016, Moody's assigned the highest Green Bond Assessment grade of GB1 (excellent). Moody's has also assigned a Baa2 (stable) credit rating for the bonds which corresponds to Latvenergo AS credit rating.

Borrowings



As of 31 December 2016, the borrowings of Latvenergo Group are EUR 791.6 million (2015: EUR 797.5 million). They comprise borrowings from international investment banks (50%), commercial banks (24%) and bonds in the amount of EUR 205 million, EUR 100 million of which are issued as green bonds.

As of 31 December 2016, the net borrowings (borrowings less cash and cash equivalents) of Latvenergo Group are EUR 607.6 million (2015: EUR 692.9 million), while the net debt / EBITDA ratio is 1.7 (2015: 2.3).

After the reporting period, on 16 February 2017, Moody's reconfirmed Latvenergo AS credit rating of Baa2 with stable outlook.

Corporate Governance

Latvenergo AS Supervisory Board elected

In accordance with the Law on Governance of Capital Shares of a Public Person and Capital Companies, and OECD recommendations, on 16 December 2016, the Shareholder's Meeting of Latvenergo AS elected the Supervisory Board of Latvenergo AS. Its main goal is to enhance efficiency of public assets' management. The Supervisory Board consists of five independent members: Andris Ozoliņš, Andris Liepiņš, Baiba Anda Rubesa, Mārtiņš Bičevskis, and Martin Sedlacky. The Chairman of the Supervisory Board is Andris Ozoliņš and Deputy Chairman – Andris Liepiņš. The Supervisory Board is elected for a five–year term.

The objectives stated in the strategy of 2013–2016 are fulfilled

Latvenergo Group has successfully fulfilled the goals set in Group strategy 2013–2016. Latvenergo Group is the largest electricity trader in Baltic electricity retail market with economically sound market share of approximately 30%. The Group successfully operates in open electricity market environment. The largest energetics project in the Baltics in decades – reconstruction of Riga CHPP-2 – has been completed. Also, Daugava HPPs hydropower unit reconstruction programme is successfully continued. It is planned for completion by 2022. Purposefully implementing the comprehensive long-term development plan of the distribution network that was developed during the strategic period, we have achieved significant improvement of electricity supply continuity indicators.

Further Development

On 19 October 2016, the Shareholder's Meeting approved the strategy of Latvenergo Group for 2017–2022.

Medium-term strategy approved

Taking into consideration the main challenges within the industry and business environment, three main operational objectives are defined in the strategy:

- Strengthening of sustainable and economically sound market position in core markets (in the Baltics), meanwhile considering a geographic and / or product / service expansion;
- Development of generation portfolio that fosters synergy with trade and that promotes value increase of the Group;
- Development of a customer-driven, functional, safe and efficient network.

Along with the strategy also financial targets of Latvenergo Group have been set. The targets are subdivided in three groups – profitability, capital structure and dividend policy.

The financial targets are set to ensure:

- Ambitious, but at the same time achievable profitability, which is consistent with the average ratios of benchmark companies in European energy sector, and which provides for an adequate return for the business risk;
- Optimal and industry relevant capital structure that limits the potential financial risks;
- Adequate dividend policy that is consistent with the planned investment policy and capital structure targets.

Target group	**Ratio**	**Year 2022**
Profitability	Return on equity	> 6%
	Net debt to equity	< 50%
Capital structure	Net debt to EBITDA	< 3 times
Dividend policy	Dividend pay-out ratio	> 80%

Strategy development comprehended detailed industry and operating environment analysis, evaluation of business opportunities, and discussions with industry experts and stakeholders.

During the preparation process of the strategy requirements of OECD Guidelines on Corporate Governance of State-Owned Enterprises, Law on Governance of Capital Shares of a Public Person and Capital Companies, and requirements of Guidelines for Drawing up of the Medium-Term Operational Strategy for State-Owned Enterprises approved by Cross-Sectoral Coordination Centre were met.

Financial risk management

Activities of the Latvenergo Group are exposed to a variety of financial risks: market risks, credit risk, and liquidity and cash flow risk. The risk management policy of the Latvenergo Group focuses on the eliminating of potential adverse effects of uncertainty of financial markets on the financial performance of the Latvenergo Group. For maintaining financial stability the Latvenergo Group uses various financial risk control and hedging measures, including use of financial derivatives to hedge certain risk exposures.

Financial risks are managed in accordance with the principles of the 'Financial Risk Management Policy of Latvenergo Group'.

a) Market risks

I) Currency risk

Foreign currency exchange risk arises when future transactions or recognised assets or liabilities are denominated in a currency other than the Group's functional currency.

As of 31 December 2016 all significant balances and transactions of the Group, including borrowings are denominated in euros, therefore no significant currency risk exists.

In 2016 none of the Group's investments were exposed to substantial foreign currency risk.

Management of Latvenergo AS has set up the Financial Risk Management Policy inter alia to manage the Group's foreign currency exchange risk against functional currency. To manage the Group's foreign currency exchange risk arising from future transactions and recognised assets and liabilities, the Financial Risk Management Policy envisages use of forward contracts.

II) Interest rate risk

The Latvenergo Group 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. Borrowings from financial institutions mostly have a variable interest rate, comprising 3, 6 or 12 month EURIBOR and a margin. 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.

To hedge cash flow interest rate risk the Group has entered into interest rate swap agreements with total notional amount of EUR 174.2 million (2015: EUR 221.5 million) (Note 21 c, II). 62% of the total Group's borrowings as of 31 December 2016 (31/12/2015: 55%) had fixed interest rate (taking into account the effect of the interest rate swaps) and average fixed rate duration was 2.1 years (2015: 2.4 years).

The Latvenergo 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 of a defined interest rate shift on profit and loss, as well as on cash flows.

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 Latvenergo Group under the free market conditions, as well as the purchases of resources used in production is impacted by the price risk.

The electricity price risk is the Group's substantial price risk. The electricity price risk refers to change in market price of electricity, which could have negative impacts on the Group's financial results both because of falling revenue from generation and mismatch between floating market prices and fixed retail prices.

The Group limits the electricity price risk by entering into long–term fixed price customer contracts and by using electricity financial derivatives. Production is hedged gradually until 80%–90% of production sold before the current year. The 2016 production plan was sold at 100% of planned CHPP's generation and 75% of planned HPP's generation by 31 December 2015. The ratio of production hedge is limited by the seasonal production pattern of HPP's production, depending on weather conditions. Since retail portfolio volume exceeds the Group's production volume, the Group uses electricity financial derivatives for hedging purposes.

As of 31 December 2016 the Latvenergo Group has entered into electricity forward and future contracts with total outstanding volume of 2,195,685 MWh (31/12/2015: 2,880,436 MWh) and notional value of EUR 36.0 million (31/12/2015: EUR 64.1 million).

b) Credit risk

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

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

c) Liquidity risk and cash flow risk

The Latvenergo Group's policy of liquidity and cash flow 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 is continuously monitoring rolling forecasts of the Group's liquidity reserve, which comprises of undrawn borrowing facilities and cash and cash equivalents.

Events after the reporting period

All significant events that would materially affect the financial position of the Latvenergo Group after the reporting period are disclosed in Note 27 of the Group's 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 2016 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 Article No. 41 of the law "On the State budget 2017" that determines the amount of dividends payable in the year 2017, the Management Board of Latvenergo AS proposes to pay out in dividends EUR 90.1 million, that consists from Latvenergo AS profit of 2016 in the amount of EUR 73.0 million and profit of 2015 in the amount of EUR 17.1 million, and the rest of Latvenergo AS profit of 2016 – EUR 64.4 million to transfer to Latvenergo AS reserves with a purpose to take the decision on pay out as dividends simultaneously with the decision on the distribution of Latvenergo AS profit of 2017.

The distribution of profit for 2016 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

18 April 2017

Consolidated Financial Statements

Consolidated Statement of Profit or Loss

	Notes	2016	2015
		EUR'000	EUR'000
Revenue	6	931,619	929,128
Other income	7	6,656	4,880
Raw materials and consumables used	8	(385,808)	(470,444)
Personnel expenses	9	(96,019)	(94,609)
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	13a,14a	(232,626)	(198,827)
Other operating expenses	10	(63,049)	(61,940)
Operating profit		**160,773**	**108,188**
Finance income	11a	2,328	2,926
Finance costs	11b	(14,156)	(18,579)
Profit before tax		**148,945**	**92,535**
Income tax	12	(18,352)	(7,496)
Profit for the year		**130,593**	**85,039**
Profit attributable to:			
– Equity holders of the Parent Company		129,045	83,509
– Non–controlling interests		1,548	1,530
Basic earnings per share (in euros)	20c	0.100	0.065
Diluted earnings per share (in euros)	20c	0.100	0.065

The notes on pages 13 to 52 are an integral part of these Consolidated Financial Statements.

Consolidated Statement of Other Comprehensive Income

	Notes	2016	2015
		EUR'000	EUR'000
Profit for the year		**130,593**	**85,039**
Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax):			
Gains from change in hedge reserve	20a, 21c	2,847	4,077
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		**2,847**	**4,077**
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	20a	269,485	20,485
Losses as a result of re–measurement on defined post–employment benefit plan	22a	(2,308)	(1,158)
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		**267,177**	**19,327**
Other comprehensive income for the year, net of tax		**270,024**	**23,404**
Total other comprehensive income for the year		**400,617**	**108,443**
Attributable to:			
– Equity holders of the Parent Company		399,069	106,913
– Non–controlling interests		1,548	1,530

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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

Liāna Keldere
Accounting director of Latvenergo AS

18 April 2017

Consolidated Statement of Financial Position

	Notes	31/12/2016	31/12/2015
		EUR'000	EUR'000
ASSETS			
Non–current assets			
Intangible assets	13a	14,534	14,405
Property, plant and equipment	14a	3,355,797	3,076,256
Investment property	14b	563	696
Non–current financial investments	15	41	41
Other non–current receivables		986	1,712
Investments in held–to–maturity financial assets	21a	17,034	20,609
Total non–current assets		**3,388,955**	**3,113,719**
Current assets			
Inventories	16	41,458	24,791
Trade receivables and other receivables	17a,b	273,957	263,452
Deferred expenses		3,227	3,008
Derivative financial instruments	21c	6,134	–
Investments in held–to–maturity financial assets	21a	3,520	7,859
Cash and cash equivalents	18	183,980	104,543
Total current assets		**512,276**	**403,653**
TOTAL ASSETS		**3,901,231**	**3,517,372**

	Notes	31/12/2016	31/12/2015
		EUR'000	EUR'000
EQUITY			
Share capital	19	1,288,715	1,288,531
Reserves	20a	937,074	669,596
Retained earnings		185,840	131,662
Equity attributable to equity holders of the Parent Company		**2,411,629**	**2,089,789**
Non–controlling interests		7,084	6,913
Total equity		**2,418,713**	**2,096,702**
LIABILITIES			
Non–current liabilities			
Borrowings	21b	635,620	714,291
Deferred income tax liabilities	12	315,759	273,987
Provisions	22	18,643	15,984
Derivative financial instruments	21c	7,946	8,291
Other liabilities and deferred income	23	195,407	196,386
Total non–current liabilities		**1,173,375**	**1,208,939**
Current liabilities			
Trade and other payables	24	117,817	103,774
Deferred income		14,022	13,475
Income tax payable		17,718	4,007
Borrowings	21b	155,946	83,192
Derivative financial instruments	21c	3,640	7,283
Total current liabilities		**309,143**	**211,731**
TOTAL EQUITY AND LIABILITIES		**3,901,231**	**3,517,372**

The notes on pages 13 to 52 are an integral part of these Consolidated Financial Statements.

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Accounting director of Latvenergo AS

18 April 2017

Consolidated Statement of Changes in Equity

	Notes	Attributable to equity holder of the Parent Company Share capital	Reserves	Retained earnings	Total	Non–con-trolling interests	TOTAL
		EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
As of 31 December 2014		**1,288,446**	**645,829**	**79,995**	**2,014,270**	**6,531**	**2,020,801**
Increase in share capital	14a,19	85	–	–	**85**	–	**85**
Dividends for 2014	20b	–	–	(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)	20a	–	23,767	(363)	**23,404**	–	**23,404**
Total comprehensive income		**–**	**23,767**	**83,146**	**106,913**	**1,530**	**108,443**
As of 31 December 2015		**1,288,531**	**669,596**	**131,662**	**2,089,789**	**6,913**	**2,096,702**
Increase in share capital	14a,19	184	–	–	**184**	–	**184**
Dividends for 2015	20b	–	–	(77,413)	**(77,413)**	(1,377)	**(78,790)**
Disposal of property, plant and equipment revaluation reserve net deferred income tax		–	(4,854)	4,854	–	–	–
Total contributions and profit distributions recognised directly in equity		**184**	**(4,854)**	**(72,559)**	**(77,229)**	**(1,377)**	**(78,606)**
Profit for the year		–	–	129,045	**129,045**	1,548	**130,593**
Other comprehensive income / (loss)	20a	–	272,332	(2,308)	**270,024**	–	**270,024**
Total comprehensive income		**–**	**272,332**	**126,737**	**399,069**	**1,548**	**400,617**
As of 31 December 2016		**1,288,715**	**937,074**	**185,840**	**2,411,629**	**7,084**	**2,418,713**

The notes on pages 13 to 52 are an integral part of these Consolidated Financial Statements.

Consolidated Statement of Cash Flows

	Notes	2016	2015
		EUR'000	EUR'000
Cash flows from operating activities			
Profit before tax		148,945	92,535
Adjustments:			
– Amortisation, depreciation and impairment of intangible assets and property, plant and equipment	13a, 14a	232,626	198,828
– Loss from disposal of non–current assets		4,143	4,075
– Interest costs	11b	14,156	18,693
– Interest income	11a	(2,302)	(1,578)
– Fair value gains on derivative financial instruments	8, 11	(7,275)	(902)
– Decrease in provisions	22	(287)	(762)
– Unrealised (income) / losses on currency translation differences	11b	(26)	27
Operating profit before working capital adjustments		*389,980*	*310,916*
Increase in inventories		(16,667)	(2,231)
Increase in trade and other receivables		(10,170)	(27,626)
Decrease in trade and other payables		(844)	(20,825)
Cash generated from operating activities		**362,299**	**260,234**
Interest paid		(15,529)	(19,189)
Interest received		2,457	1,606
(Paid) / repaid corporate income tax and real estate tax		(8,041)	3,627
Net cash flows from operating activities		**341,186**	**246,278**
Cash flows from investing activities			
Purchase of intangible assets and PPE		(185,674)	(188,915)
Proceeds on financing from EU funds and other financing		242	17,972
Proceeds from redemption of held–to–maturity assets		7,914	70
Net cash flows used in investing activities		**(177,518)**	**(170,873)**
Cash flows from financing activities			
Proceeds from issued debt securities (bonds)	21b	26,267	74,893
Proceeds on borrowings from financial institutions	21b	55,744	30,000
Repayment of borrowings	21b	(87,452)	(134,875)
Dividends paid to non–controlling interests		(1,377)	(1,148)
Dividends paid to equity holders of the Parent Company		(77,413)	(31,479)
Net cash flows used in financing activities		**(84,231)**	**(62,609)**
Net increase in cash and cash equivalents		**79,437**	**12,796**
Cash and cash equivalents at the beginning of the year	18	104,543	91,747
Cash and cash equivalents at the end of the year	**18**	**183,980**	**104,543**

The notes on pages 13 to 52 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 the following subsidiaries:
- Sadales tīkls AS (since 18 September 2006) with 100% interest held;
- Elektrum Eesti OÜ (since 27 June 2007) and its subsidiary Elektrum Latvija SIA (since 18 September 2012) with 100% interest held;
- Elektrum Lietuva UAB (since 7 January 2008) with 100% interest held;
- Latvijas elektriskie tīkli AS (since 10 February 2011) with 100% interest held;
- Liepājas enerģija SIA (since 6 July 2005) with 51% interest held;
- Enerģijas publiskais tirgotājs AS (since 25 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 a defined–contribution corporate pension plan in Latvia.

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

The Management Board of Latvenergo AS since 16 November 2015 until the date of approving of the Latvenergo Consolidated Annual Report 2016 was comprised of the following members: Āris Žīgurs (Chairman), Uldis Bariss, Māris Kuņickis, Guntars Baļčūns and Guntis Stafeckis.

On 16 December 2016 was established the Supervisory Board of Latvenergo AS and it was comprised of the following members: Andris Ozoliņš (Chairman), Andris Liepiņš (Deputy Chairman), Baiba Anda Rubesa, Mārtiņš Bičevskis and Martin Sedlacky.

The Supervisory body – Audit Committee since 4 December 2015 until the date of approving of the Latvenergo Consolidated Annual Report 2016 was comprised of the following members: Torben Pedersen (Chairman), Svens Dinsdorfs and Marita Salgrāve, and since 3 March 2017 until the date of approving of the Latvenergo Consolidated Annual Report 2016 also of Andris Ozoliņš and Andris Liepiņš.

The Consolidated Financial Statements for year 2016 include the financial information in respect of the Parent Company and its subsidiaries for the year ending 31 December 2016 and comparative information for year 2015. Where it has been necessary, comparatives for year 2015 are reclassified using the same principles applied for preparation of the Consolidated Financial Statements for 2016.

The Management Board of Latvenergo AS has approved the Consolidated Financial Statements for year 2016 on 18 April 2017. The Group's Consolidated Financial Statements are subject to Shareholder's approval on the 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 also 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 and property, plant and equipment carried at revalued amounts as disclosed in the 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 Group's 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 2.2 and 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 1 January 2016, have been adopted by the Group:
- Amendments to IAS 1 *Presentation of financial statements: Disclosure* Initiative. The amendments aim at clarifying IAS 1 to address perceived impediments to preparers exercising their judgment in

presenting their financial reports. The amendments are effective for annual periods beginning on or after 1 January 2016. The Group's Management has not made use of this amendment because the Group already complied with the amended requirements.

- Amendments to IAS 16 *Property, Plant & Equipment and IAS 38 Intangible assets: Clarification of Acceptable Methods of Depreciation and Amortization*. The amendment is effective for annual periods beginning on or after 1 January 2016 and 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 Group's Management has not made use of this assessment.
- Amendments to IAS 19 *Employee Benefits*. The amendment is effective for annual periods beginning on or after 1 February 2015. The amendment addresses accounting for the employee contributions to a defined benefit plan. The objective of the amendment is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. The Group does not have any employee benefit plans that fall within the scope of this amendment.
- Amendment to IFRS 11 *Joint arrangements: Accounting for Acquisitions of Interests in Joint Operations*. The amendment is effective for annual periods beginning on or after 1 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. The Group had no transactions within the scope of this amendment.
- The IASB has issued the *Annual Improvements to IFRSs 2010 – 2012 Cycle*, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 February 2015. None of these had an effect on the Group's financial statements: IFRS 2 *Share-based Payment*, IFRS 3 *Business Combinations*, IFRS 8 *Operating Segments*, IFRS 13 *Fair value Measurement*, IAS 16 *Property, Plant and Equipment*, IAS 24 *Related Party Disclosures* and IAS 38 *Intangible Assets*.
- The IASB has issued the *Annual Improvements to IFRSs 2012 – 2014 Cycle*, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2016. None of these had an effect on the Group's financial statements: 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*.

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 1 January 2017 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".

- IFRS 9 *Financial Instruments* (effective for financial years beginning on or after 1 January 2018). IFRS 9 replaces IAS 39 and introduces new requirements for classification and measurement, impairment and hedge accounting. The Group will adopt IFRS 9 for the financial year beginning as of 1 January 2018 and is currently assessing the impacts of its adoption on the Consolidated Financial Statements. Based on preliminary assessment made by the Management, implementation of the standard is expect to have limited or no impact because the Group has only the type of financial instruments for which classification and measurement is not expected to change, mainly trade receivables and payables, derivatives and bank loans taken. Considering that historically there have been very rare cases of impairments of receivables transferring from incurred credit loss model to expected credit loss model is considered to have limited or no impact to the Consolidated Financial Statements. More detailed assessment will be made in 2017.
- IFRS 15 *Revenue from Contracts with Customers* (effective for financial years beginning on or after 1 January 2018). 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 Group plans to adopt the standard for the financial year beginning as of 1 January 2018 retrospectively, i.e. the comparable period will be presented in accordance with IFRS 15. Currently, it is expected that implementation of the standard will change the total amount of revenue to be recognised for customer contract, as well as timing of revenue recognition. Based on the preliminary analyses, the Group does not expect significant impacts on its Consolidated Financial Statements as the Group does not have many long–term contracts with multi–element arrangements. The Group's Management will make the detailed analysis on implementation of the standard in 2017.
- IFRS 15: *Revenue from Contracts with Customers (Clarifications)* (effective for annual periods beginning on or after 1 January 2018, once endorsed by the EU). The objective of the Clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15 Revenue from Contracts with Customers, particularly the accounting of identifying performance obligations amending the wording of the "separately identifiable" principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The Clarifications also provide additional practical expedients for entities that either applies IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach. The Group's Management currently assesses the impact of the Clarifications on its Consolidated Financial Statements.
- IFRS 16 *Leases* (effective for financial years beginning on or after 1 January 2019, once endorsed by the EU). IFRS 16 replaces IAS 17 and specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize 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 Group will adopt IFRS 16 for the financial year beginning as of 1 January 2019, once adopted by the EU, and is currently assessing the impacts of its adoption on the Consolidated Financial Statements. Upon implementation of IFRS 16, among other considerations, the Group will make an assessment on the identified lease assets, non–cancellable lease terms (including the extension and termination options) and lease payments (including fixed and variable payments, termination option penalties etc.). Detailed analysis on implementation of IFRS 16 will be made in 2017 and 2018.
- Amendments to IAS 7 *Statement of Cash Flows: Disclosure Initiative* (effective for financial years beginning on or after 1 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 the 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 1 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 the Amendments, but considers that they will not have a significant effect on the Consolidated Financial Statements.
- Amendments to IAS 40: *Transfers to Investment Property* (effective for financial years beginning on or after 1 January 2018, once endorsed by the EU). The Amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The Amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The Group has not yet evaluated the impact of the implementation of the Amendments, but does not consider that any of them will have a significant effect to the Consolidated Financial Statements.
- IFRIC *Interpretation 22: Foreign Currency Transactions and Advance Consideration* (effective for financial years beginning on or after 1 January 2018, once endorsed by the EU). The Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non–monetary asset or a non–monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non–monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The Group's Management has not yet evaluated the impact of the implementation of the IFRIC Interpretation, but does not consider that it will have a significant effect to the Consolidated Financial Statements.

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 IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting). 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 implementation of these Amendments will not have any effect to the Consolidated Financial Statements, because the Group has not investments in associates or joint ventures.
- IFRS 2: *Classification and Measurement of Share based Payment Transactions (Amendments)* (effective for financial years beginning on or after 1 January 2018, once endorsed by the EU). The Amendments provide requirements on the accounting for the effects of vesting and non–vesting conditions on the measurement of cash–settled share–based payments, for share–based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share–based payment that changes the classification of the transaction from cash–settled to equity–settled.

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

Improvements to IFRSs

The IASB has issued the Annual Improvements to *IFRSs 2014 – 2016 Cycle*, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2017 for IFRS 12 *Disclosure of Interests in Other Entities* and on or after 1 January 2018 for IFRS 1 *First–time Adoption of International Financial Reporting Standards* and for IAS 28 *Investments in Associates and Joint Ventures*. Earlier application is permitted for IAS 28 *Investments in Associates and Joint Ventures*. These annual improvements have not yet been endorsed by the EU.
- IFRS 1 *First-time Adoption of International Financial Reporting Standards:* This improvement deletes the short–term exemptions regarding disclosures about financial instruments, employee benefits and investment entities, applicable for first–time adopters.
- IAS 28 *Investments in Associates and Joint Ventures:* The amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment–by–investment basis, upon initial recognition.
- IFRS 12 *Disclosure of Interests in Other Entities:* The amendments clarify that the disclosure requirements in IFRS 12, other than those of summarized financial information for subsidiaries, joint ventures and associates, apply to an entity's interest in a subsidiary, a joint venture or an associate that is classified as held for sale, as held for distribution, or as discontinued operations in accordance with IFRS 5.

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.

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 and owners

The Group treats transactions with non–controlling interests as transactions with equity owners of the Group's Parent Company. Changes in a Parent's ownership interest in a subsidiary that do not result in the Parent losing control of the subsidiary are equity transactions (i.e. transactions with owners in their capacity as owners). 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 Company has significant influence but not control, generally accompanying a shareholding of between 20 % and 50 % of the voting rights. Currently the Group has not investments in associates (Note 15).

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 trade, 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, and presented in thousands of EUR. All figures, unless stated otherwise are rounded to the nearest thousand.

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.

2.5. Intangible assets

Intangible assets are measured on initial recognition at historical cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses.

a) Usage rights, licenses and software

Usage rights, licenses and software are shown at historical cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using the straight–line method to allocate the cost of usage rights, licenses and software over their estimated useful lives. Computer software development costs recognised as assets are amortised over their estimated useful lives, not exceeding a period of use defined in agreement or 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 acquisition 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. 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 and acquisition costs of such components are significant concerning the PPE value, these components are accounted as separate items.

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, but are tested for impairment annually, either individually or at the cash-generating unit level. The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

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 Daugava hydropower plants, transmission system and distribution system property, plant and equipment groups are revalued regularly but not less frequently than every five years:

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

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

c) Revalued other equipment:
- Other equipment of Daugava hydropower plants',
- Other equipment of transmission system,
- Other equipment 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 cost, less depreciation and impairment, 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 cost, less depreciation and impairment, 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 investment property 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.

Existence 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) 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%,

c) Other inventories that haven't turned over during last 6 months are impaired in amount of 50%,

d) Allowances are not calculated for the inventory of hydropower plants and heating materials necessary to ensure uninterrupted operations of hydropower and combined heat and power plants, for natural gas and scraps.

e) All other inventories that haven't turned over during last 12 months are fully impaired.

2.12. Trade and other receivables

Trade receivables are recognised initially at fair value and subsequently carried at amortised cost. 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, including distribution system services,

b) Heating receivables,

c) Other services trade receivables (IT & telecommunication services, connection service fees, transmission system assets lease and other services).

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 or they have a financial difficulties and debt repayment schedule has been individually agreed, allowances are calculated individually,

b) In Lithuania and Estonia – if their debt balance exceeds EUR 200 thousand or they have a financial difficulties and debt repayment schedule has been individually agreed, allowances are calculated individually,

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, net of deferred incometax. 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. 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 1 January 2014, which applies to state support for generators of subsidised electricity. The SET applies both to income from electricity supplied under the mandatory procurement process as well as to mandatory procurement capacity payments for installed capacity at cogeneration plants. The tax is differentiated according to the type of energy sources used. For cogeneration plants that use fossil energy sources a 15% tax rate applies to the received support (taxable income) amount, 10% tax rate – plants that use renewable energy sources, 5% – cogeneration plants that use gas, biogas and biomass energy sources and installed electrical capacity in cogeneration plants is below 4 MW. 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 PSO fee partly compensating the increase of mandatory procurement costs.

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. The Group does not have such assets.

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 Consolidated 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 Consolidated 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 mandatory procurement public service obligation (PSO) fees, tariffs for electricity distribution system services 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 and private customers are recognised on the basis of issued invoices according to meter readings of customers considering 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 of transmission system assets

Revenues from lease of transmission system assets are recognised on the basis of invoices which are prepared for transmission system operator accordingly to lease agreement. Lease services are rendered in the ordinary course of the Group's activities.

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 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) Mandatory procurement PSO fees

Revenue from mandatory procurement PSO fees is recognised 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 does not have the primary responsibility for including the mandatory procurement PSO fee as a part of the services or products ordered or purchased by customers;
- The entity has no 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, members of Management boards and Supervisory boards of the Group's entities, 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. As the shares of Latvenergo AS belong 100% to the Republic of Latvia, the related parties also include entities under the control or significant influence of the state (Note 25).

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	Financial assets at fair value through the profit or loss	Held–to–maturity assets
		EUR'000	EUR'000	EUR'000	EUR'000
Financial assets as of 31 December 2016					
Trade receivables, net	17a	122,832	–	–	–
Other non–current receivables		986	–	–	–
Accrued income and other financial current receivables	17b	145,953	–	–	–
Derivative financial instruments	21c, l	–	2,154	3,980	–
Held–to–maturity financial assets	21a	–	–	–	20,554
Cash and cash equivalents	18	183,980	–	–	–
		453,751	**2,154**	**3,980**	**20,554**
Financial assets as of 31 December 2015					
Trade receivables, net	17a	112,163	–	–	–
Other non–current receivables		1,712	–	–	–
Accrued income and other financial current receivables	17b	144,182	–	–	–
Held–to–maturity financial assets	21a	–	–	–	28,468
Cash and cash equivalents	18	104,543	–	–	–
		362,600	**–**	**–**	**28,468**

Financial liabilities by categories:

	Notes	Derivatives used for hedging	Other financial liabilities at amortised cost	Financial liabilities at fair value through the profit or loss
		EUR'000	EUR'000	EUR'000
Financial liabilities as of 31 December 2016				
Borrowings	21b	–	791,566	–
Derivative financial instruments	21c, l	11,563	–	23
Trade and other payables	24	–	88,555	–
		11,563	**880,121**	**23**
Financial liabilities as of 31 December 2015				
Borrowings	21b	–	797,483	–
Derivative financial instruments	21c, l	12,256	–	3,318
Trade and other payables	24	–	80,948	–
		12,256	**878,431**	**3,318**

a) Market risk

I) Foreign currencies exchange risk

The introduction of euro in Latvia as of 1 January 2014 prevented the euro currency risk, which primarily was arising from settlements in foreign currencies for borrowings, capital expenditures and imported electricity. As of 31 December 2016 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 2016 the Group had no capital expenditure project which expected transactions would create significant currency risk.

In 2016 the Parent Company had no certain investments, which were exposed to foreign currency risks. The introduction of euro in Lithuania as of 1 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 2016, 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 906 thousand higher or lower (2015: EUR 638 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 174.2 million (2015: EUR 221.5 million) (Note 21 c, II). 62 % of the total Group's borrowings as of 31 December 2016 (31/12/2015: 55 %) had fixed interest rate (taking into account the effect of the interest rate swaps) and average fixed rate duration was 2.1 years (2015: 2.4 years).

During 2016, 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 1,465 thousand lower (2015: EUR 1,929 thousand), while if the rates had been 50 basis points lower – profit for the year net of taxes would have been EUR 974 thousand higher (2015: EUR 1,894 thousand).

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

As of 31 December 2016, 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 3,238 thousand higher (31/12/2015: EUR 4,126 thousand), which would have been attributable 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 3,346 thousand lower (31/12/2015: EUR 4,269 thousand), which would have been attributable 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 2016 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	31/12/2016	31/12/2015
		EUR'000	EUR'000
Trade receivables	17a	122,832	112,163
Accrued income	17b	1,024	1,148
Other non–current financial receivables		986	1,712
Other current financial receivables	17b	2,797	1,974
Cash and cash equivalents	18	183,980	104,543
Derivative financial instruments	21c	6,134	–
Held–to–maturity financial assets	21a	20,554	28,468
		338,307	**250,008**

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:

	31/12/2016	31/12/2015
	EUR'000	EUR'000
Investment level credit rating*	175,911	99,069
No or non–investment level credit rating	8,069	5,474
	183,980	**104,543**

* 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 31 December 2016					
Borrowings from banks	88,142	109,663	279,637	135,335	**612,777**
Issued debt securities (bonds)	74,915	2,880	42,389	102,577	**222,761**
Derivative financial instruments	3,737	2,894	4,594	779	**12,004**
Financial liabilities (Note 24)*	88,555	–	–	–	**88,555**
	255,349	**115,437**	**326,620**	**238,691**	**936,097**
At 31 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**
Financial liabilities (Note 24)*	80,948	–	–	–	**80,948**
	191,360	**161,025**	**354,981**	**255,254**	**962,620**

* excluding advances received, 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:

	31/12/2016	31/12/2015
	EUR'000	EUR'000
Total equity	2,418,713	2,096,702
Total assets	3,901,231	3,517,372
Capital ratio	**62%**	**60%**

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 31 December 2016, the net book amount of property, plant and equipment of the Group totalled EUR 3,356 million (31/12/2015: EUR 3,076 million), and the depreciation charge for the reporting period was EUR 183.5 million (2015: EUR 179.1 million) (Note 14 a). If depreciation rates were changed by 10% , the annual depreciation charge would change by EUR 18.4 million (2015: EUR 17.9 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 23.2 million higher or lower (2015: EUR 29.0 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 36, Impairment of assets*, 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 impairment losses. In 2016 the Group finished revaluation process for property, plant and equipment of distribution system (electrical lines) that was started in 2015 with revaluation of categories of distribution system technology equipment and machinery. Amounts of revalued electrical lines had been determined as of 1 April 2016 (amounts of revalued categories of distribution system technology equipment and machinery – as of 1 January 2015). In 2016 the Group also revalued transmission system assets and amounts of revalued assets had been determined as of 1 April 2016. For property, plant and equipment of Daugava hydropower plants last revaluation was performed as of 1 January 2012 and next revaluation is planned in 2017. For detailed revaluation results see Note 14 c.

b) Recoverable amount of trade receivables

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

c) Fair value estimation for financial instruments

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

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

As of 31 December 2016	Notes	Level 1	Level 2	Level 3	Total balance
		EUR'000	EUR'000	EUR'000	EUR'000
Assets					
Financial assets at fair value through profit or loss:					
– Electricity trading derivatives	21c, III	–	3,980	–	3,980
Electricity trading derivatives used for hedging	21c, III	–	2,154	–	2,154
TOTAL assets		**–**	**6,134**	**–**	**6,134**
Liabilities					
Financial liabilities at fair value through profit or loss:					
– Electricity trading derivatives	21c, III	–	23	–	23
Interest rate derivatives used for hedging	21c, II	–	11,563	–	11,563
TOTAL liabilities		**–**	**11,586**	**–**	**11,586**

As of 31 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	21c, III	–	2,558	–	2,558
– Interest rate derivatives	21c, II	–	760	–	760
Interest rate derivatives used for hedging	21c, II	–	12,256	–	12,256
TOTAL liabilities		**–**	**15,574**	**–**	**15,574**

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 Company's Management estimate. Income from connection and other service fees is deferred as an ongoing service is identified as part of the agreement with customers. Thus period over which revenue is recognised is based on Company's Management estimate and is 20 years. In 2016 the Group's received connection fees totalled EUR 13.6 million (2015: EUR 16.2 million), from which to the Consolidated Statement of Profit or Loss credited EUR 12.3 million (2015: EUR 11.6 million), see Note 23.

If the estimated customer relationship period is reduced/increased by 25%, the annual income from connection service fees would increase/decrease by EUR 3.1 million (2015: EUR 2.9 million).

e) Recognition and revaluation of provisions

As of 31 December 2016, the Group had set up provisions for environmental protection and post–employment benefits totalling EUR 18.6 million (31/12/2015: EUR 16.0 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 31 December 2016 refer to Note 21a.

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 1 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 trade, distribution and lease of transmission system assets. In addition, Corporate Functions, that cover administration and other support services, are presented separately.

Generation and trade 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 trade	Distribution	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 31 December 2016							
Revenue							
External customers	570,828	306,700	45,879	8,212	**931,619**	–	**931,619**
Inter–segment	13,310	1,712	2,538	46,330	**63,890**	(63,890)	**–**
Total revenue	**584,138**	**308,412**	**48,417**	**54,542**	**995,509**	**(63,890)**	**931,619**
Results							
Amortisation, depreciation and property, plant and equipment impairment loss	(86,308)	(98,317)	(36,416)	(11,585)	**(232,626)**	–	**(232,626)**
Segment profit	**138,185**	**7,154**	**10,642**	**4,792**	**160,773**	**(11,828)**	**148,945**
Segment assets at the end of the year	**1,557,032**	**1,629,107**	**448,707**	**88,431**	**3,723,277**	**177,954**	**3,901,231**
Segment liabilities at the end of the year	**63,404**	**190,371**	**46,218**	**7,380**	**307,373**	**1,175,145**	**1,482,518**
Capital expenditure	59,964	106,436	25,513	12,664	**204,577**	(3,900)	**200,677**
Year ended 31 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 / (loss)	**87,221**	**(4,177)**	**20,750**	**4,394**	**108,188**	**(15,653)**	**92,535**
Segment assets at the end of the year	**1,555,399**	**1,336,611**	**432,030**	**89,350**	**3,413,390**	**103,982**	**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	101,997	17,453	14,423	**191,178**	(717)	**190,461**

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	2016	2015
		EUR'000	EUR'000
Segment profit		**160,773**	**108,188**
Finance income	11a	2,328	2,926
Finance costs	11b	(14,156)	(18,579)
Profit before tax		**148,945**	**92,535**

Reconciliation of assets

	Notes	31/12/2016	31/12/2015
		EUR'000	EUR'000
Segment operating assets		**3,723,277**	**3,413,390**
Connection usage rights		(32,791)	(30,852)
Non–current financial investments	15	41	41
Held–to–maturity financial assets	21a	20,554	28,468
Derivative financial instruments	21c	6,134	–
Other assets and assets held for sale		36	1,782
Cash and cash equivalents	18	183,980	104,543
Group operating assets		**3,901,231**	**3,517,372**

Reconciliation of liabilities

	Notes	31/12/2016	31/12/2015
		EUR'000	EUR'000
Segment operating liabilities		**307,373**	**295,640**
Deferred income tax liabilities	12	315,759	273,987
Current corporate income tax liabilities		17,718	4,007
Borrowings	21b	791,566	797,483
Derivative financial instruments	21c	11,586	15,574
Trade and other payables		38,516	33,979
Group operating liabilities		**1,482,518**	**1,420,670**

Geographical information on segments

	2016	2015
	EUR'000	EUR'000
Revenue from external customers		
Baltics	897,449	914,927
Scandinavian countries	34,170	14,201
TOTAL revenue	**931,619**	**929,128**

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

Revenue from major customer in 2016 amounted to EUR 79,467 thousand (2015: EUR 83,137 thousand) arising from sales by the generation and supply segment.

6. Revenue

	2016	2015
	EUR'000	EUR'000
Electricity supply and electricity services	483,960	495,010
Distribution system services	290,084	267,189
Heat sales	82,709	92,525
Lease of transmission system assets	45,371	43,630
Other revenue	29,495	30,774
TOTAL revenue	**931,619**	**929,128**

7. Other Income

	2016	2015
	EUR'000	EUR'000
Net gain from sale of assets held for sale and PPE	635	291
Net gain from sale of current assets and other income	6,021	4,589
TOTAL other income	**6,656**	**4,880**

8. Raw Materials And Consumables Used

	2016	2015
	EUR'000	EUR'000
Electricity:		
Purchased electricity	148,448	196,602
Fair value loss / (income) on electricity forwards and futures (Note 21 c, III)	(6,515)	446
Electricity transmission services costs	72,584	73,849
	214,517	**270,897**
Energy resources cost	137,720	164,397
Raw materials, spare parts and maintenance costs	33,571	35,150
TOTAL raw materials and consumables used	**385,808**	**470,444**

Decrease was impacted by lower average natural gas and electricity spot prices (see Management report).

9. Personnel Expenses

	2016	2015
	EUR'000	EUR'000
Wages and salaries	71,848	70,437
Expenditure of employment termination	1,522	2,031
Pension costs – defined contribution plan	2,301	2,599
State social insurance contributions and other benefits defined in the Collective Agreement	17,887	17,374
Life insurance costs	2,670	2,286
Capitalised personnel expenses	(209)	(118)
TOTAL personnel expenses, including remuneration to the management	**96,019**	**94,609**
Including remuneration to the management:		
Wages and salaries	1,531	1,509
Expenditure of employment termination	22	171
Pension costs – defined contribution plan	36	45
Life insurance costs	22	34
State social insurance contributions and other benefits defined in the Collective Agreement	367	235
TOTAL remuneration to the management*	**1,978**	**1,994**

	2016	2015
Number of employees at the end of the year	4,131	4,177
Average number of employees during the year	4,176	4,162

* remuneration to the management includes remuneration to the members of the Management Boards, Supervisory Board of the Parent Company and Supervisory body of the Group entities

10. Other Operating Expenses

	2016	2015
	EUR'000	EUR'000
Selling expenses and customer services	7,524	7,873
Information technology maintenance	4,974	4,428
Transportation expenses	6,125	6,120
Environment protection and work safety	4,507	4,431
Real estate maintenance and utilities expenses	6,226	5,760
Telecommunications services	1,974	2,009
Electric power transit and capacity services	294	272
Real estate tax	1,091	1,064
Public utilities regulation fee	1,486	1,172
Subsidised energy tax (SET)*	14,847	15,284
Audit fee	89	88
Other expenses	13,912	13,439
TOTAL other operating expenses	**63,049**	**61,940**

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

11. Finance Income And Costs

a) Finance income

	2016	2015
	EUR'000	EUR'000
Interest income on bank accounts and deposits	45	33
Interest income from held–to–maturity financial assets	1,414	1,545
Fair value gain on interest rate swaps (Note 21 c, II)	760	1,348
Net gain on issued debt securities (bonds)	83	–
Net gain from currency exchange rate fluctuations	26	–
TOTAL finance income	**2,328**	**2,926**

b) Finance costs

	2016	2015
	EUR'000	EUR'000
Interest expense on borrowings	5,185	8,013
Interest expense on issued debt securities (bonds)	4,701	3,748
Interest expense on interest rate swaps	4,922	6,932
Net losses on redemption of held–to–maturity financial assets	58	60
Net losses on issued debt securities (bonds)	–	9
Capitalised borrowing costs (Note 14 a)	(780)	(268)
Net losses on currency exchange rate fluctuations	–	27
Other finance costs	70	58
TOTAL finance costs	**14,156**	**18,579**

12. Income Tax

	2016	2015
	EUR'000	EUR'000
Current tax	23,498	5,011
Deferred tax	(5,146)	2,485
TOTAL income tax	**18,352**	**7,496**

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:

	2016	2015
	EUR'000	EUR'000
Profit before tax	**148,945**	**92,535**
Corporate income tax at the statutory rate 15 %	22,342	13,880
Expense non–deductible for tax purpose	266	253
Impairment of receivables	417	640
Previous years losses that reduce the tax base covered by profit of the year	(1,059)	1,276
Deferred tax on re–measurement of defined post–employment benefit plan in subsidiaries	(285)	(174)
Deferred tax on disposal of property, plant and equipment revaluation reserve	(857)	–
Real estate tax	–	(160)
Tax discounts on donations	(27)	(141)
Other expenses	(53)	(76)
Tax incentives for new technological equipment*	(2,392)	(8,002)
TOTAL income tax:	**18,352**	**7,496**

* 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

	2016	2015
	EUR'000	EUR'000
At the beginning of the year	**273,987**	**268,026**
(Income) credited / expense charged to the Consolidated Statement of Profit or Loss	(5,146)	2,485
Attributable to re–measurement on defined post–employment benefit plan (Note 22 a)	(638)	–
Attributable to non–current assets revaluation reserve in equity (Note 20 a)	47,556	3,476
Deferred tax liabilities at the end of the year	**315,759**	**273,987**

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

	2016	2015
	EUR'000	EUR'000
DEFERRED TAX LIABILITIES		
	Accelerated tax depreciation	
At the beginning of the year	**279,126**	**278,453**
Income credited to the Consolidated Statement of Profit or Loss	(2,773)	(2,803)
Attributable to re–measurement on defined post–employment benefit plan (Note 22 a)	(638)	–
Attributable to non–current assets revaluation reserve in equity (Note 20 a)	47,556	3,476
At the end of the year	**323,271**	**279,126**
DEFERRED TAX ASSETS		
	Accruals/provisions	
At the beginning of the year	**(5,139)**	**(10,427)**
(Income) credited / expense charged to the Consolidated Statement of Profit or Loss	(2,373)	5,288
At the end of the year	**(7,512)**	**(5,139)**

13. Intangible Assets

a) Intangible assets

	Usage rights, licences	Software	Assets under develop-ment	TOTAL
	EUR'000	EUR'000	EUR'000	EUR'000
At 31 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 31 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 31 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**
Year ended 31 December 2016				
Additions	–	966	2,737	3,703
Transfers	–	1,568	(1,568)	–
Disposals	(211)	–	–	(211)
Amortisation charge	–	(3,363)	–	(3,363)
Closing net book amount	**437**	**12,585**	**1,512**	**14,534**
At 31 December 2016				
Cost	2,507	45,631	1,512	49,650
Accumulated amortisation	(2,070)	(33,046)	–	(35,116)
Net book amount	**437**	**12,585**	**1,512**	**14,534**

b) Greenhouse gas emission allowances:

	2016	2015
	Number of allowances	Number of allowances
At the beginning of the year	**1,516,203**	**2,021,259**
Allowances allocated free of charge	364,488	427,669
Purchased allowances	117,400	18,000
Used allowances	(1,129,538)	(932,725)
Sold allowances	(73,400)	(18,000)
At the end of the year	**795,153**	**1,516,203**

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 31 December 2016 the number of allowances in the Group received in 2016 from the Government free of charge was 364,488 (31/12/2015: 427,669). Therefore their carrying amount as of 31 December 2016 was nil (31/12/2015: nil).

The fair value of greenhouse gas emission allowances as of 31 December 2016 was EUR 5,208 thousand (31/12/2015: EUR 12,509 thousand). For estimation of the fair value of allowances was used fixed daily price in NASDAQ Commodities Exchange for European Union Allowances (EUA) on 30 December 2016 what was the last trade date in 2016 – 6.55 EUR/t (30/12/2015: 8.25 EUR/t).

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

From greenhouse gas emission allowances purchased in 2016 are sold 73.4 thousand (31/12/2015: nil).

14. Property, Plant And Equipment

a) Property, plant and equipment

Net book amounts and movements of property, plant and equipment by groups, including groups of revalued categories (see Note 2.8.) are as follows:

	Land, buildings and facilities	Techno-logy equip-ment and machinery	Other PPE	Assets under construc-tion and advance payments	PPE TOTAL
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
As of 31 December 2014					
Cost or valuation	4,458,341	2,091,623	158,262	60,709	6,768,935
Accumulated depreciation and impairment	(2,445,607)	(1,134,781)	(116,184)	(6,047)	(3,702,619)
Net book amount	**2,012,734**	**956,842**	**42,078**	**54,662**	**3,066,316**
Year ended 31 December 2015					
Increase due to PPE revaluation (Note 20 a)	–	23,782	179	–	23,961
Impairment charge due to PPE revaluation	–	(30,657)	(137)	–	(30,794)
Additions	53	1,483	15,652	168,076	185,264
Invested in share capital (Note 19)*	85	–	–	–	85
Transfers	84,132	43,897	6,874	(134,903)	–
Reclassified to investment property	(12)	–	–	–	(12)
Disposals	(2,202)	(1,645)	(141)	(25)	(4,013)
Impairment charge	–	14,564	–	(58)	14,506
Depreciation	(80,562)	(85,624)	(12,871)	–	(179,057)
Closing net book amount	**2,014,228**	**922,642**	**51,634**	**87,752**	**3,076,256**
As of 31 December 2015					
Cost or valuation	4,469,448	2,072,520	173,118	93,858	6,808,944
Accumulated depreciation and impairment	(2,455,220)	(1,149,878)	(121,484)	(6,106)	(3,732,688)
Net book amount	**2,014,228**	**922,642**	**51,634**	**87,752**	**3,076,256**

	Land, buildings and facilities	Techno-logy equip-ment and machinery	Other PPE	Assets under construc-tion and advance payments	PPE TOTAL
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Year ended 31 December 2016					
Increase due to PPE revaluation (Note 20 a)	303,933	12,954	154	–	317,041
Impairment charge due to PPE revaluation	(25,816)	(9,909)	(49)	–	(35,774)
Additions	135	1,644	18,507	176,552	196,838
Invested in share capital (Note 19)*	177	7	–	–	184
Transfers	72,164	38,036	6,277	(116,477)	–
Reclassified to investment property	(214)	–	–	–	(214)
Disposals	(2,819)	(1,987)	(199)	(40)	(5,045)
Impairment charge	–	(10,140)	–	116	(10,024)
Depreciation	(89,432)	(79,609)	(14,424)	–	(183,465)
Closing net book amount	**2,272,356**	**873,638**	**61,900**	**147,903**	**3,355,797**
At 31 December 2016					
Cost or valuation	4,615,210	2,059,129	186,442	153,893	7,014,674
Accumulated depreciation and impairment	(2,342,854)	(1,185,491)	(124,542)	(5,990)	(3,658,877)
Net book amount	**2,272,356**	**873,638**	**61,900**	**147,903**	**3,355,797**

* in December 2016, in accordance with the Directive No. 693 of the Cabinet of Ministers of the Republic of Latvia, dated 22 November 2016 – "On the Investment of the State's property units in the Share Capital of Latvenergo AS", real estate in the amount of EUR 184 thousand was invested in the share capital of Latvenergo AS (in December 2015: real estate in the amount of EUR 85 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 31 December 2016 cost of fully depreciated PPE which are still in use amounted to EUR 266,463 thousand (31/12/2015: EUR 801,427 thousand).

In 2016 the Group has capitalised borrowing costs in the amount of EUR 780 thousand (2015: EUR 268 thousand) (see Note 11 b). Rate of capitalised borrowing costs was of 1.29 % (2015: 1.50 %).

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	
	2016	2015	2016	2015	2016	2015
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Net book amount at the beginning of the year	**425**	**430**	**271**	**913**	**696**	**1,343**
Reclassified from property, plant and equipment	30	7	184	5	214	12
Sold	(101)	(12)	(403)	(373)	(504)	(385)
Disposal	–	–	(1)	(5)	(1)	(5)
Impairment charge	–	–	187	(235)	187	(235)
Depreciation	–	–	(29)	(34)	(29)	(34)
Net book amount at the end of the year	**354**	**425**	**209**	**271**	**563**	**696**

c) Property, plant and equipment revaluation

In 2015 the Group started revaluation process for property, plant and equipment of distribution system with revaluation of categories of technology equipment and machinery, and in 2016 finished revaluation process with the revaluation of categories of distribution system buildings and facilities, including electricity lines and all property, plant and equipment categories of transmission system, considering the substantial changes of carrying amounts of these categories. Valuation have been done by independent certified valuator by applying the depreciated replacement cost model, which provides, that the assets value comprises replacement or renewal costs of similar asset at the date of revaluation adjusted for obsolescence. Obsolescence encompasses physical deterioration, functional (technological) obsolescence and economic (external) obsolescence. To determine changes in initial replacement costs for transmission system assets were taken into consideration changes in cost of workforce and materials since revaluation of the assets in 2011, accordingly as well determining the ratio of workforce costs for each group. Replacement cost for distribution system electrical lines is based on Sadales tīkls AS aggregate construction costs in 2015, by electricity lines type and region. Physical depreciation was determined proportionally the age of the property, plant and equipment item. In assessment for property, plant and equipment items for which planned reconstruction in the near future additionally was calculated physical depreciation. Remaining useful lifetime of property, plant and equipment items after revaluation was estimated according to estimated total depreciation. 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 of transmission system and distribution system had been determined as of 1 April 2016. Latvenergo AS revalued assets of Daugava hydropower plants as of 1 January 2012 and next revaluation is planned in 2017.

As a result of revaluation in 2016 the carrying amounts of revalued distribution system property, plant and equipment increased by EUR 262,541 thousand, but the carrying amounts of revalued transmission system property, plant and equipment increased by EUR 18,726 thousand. Increase of property, plant and equipment in the amount of EUR 317,041 thousand, less deferred income tax, is included in the Group's equity as non-current assets revaluation reserve (2015: EUR 23,961 thousand) (see Note 20 a), while impairment charge due to property, plant and equipment revaluation in the amount of EUR 35,774 thousand – in the Consolidated Statement of Profit or Loss position 'Depreciation, amortisation and impairment of intangible assets and property, plant and equipment' (2015: EUR 30,794 thousand). In 2015 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 categories of property, plant and equipment groups (see Note 2.8.) at revalued amounts and their cost basis are as follows:

	Revalued property, plant and equipment groups*			
	Revalued buildings and facilities	Revalued technology equipment and machinery	Revalued other equipment	Total revalued PPE
	EUR'000	EUR'000	EUR'000	EUR'000
AT REVALUED AMOUNTS				
At 31 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 31 December 2016				
Revalued	4,150,707	1,433,417	30,406	5,614,530
Accumulated depreciation	(2,205,076)	(815,208)	(18,084)	(3,038,368)
Revalued net book amount	**1,945,631**	**618,209**	**12,322**	**2,576,162**
AT AMOUNTS STATED ON HISTORICAL COST BASIS				
At 31 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**
At 31 December 2016				
Cost	1,151,577	755,462	26,403	1,933,442
Accumulated depreciation	(324,536)	(347,718)	(16,092)	(688,346)
Net book amount	**827,041**	**407,744**	**10,311**	**1,245,096**

* for revalued property, plant and equipment groups see Note 2.8

d) Impairment

In 2016 in the Group has been performed impairment evaluation and additional impairment in the amount of EUR 10,140 thousand (2015: nil) was recognised for Riga combined heat and power plants. In 2015 was reversed partial impairment charge on PPE category's 'Technology equipment and machinery' subcategory 'Transformers for AC voltage lowering' in the amount of EUR 14,564 (carried in revalued distribution system's technology equipment and machinery). Additional impairment is due to the forecasted tighter competition in the Riga heat market, which in turn have a negative impact on the cogeneration electricity output of the Riga combined heat and power plant. Forecasted period is 2017 – 2028 and the terminal value appraisal is included. Revenue stream forecast corresponds to support period and intensity of cogeneration plants set out in regulations by Cabinet of Ministers of the Republic of Latvia No. 221, dated 10 March 2009. The forecast of expenses is based on historical data, the budget approved by the management for 2017, the service maintenance agreements and the annual growth rate of 2.5%. The accumulated impairment as of 31 December 2016 amounted to EUR 103,910 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) (31/12/2015: impairment charge in the amount of EUR 93,770 thousand on technological equipment and machinery of the Riga combined heat and power plant).

Impairment review performed in accordance with *IAS 36 Impairment of Assets* and 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. Nominal pre–tax discount rate used to determine value in use of cash–generating unit by discounting cash flows is 7.8 % (2015: 7.5 %). If discount rate used for the purposes of impairment charge calculation would be higher or lower by one per cent point the current year's impairment charge on technological equipment would be by EUR 23.2 million higher or respectively – EUR 25.3 million lower.

Impairment review is also performed for electricity distribution system assets and electricity transmission system assets and there is no additional impairment loss recognised. The cash–generating unit is defined as the distribution system assets and transmission system assets. Nominal pre–tax discount rate used to determine value in use of cash–generating units by discounting cash flows is 4.43% (2015: 4.43%) as included in the electricity distribution system and in the electricity transmission system service tariff calculation methodologies. Performance of impairment review also considered pricing forecast for major revenue streams, which are contingent on regulatory pre–approvals, and assumptions related to capital investment plans.

For other significant accounting estimates, judgements and sensitivity analysis see Note 4 a, II.

e) Leases

	2016	2015
	EUR'000	EUR'000
Rental income (the Group is the lessor)	47,233	45,208
of which,		
Transmission system assets lease	45,371	43,630
Rental expense (the Group is the lessee)	**1,274**	**1,310**

Future minimum lease receivables under non–cancellable operating lease contracts by due dates (the Group is the lessor):

	2016	2015
	EUR'000	EUR'000
– < 1 year	48,206	46,471
– 1–5 years	195,914	185,885
– > 5 years	240,732	232,356
TOTAL rental income	**484,852**	**464,712**

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

Future minimum lease payments under non–cancellable operating lease contracts by due dates (the Group is the lessee):

	2016	2015
	EUR'000	EUR'000
– < 1 year	1,420	1,417
– 1–5 years	6,018	5,913
– > 5 years	9,038	8,129
TOTAL rental expense	**16,476**	**15,459**

15. Non–Current Financial Investments

	2016	2015
	EUR'000	EUR'000
At the beginning of the year	41	41
At the end of the year	**41**	**41**

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

Name	Country of incorpora-tion	Business activity held	Interest held, % 31/12/2016	Interest held, % 31/12/2015
Subsidiaries:				
Latvijas elektriskie tīkli AS	Latvia	Leases 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 25 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

	31/12/2016	31/12/2015
	EUR'000	EUR'000
Raw materials and materials	17,438	17,983
Natural gas	17,506	–
Other inventories	8,173	8,422
Allowance for raw materials and other inventories	(1,659)	(1,614)
TOTAL inventories	**41,458**	**24,791**

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, and other inventories:

	2016	2015
	EUR'000	EUR'000
At the beginning of the year	**1,614**	**1,387**
Inventories written off	(87)	(106)
Charged to the Consolidated Statement of Profit or Loss	132	333
At the end of the year	**1,659**	**1,614**

17. Trade Receivables And Other Current Receivables

a) Trade receivables, net

	31/12/2016	31/12/2015
	EUR'000	EUR'000
Receivables		
– Electricity supply and electricity services customers	147,808	130,531
– Heating customers	11,629	11,735
– Other trade receivables	11,027	15,986
	170,464	**158,252**
Allowances for impairment of receivables		
– Electricity supply and electricity services customers	(44,801)	(43,710)
– Heating customers	(391)	(423)
– Other trade receivables	(2,440)	(1,956)
	(47,632)	**(46,089)**
Receivables, net		
– Electricity supply and electricity services customers	103,007	86,821
– Heating customers	11,238	11,312
– Other trade receivables	8,587	14,030
	122,832	**112,163**

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 31 December 2016 amounted to EUR 9,040 thousand (31/12/2015: EUR 9,683 thousand).

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

	31/12/2016	31/12/2015
	EUR'000	EUR'000
Electricity supply and electricity services receivables:		
Fully performing receivables	92,450	75,942
Receivables past due but not impaired:		
– Receivables past due by 1–45 days	7,277	8,210
Impaired receivables:		
– Receivables past due by 46–90 days	1,608	2,102
– Receivables past due by 91–180 days	2,154	2,842
– Receivables past due by more than 181 day	15,988	12,507
– Individually impaired receivables with scheduled payments*	28,331	28,928
	147,808	**130,531**
Allowances for impaired electricity supply and electricity services receivables:		
– Receivables past due by 46–90 days	(744)	(1,056)
– Receivables past due by 91–180 days	(1,480)	(2,133)
– Receivables past due by more than 181 day	(15,988)	(12,507)
– Individually impaired receivables with scheduled payments*	(26,589)	(28,014)
	(44,801)	**(43,710)**
Electricity supply and electricity services receivables, net:		
Fully performing receivables	92,450	75,942
Receivables past due but not impaired:		
– Receivables past due by 1–45 days	7,277	8,210
Net impaired receivables:		
– Receivables past due by 46–90 days	864	1,046
– Receivables past due by 91–180 days	674	709
– Individually impaired receivables with scheduled payments*	1,742	914
	103,007	**86,821**

* receivables under insolvency process and other individually impaired receivables

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

	31/12/2016	31/12/2015
	EUR'000	EUR'000
Heating and other trade receivables:		
Fully performing receivables	19,516	24,952
Receivables past due but not impaired:		
– Receivables past due by 1–30 days	213	184
Impaired receivables:		
– Receivables past due by 31–90 days	196	165
– Receivables past due by more than 91 day	2,603	2,135
– Individually impaired receivables with scheduled payments*	128	285
	22,656	**27,721**
Allowances for impaired heating and other trade receivables:		
– Receivables past due by 31–90 days	(100)	(83)
– Receivables past due by more than 91 day	(2,603)	(2,135)
– Individually impaired receivables with scheduled payments*	(128)	(161)
	(2,831)	**(2,379)**
Heating and other trade receivables, net		
Fully performing receivables	19,516	24,952
Receivables past due but not impaired:		
– Receivables past due by 1–30 days	213	184
Net impaired receivables:		
– Receivables past due by 31–90 days	96	82
– Individually impaired receivables with scheduled payments*	–	124
	19,825	**25,342**

* 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:

	31/12/2016	31/12/2015
	EUR'000	EUR'000
Fully performing electricity supply and electricity services receivables:		
– customers with no overdue receivables	73,236	61,351
– customers with overdue receivables	19,214	14,591
	92,450	**75,942**
Fully performing heating and other receivables:		
– customers with no overdue receivables	18,700	24,647
– customers with overdue receivables	816	305
	19,516	**24,952**

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:

	2016	2015
	EUR'000	EUR'000
At the beginning of the year	**46,089**	**44,003**
Receivables written off during the year as uncollectible	(1,511)	(2,143)
Allowance for impaired receivables	3,054	4,229
At the end of the year	**47,632**	**46,089**

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

	31/12/2016	31/12/2015
	EUR'000	EUR'000
Unsettled revenue on mandatory procurement PSO fee recognised as assets*	142,132	141,060
Other accrued income	1,024	1,148
Pre–tax and overpaid taxes	4,008	4,387
Other current financial receivables	2,797	1,974
Other current receivables	1,164	2,720
TOTAL other current receivables	**151,125**	**151,289**

* 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

	31/12/2016	31/12/2015
	EUR'000	EUR'000
Cash at bank	176,626	89,391
Short–term bank deposits	7,000	10,000
Restricted cash and cash equivalents*	354	5,152
TOTAL cash and cash equivalents	**183,980**	**104,543**

* restricted cash and cash equivalents as of 31 December 2016 consist of the financial security for participating in NASDAQ OMX Commodities Exchange. Financial security is fully recoverable after termination of participation without any penalties, therefore restricted cash is considered as cash equivalent

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 2016 the average annual effective interest rate earned on short–term cash deposits was 0.16% (2015: 0.16%). 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 31 December 2016, the registered share capital of the Latvenergo AS is EUR 1,288,715 thousand (31/12/2015: EUR 1,288,531 thousand) and consists of 1,288,715 thousand ordinary shares (31/12/2015: 1,288,531 thousand) with the nominal value of EUR 1 per share (31/12/2015: EUR 1 per share). All shares have been fully paid.

In December 2016, in accordance with the Directive No. 693 of the Cabinet of Ministers of the Republic of Latvia, dated 22 November 2016 – "On the Investment of the State's property units in the Share Capital of Latvenergo AS", real estate in the amount of EUR 184 thousand was invested in the share capital of Latvenergo AS (in December 2015: real estate in the amount of EUR 85 thousand). The value of real estate was determined by independent certified valuation experts applying depreciated replacement cost model, based on construction or acquisition costs of similar assets. Increase in the share capital was approved by the Latvenergo AS Shareholder's Meeting on 28 November 2016 and registered with the Commercial Register of the Republic of Latvia on 19 December 2016.

20. Reserves, Dividends And Earnings Per Share

a) Reserves

As of 31 December 2016 the Group's reserves are in the amount EUR 937,074 thousand (31/12/2015: EUR 669,596 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 revaluation reserve	Hedge reserve	Currency translation	Other reserves	TOTAL
		EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
As of 31 December 2014		**662,052**	**(16,333)**	**97**	**13**	**645,829**
Increase of non–current assets revaluation reserve as a result of revaluation	14a	23,961	–	–	–	23,961
Disposal of non–current assets revaluation reserve net of deferred tax		(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	21c, I	–	4,077	–	–	4,077
As of 31 December 2015		**681,742**	**(12,256)**	**97**	**13**	**669,596**
Increase of non–current assets revaluation reserve as a result of revaluation	14 a	317,041	–	–	–	317,041
Disposal of non–current assets revaluation reserve net of deferred tax		(4,854)	–	–	–	(4,854)
Deferred tax related to non–current assets revaluation reserve	12	(47,556)	–	–	–	(47,556)
Gains from fair value changes in derivative financial instruments	21 c, I	–	2,847	–	–	2,847
As of 31 December 2016		**946,373**	**(9,409)**	**97**	**13**	**937,074**

b) Dividends

The dividends declared to equity holders of the Parent Company for 2015 were EUR 77,413 thousand or EUR 0.06008 per share (2014: EUR 31,479 thousand or EUR 0.02443 per share) and to non–controlling interests – EUR 1,377 thousand or EUR 0.403 per share (2014: EUR 1,148 thousand or EUR 0.336 per share).

The Management Board of Latvenergo AS proposes to allocate profit of Latvenergo AS in the amount of EUR 90,142 thousand to be paid out in dividends, that consists from Latvenergo AS profit of 2016 in the amount of EUR 73,021 thousand and from retained profit of 2015 in the amount of EUR 17,121 thousand, and the rest of Latvenergo AS profit of 2016 – EUR 64,420 thousand to transfer to Latvenergo AS reserves with a purpose to take the decision on pay out as dividends simultaneously with the decision on the distribution of Latvenergo AS profit of 2017. These financial statements do not reflect this amount as a liability as the dividends have not been approved as of 31 December 2016.

The distribution of net profit for the 2016 is subject to a resolution of the Parent Company's Shareholder's Meeting.

c) Earnings per share

Basic earnings per share are calculated by dividing profit attributable to the equity holder 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.

	2016	2015
Profit attributable to the equity holder of the Parent Company (in thousand EUR)	129,045	83,509
Weighted average number of shares (thousand)	1,288,623	1,288,489
Basic earnings per share (in euros)	0.100	0.065
Diluted earnings per share (in euros)	0.100	0.065

21. Financial Assets And Liabilities

a) Held–to–maturity financial assets

As of 31 December 2016 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 2016 in association with the disposal of held–to–maturity financial assets are recognised net losses in the amount of EUR 58 thousand (2015: EUR 60 thousand) (Note 11 b). 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 2016 the fair value of held–to–maturity financial assets is greater than the carrying amount by EUR 4,991 thousand (2015: EUR 5,959 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 a corresponding financial instrument at the end of the reporting period.

Held–to–maturity financial assets carrying amount:

	31/12/2016	31/12/2015
	EUR'000	EUR'000
Held–to–maturity financial assets:		
– current	3,520	7,859
– non–current	17,034	20,609
TOTAL held–to–maturity financial assets	**20,554**	**28,468**

b) Borrowings

	31/12/2016	31/12/2015
	EUR'000	EUR'000
Non–current borrowings from financial institutions	500,215	534,586
Issued debt securities (bonds)	135,405	179,705
Total non–current borrowings	**635,620**	**714,291**
Current portion of non–current borrowings from financial institutions*	82,762	80,842
Current portion of issued debt securities (bonds)	70,075	–
Current borrowings from financial institutions	744	–
Accrued interest on non–current borrowings	594	848
Accrued coupon interest on issued debt securities (bonds)	1,771	1,502
Total current borrowings	**155,946**	**83,192**
TOTAL borrowings	**791,566**	**797,483**

* in 2017, Liepājas Enerģija SIA has signed an agreement with Swedbank AS on prolongation of the loan repayment stipulating final term on 31 August 2019, thus reducing the current portion and increasing the non–current portion of borrowings by EUR 2,529 thousand

Movement in borrowings:

	2016	2015
	EUR'000	EUR'000
At the beginning of the year	**797,483**	**827,222**
Borrowings received	55,744	30,000
Borrowings repaid	(87,452)	(134,875)
Change in accrued interest on borrowings	15	234
Issued debt securities (bonds)	25,776	74,902
At the end of the year	**791,566**	**797,483**

Borrowings by categories of lenders:

	31/12/2016	31/12/2015
	EUR'000	EUR'000
Foreign investment banks	394,917	432,978
Commercial banks	189,398	183,298
Issued debt securities (bonds)	207,251	181,207
TOTAL borrowings	**791,566**	**797,483**

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

	31/12/2016	31/12/2015
	EUR'000	EUR'000
Fixed rate non–current and current borrowings:		
– < 1 year (current portion of non–current borrowings)	71,921	1,703
– 1–5 years	152,911	172,985
– > 5 years	100,676	74,902
Total fixed rate borrowings	**325,508**	**249,590**
Floating rate non–current and current borrowings:		
– < 1 year (current borrowings)	744	–
– < 1 year (current portion of non–current borrowings)	83,281	81,489
– 1–5 years	255,126	300,669
– > 5 years	126,907	165,735
Total floating rate borrowings	**466,058**	**547,893**
TOTAL borrowings	**791,566**	**797,483**

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

	31/12/2016	31/12/2015
	EUR'000	EUR'000
– < 1 year	376,099	360,578
– 1–5 years	264,791	282,003
– > 5 years	150,676	154,902
TOTAL borrowings:	**791,566**	**797,483**

As of 31 December 2016 and as of 31 December 2015 all of the Group's borrowings were denominated in euros.

The fair value of current and non–current borrowings with floating rates and twelve–month–fixed 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.

I) Pledges

As of 31 December 2016 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 29 million (31/12/2015: EUR 31 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 26.6 million and the claims on the receivables accounts in the amount of EUR 2.4 million (31/12/2015: EUR 28.5 million and EUR 2.5 million, respectively).

II) Un–drawn borrowing facilities

As of 31 December 2016 the un–drawn portion of committed non–current credit facilities amounts to EUR 235 million (31/12/2015: EUR 290 million).

As of 31 December 2016 the Group had entered into three overdraft agreements with total notional amount of EUR 34.2 million (31/12/2015: 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 1.91 % (2015: 2.40 %), weighted average effective interest rate for current borrowings was 0.87 % (2015: 0.87 %). At 31 December 2016 interest rates for non–current borrowings in euros were 3, 6 and 12 month EURIBOR+1.13 % (31/12/2015: +1.06 %). At 31 December 2016 the total notional amount of interest rate swap agreements concluded by the Group amounts to EUR 174.2 million (31/12/2015: EUR 221.5 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 – December 2017 (ISIN code – LV0000801090) in the amount of EUR 35 million with maturity date – May 2020 (ISIN code – LV0000801165), both of them with the annual coupon rate of 2.8%. In 2015 and in 2016, Latvenergo AS issued green bonds in the total amount of EUR 100 million with the maturity date June 2022 (ISIN code – LV0000801777) with the annual coupon rate of 1.9%. Thus the total nominal amount of issued bonds amounts to EUR 205 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.

As of 31 December 2016 the fair value of issued debt securities (bonds) exceeds their carrying amount by EUR 8,293 thousand (31/12/2015: EUR 5,040 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	31/12/2016		31/12/2015	
		EUR'000		EUR'000	
		Assets	Liabilities	Assets	Liabilities
Interest rate swaps	21c, II	–	11,563	–	13,016
Electricity forwards and futures	21c, III	(6,134)	23	–	2,558
TOTAL outstanding fair values of derivatives		**(6,134)**	**11,586**	**–**	**15,574**

	31/12/2016		31/12/2015	
	EUR'000		EUR'000	
	Assets	Liabilities	Assets	Liabilities
Non–current	–	7,946	–	8,291
Current	(6,134)	3,640	–	7,283
TOTAL fair values of derivative financial instruments	**(6,134)**	**11,586**	**–**	**15,574**

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

	Notes	2016	2015
		EUR'000	EUR'000
Included in the Consolidated Statement of Profit or Loss			
Interest rate swaps	11a	(760)	(1,348)
Electricity forwards and futures	8	(6,515)	446
		(7,275)	**(902)**
Included in the Statement of Other Comprehensive Income			
Interest rate swaps	20a	(693)	(4,077)
Electricity forwards and futures	20a	(2,154)	–
		(2,847)	**(4,077**

According 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 31 December 2016 the Group had interest rate swap agreements with total notional amount of EUR 174.2 million (31/12/2015: EUR 221.5 million). Interest rate swaps are concluded with 6 to 10 year initial maturities and hedged floating rates are 6 month EURIBOR. As of 31 December 2016 fixed interest rates vary from 0.7725% to 4.4925% (31/12/2015: from 0.7725% to 4.4925%).

At the end of the year all of outstanding interest rate swap agreements or agreements with notional amount of EUR 174.2 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 (31/12/2015: 91% with notional amount of EUR 201.5 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:

	Notes	2016		2015	
			EUR'000		EUR'000
		Assets	Liabilities	Assets	Liabilities
Outstanding fair value at the beginning of the year		**–**	**13,016**	**–**	**18,441**
Included in the Consolidated Statement of Profit or Loss, net	11a	–	(760)	–	(1,348)
Included in other comprehensive income	20a	–	(693)	–	(4,077)
Outstanding fair value at the end of the year		**–**	**11,563**	**–**	**13,016**

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 31 December 2016 62% (31/12/2015: 55%) 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 2.1 years (2015: 2.4 years).

III) Electricity forwards and futures

As of 31 December 2016 the Group has entered into electricity forward and future contracts with total outstanding volume of 2,195,685 MWh (31/12/2015: 2,880,436 MWh) and notional value of EUR 36.0 million (31/12/2015: EUR 64.1 million). Electricity forward and future contracts are concluded for the maturities from one quarter to one year during the period from 1 January 2017 to 31 December 2019.

The Parent company (Latvenergo AS) enters into electricity future contracts in the Nasdaq Commodities power exchange, as well as concludes electricity forward contracts with other counterparties. Electricity forward and future contracts are intended for hedging of the electricity price risk and are used for fixing the price of electricity purchased in the Nord Pool AS power exchange.

Electricity forward and future contracts with total outstanding volume of 1,626,285 MWh as of 31 December 2016 are designated to comply with hedge accounting treatment (31/12/2015: no such contracts) and were re–measured prospectively and retrospectively to test whether they are effective within the hedging period. All contracts are designed as cash flow hedges. For the contracts which are ineffective fair value changes are recorded through profit or loss in the Consolidated Statement of Profit or Loss (Note 8), and for fully effective contracts fair value gains are included in other comprehensive income (Note 20 a).

Fair value changes of electricity forward and future contracts:

	2016		2015	
	EUR'000		EUR'000	
	Assets	Liabilities	Assets	Liabilities
Outstanding fair value at the beginning of the year	**–**	**2,558**	**–**	**2,112**
Included in the Consolidated Statement of Profit or Loss (Note 8)	(3,980)	(2,535)	–	446
Included in other comprehensive income (Note 20 a)	(2,154)	–	–	–
Outstanding fair value at the end of the year	**(6,134)**	**23**	**–**	**2,558**

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:

		Fair value measurement using			
	Date of valuation	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobserv-able inputs (Level 3)	TOTAL
		EUR'000	EUR'000	EUR'000	EUR'000
Assets measured at fair value					
Revalued property, plant and equipment (Note 14 c)	31/12/2016	–	–	2,576,162	**2,576,162**
	31/12/2015	–	–	2,312,739	**2,312,739**
Derivative financial instruments, including:					
Electricity forwards and futures (Note 21 b, III)	31/12/2016	–	6,134	–	**6,134**
	31/12/2015	–	–	–	**–**
Assets for which fair values are disclosed					
Investment property held for capital appreciation (Note 14 b)	31/12/2016	–	–	1,660	**1,660**
	31/12/2015	–	–	1,726	**1,726**
Held–to–maturity financial assets (Note 21 a)	31/12/2016	–	25,545	–	**25,545**
	31/12/2015	–	34,427	–	**34,427**

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:

		Fair value measurement using			
	Date of valuation	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobserv-able inputs (Level 3)	TOTAL
		EUR'000	EUR'000	EUR'000	EUR'000
Liabilities measured at fair value					
Derivative financial instruments, including:					
Interest rate swaps (Note 21 c, II)	31/12/2016	–	11,563	–	**11,563**
	31/12/2015	–	13,016	–	**13,016**
Electricity forwards and futures (Note 21 c, III)	31/12/2016	–	23	–	**23**
	31/12/2015	–	2,558	–	**2,558**
Liabilities for which fair values are disclosed					
Issued debt securities (bonds) (Note 21 b, IV)	31/12/2016	–	213,774	–	**213,774**
	31/12/2015	–	184,745	–	**184,745**
Floating rate borrowings (Note 21 b)	31/12/2016	–	584,314	–	**584,314**
	31/12/2015	–	616,074	–	**616,074**
Fixed rate borrowings (Note 21 b)	31/12/2016	–	–	–	**–**
	31/12/2015	–	206	–	**206**

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	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015
	EUR'000	EUR'000	EUR'000	EUR'000
Financial assets				
Held–to–maturity financial assets	20,554	28,468	25,545	34,427
Derivative financial instruments not designated for hedging, including:				
– electricity forwards and futures	3,980	–	3,980	–
Derivative financial instruments used for hedging, including:				
– electricity forwards and futures	2,154	–	2,154	–
Financial liabilities				
Interest–bearing liabilities, including:				
– issued debt securities (bonds)	205,480	179,705	213,774	184,745
– floating rate borrowings	584,314	616,074	584,314	616,074
– fixed rate borrowings	–	202	–	206
Derivative financial instruments not designated for hedging, including:				
– electricity forwards and futures	23	2,558	23	2,558
– interest rate swaps	–	760	–	760
Derivative financial instruments used for hedging, including:				
– interest rate swaps	11,563	12,256	11,563	12,256

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

	2016	2015
	EUR'000	EUR'000
At the beginning of the year	**13,619**	**12,650**
Provisions transferred to transmission system operator*	–	(1,254)
Current service cost	1,649	1,604
Interest cost	204	195
Post–employment benefits paid	(1,352)	(734)
Losses as a result of changes in actuarial assumptions	2,946	1,158
Deferred income tax on re–measurement on defined post–employment benefit plan	(638)	–
At the end of the year	**16,428**	**13,619**

* provisions were transferred due transmission system assets construction and maintenance functions transfer as of 1 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), while losses as a result on re–measurement on defined post–employment benefit plan net of deferred income tax are included in the Consolidated Statement of Other Comprehensive Income, according to *IAS 19 Employee Benefits*:

	2016	2015
	EUR'000	EUR'000
At the beginning of the year	**13,619**	**12,650**
Charged to the Consolidated Statement of Other Comprehensive Income net of tax	2,308	1,158
Charged to the Consolidated Statement of Profit or Loss	501	(189)
At the end of the year	**16,428**	**13,619**

Weighted average discount rate used for discounting benefit obligations was 1.50% (2015: 1.71%), 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 3.0% (2015: 3.5%) 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 provisionsfor post–employment benefits	EUR'000	31/12/2016	1,945	(1,590)	1,886	(1,577)	2,071	(1,709)
	EUR'000	31/12/2015	1,464	(1,199)	1,426	(1,194)	1,581	(1,305)

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

	2016	2015
	EUR'000	EUR'000
At the beginning of the year	**2,365**	**2,938**
Charged to the Consolidated Statement of Profit or Loss	(150)	(573)
At the end of the year	**2,215**	**2,365**

The environmental provision in the amount of EUR 2,215 thousand (31/12/2015: EUR 2,365 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 1,191 thousand (31/12/2015: EUR 1,160 thousand) and Liepājas Enerģija SIA provision for the environmental recovery measures in the amount of EUR 1,024 thousand (31/12/2015: EUR 1,205 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

	31/12/2016	31/12/2015
	EUR'000	EUR'000
Deferred non–current income from connection fees	150,086	149,378
Deferred income on financing from European Union funds	45,013	46,681
Deferred income from plant and equipment received free of charge	308	327
TOTAL other liabilities and deferred income	**195,407**	**196,386**

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

	2016	2015
	EUR'000	EUR'000
At the beginning of the year	**160,933**	**156,382**
Received fees	13,587	16,172
Credited to the Consolidated Statement of Profit or Loss (Note 6 "Other revenue")	(12,324)	(11,621)
At the end of the year	**162,196**	**160,933**

24. Trade And Other Payables

	31/12/2016	31/12/2015
	EUR'000	EUR'000
Financial liabilities:		
Payables for materials and services	54,366	44,499
Payables for electricity	20,275	22,518
Accrued expenses	7,315	7,514
Other financial current payables	6,599	6,417
Total financial liabilities	**88,555**	**80,948**
Non–financial liabilities:		
State social security contributions and other taxes	12,536	10,318
Advances received	12,845	8,612
Other current payables	3,881	3,896
Total non–financial liabilities	**29,262**	**22,826**
TOTAL trade and other current payables	**117,817**	**103,774**

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 Shareholder of the Parent Company who controls or who has significant influence over the Group's entities in accepting operating business decisions, members of Management boards and Supervisory boards of the Group's entities, 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.

Trading transactions taking place under normal business activities with the Latvian government including its departments and agencies and transactions between state–controlled entities and providers of public utilities, for which the IAS 24 exemptions have been applied and which do not represent a significant portion of a type of transaction, are excluded from the scope of related party disclosures. Quantification of transactions with those related parties is impossible due to broad range of the Group's customers.

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

	31/12/2016	31/12/2015
	EUR'000	EUR'000
Trade payables to related parties:		
– Other related parties*	236	252
TOTAL payables	**236**	**252**

* Pirmais Slēgtais Pensiju Fonds AS

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 and members of the of Supervisory 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 31 December 2016 the Group had commitments amounting to EUR 264.7 million (31/12/2015: EUR 235.8 million) for capital expenditure contracted but not delivered at the end of the reporting period.

In 2017 Latvenergo AS has issued support letters to its subsidiaries Enerģijas publiskais tirgotājs AS, Sadales tīkls AS and Latvijas elektriskie tīkli AS 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 7 February 2017 Enerģijas publiskais tirgotājs AS received a part of state budget compensation in the amount of 19,7 million EUR.

On 16 February 2017 Enerģijas publiskais tirgotājs AS submitted to Public Utilities Commission calculation of mandatory procurement public service obligation fees as of 1 April 2017 in the amount of EUR 2.679 cents/kWh.

On 16 February 2017 international credit rating agency Moody's Investors Service has affirmed the credit rating of Latvenergo AS to Baa2 (stable).

According to Energy Law, since 3 April 2017 natural gas market in Latvia is fully open for all users.

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 31 December 2016.

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INDEPENDENT AUDITOR'S REPORT

To the shareholder of Latvenergo AS

Opinion

We have audited the accompanying consolidated financial statements of Latvenergo AS and its subsidiaries (the Group) set out on pages 9 to 52 of the accompanying consolidated annual report, which comprise the consolidated statement of financial position as at 31 December 2016 and the consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2016 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing adopted in the Republic of Latvia (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the independence requirements included in the Law on Audit Services of Republic of Latvia that are relevant to our audit of the consolidated financial statements in the Republic of Latvia. We have fulfilled our other ethical responsibilities in accordance with the Law on Audit Services of Republic of Latvia and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How we addressed the key audit matter
Revenue recognition During the financial year the Group recognized in the statement of profit or loss the revenue amounting to 931 619 thousand EUR, as disclosed in *Note 6. Revenue*. Accurate revenue recognition is inherently more complex in the energy sector when compared to some other industries due to the large number of the Group's customers, including both residential and corporate customers, and various pricing arrangements included in the range of products and services provided to different groups. Given the variety of contractual terms with the Group's customers, as well as different revenue streams and product types included in each stream, revenue recognition is considered to be relatively complex and requires, among other things, continual operating effectiveness of controls over the various categories of revenue streams. Revenue recognition was significant to our audit due to the materiality of revenue to the consolidated financial statements and the variety of products and price components included in revenue.	We performed following procedures, among others: • we tested a sample of IT dependent manual controls implemented over revenue recognition and measurement for electricity supply, electricity services and distribution system services revenue streams; • we tested relevant IT system controls over revenue recording, calculation of amounts billed to the Group's customers and matching of cash receipts to the Group's customers' accounts; • we obtained external customer confirmations regarding heat sales and lease and the management of the transmission system assets revenue stream amounts recognized by the Group; • we performed analytical review procedures by forming an expectation of revenue based on the key performance indicators, including taking into consideration the number and composition of the Group's customers, electricity supply volumes, changes in electricity prices and also comparing the results of our analysis against the prior reporting period and • we tested a sample of revenue transactions near the financial year end for appropriate accounting period. We also assessed the adequacy of the revenue related disclosures contained in *Note 2.24. Revenue recognition, Note 5. Operating Segment Information* and *Note 6. Revenue.*
Revaluation of electricity distribution system buildings and facilities and transmission system property, plant and equipment (PPE)	
Property, plant and equipment (PPE) as at 31 December 2016 constitutes 3 355 797 thousand EUR, which corresponds to 86% of the Group's total assets recognized in the statement of the financial position. PPE, as disclosed in *Note 2.6. Property, plant and equipment*, is carried at historical cost or revalued amounts less accumulated depreciation and accumulated impairment loss. As per the Group's policy outlined in *Note 2.8. Revaluation of property, plant and equipment* certain groups of PPE are revalued regularly but not less frequently than every five years. During the financial year certain PPE groups - electricity distribution system buildings and facilities and transmission system PPE - were revalued by applying the depreciated replacement cost model (*Note 14. c) Property, plant and equipment revaluation*). The management of the Group used an external appraisal to carry out the revaluation of these PPE groups with the revaluation date of 1 April 2016.	We involved our valuation specialists to assess the revaluation models, assumptions and methods used by the management in the revaluations. We discussed the revaluation model with the management and the external appraiser. We also assessed the information and assumptions used and we tested the data used in the revaluation models on sample basis to the source data. We evaluated the recognition and measurement of the results of the revaluation as shown in the consolidated financial statements *Note 14 a) Property, plant and equipment* and compared the accounting treatment applied to the requirements of International Financial Reporting Standards as adopted by the European Union. For a sample of revalued PPE items, we tested the accounting treatment on individual transaction level in the Group's accounting system.

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As a result of upward revaluation of the electricity distribution system buildings and facilities as at the revaluation date a gross revaluation reserve of 286 528 thousand EUR (excluding the effect of deferred income tax) was recognized in equity and the result of downward revaluation of 23 988 thousand EUR was charged to the statement of profit or loss in the year 2016. For the electricity transmission system PPE these amounts were 30 513 thousand EUR and 11 786 thousand EUR, respectively.

Revaluation of these PPE involves significant estimates and assumptions, such as the selection of appropriate valuation method, estimation of remaining useful lifetime and condition of PPE items, market knowledge and data on the historical transactions provided by the management to the external experts.

This matter is one of the most significance to the audit given the size and complexity of the revaluation of the PPE of distribution and transmission system and the importance of the disclosures relating to the assumptions used in the revaluation.

Finally, we also evaluated the disclosures relating to the revaluation model, revaluation outcome and the assumptions used as disclosed in *Note 4. Critical Accounting estimates and judgements sub-section a) III) Revaluation* and *in Note 14. c) Property, plant and equipment revaluation.*

Impairment assessment of property, plant and equipment

As at 31 December 2016, the Group has recognized PPE amounting to 3 355 797 thousand EUR reported in the statement of the financial position and disclosed in *Note 14 a) Property, plant and equipment.* The Group performed impairment tests based on the value in use estimation for distribution system assets, transmission system assets and assets of Riga Combined Heat and Power Plant, each representing a separate cash generating unit (CGU). An additional impairment of charge of 10 140 thousand EUR was recorded in the statement of profit or loss for Riga Combined Heat and Power Plant CGU in the year 2016, while for other CGU's no impairment charge has been recognized as a result of impairment tests (*Note 14. d) Impairment*).

In relation to the impairment tests for the assets of the distribution and transmission systems significant assumptions used by the management include the selection of discount rate, pricing forecast for major revenue streams, which are contingent on regulatory pre-approvals, and assumptions related to capital investment plans.

For all three CGU impairment tests we involved our valuation specialists to assist with the assessment of the impairment test models, discount rates applied in each model and other significant management assumptions as described.

We discussed with the management the appropriateness of the information and data used in the impairment tests. We compared the most significant inputs to the source data. We also compared the amounts used by the management in the cash flow forecasts with the historical results and compared the estimated cash flows with the long term budgets approved by the management.

Finally, we evaluated the adequacy of the Group's disclosures in relation to the impairment tests and the outcome of these tests as disclosed in *Note 4. Critical Accounting estimates and judgements sub-section a) II) Recoverable amount of property, plant and equipment* and in *Note 14. d) Impairment.*

Riga Combined Heat and Power Plant CGU impairment test is based on significant assumptions in relation to the selection of discount rate, variable revenue stream forecast in view of legislation regulating the cogeneration unit capacity component payments and the terminal value calculation.

Impairment test was significant to our audit as it involves significant management judgements applied in the cash flow forecasts.

Other information included in the Group's 2016 Annual Report

Management is responsible for the other information. Other information consists of:

- the Management Report as set out on pages 4 to 8 of the accompanying consolidated annual report and
- the Statement of Corporate Governance for the year 2016, set out in separate statement provided by Latvenergo AS management and available on the Latvenergo AS website http://www.latvenergo.lv section *Investors*,

but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, except as described in the *Other reporting responsibilities in accordance with the legislation of the Republic of Latvia* section of our report.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed and in light of the knowledge and understanding of the Group and its environment obtained in the course of our audit, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Other reporting responsibilities in accordance with the legislation of the Republic of Latvia

We have other reporting responsibilities in accordance with the Law on Audit Services of the Republic of Latvia with respect to the Management Report. These additional reporting responsibilities are beyond those required under the ISAs.

Our responsibility is to consider whether the Management Report is prepared in accordance with the requirements of the Law on Annual Reports and Consolidated Annual Reports of the Republic of Latvia.

Based solely on the work required to be undertaken in the course of our audit, in our opinion:

- information given in the Management Report for the financial year for which the consolidated financial statements are prepared is consistent with the consolidated financial statements, and
- the Management Report has been prepared in accordance with the requirements of the Law on Annual Reports and Consolidated Annual Reports of the Republic of Latvia.

In addition, in accordance with the Law on Audit Services of the Republic of Latvia with respect to the Statement of Corporate Governance, our responsibility is to consider whether the corporate governance report includes the information required in the clause $56.^{1}$ first paragraph clauses 3, 4, 6, 8 and 9 and the section 56^{2} second paragraph clause 5 of the Law on Financial Instruments Market of the Republic of Latvia.

In our opinion, the Statement of Corporate Governance includes the information required in the $56.^{1}$ first paragraph clauses 3, 4, 6, 8 and 9 and the section 56^{2} second paragraph clause 5 of the Law on Financial Instruments Market of the Republic of Latvia.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditor's report is Diāna Krišjāne.

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

Riga,

18 April 2017