

2017

LATVENERGO GROUP CONSOLIDATED
AND LATVENERGO AS
ANNUAL REPORT



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FINANCIAL CALENDAR

Interim Condensed Financial Statements:

For the 3 months of 2018 (unaudited) – 31.05.2018

For the 6 months of 2018 (unaudited) – 31.08.2018

For the 9 months of 2018 (unaudited) – 30.11.2018

* FINANCIAL STATEMENTS ARE PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EU



LATVENERGO GROUP KEY FIGURES

Financial figures

EUR'000

	2017	2016	2015	2014	2013
Revenue	925,627	931,619	929,128	1,010,757	1,099,893
EBITDA ¹⁾	541,696	393,399	307,015	236,838	248,694
Operating profit ²⁾	234,082	160,773	108,188	49,243	61,091
Profit before tax ³⁾	224,114	148,945	92,535	31,510	48,841
Profit	322,021	130,593	85,039	29,790	46,149
Dividends ⁴⁾	90,142	77,413	31,479	23,605	40,618
Total assets	4,415,725	3,901,231	3,517,372	3,486,576	3,575,358
Non-current assets	3,343,404	3,388,954	3,113,719	3,109,253	3,128,064
Total equity	2,846,891	2,418,713	2,096,702	2,020,801	2,021,714
Borrowings	826,757	791,566	797,483	827,222	944,675
Net debt ⁵⁾	590,754	607,586	692,940	706,211	689,252
Net cash flows from operating activities	338,209	341,186	246,278	135,329	146,540
Investments	243,811	200,677	190,461	177,607	224,868

Financial ratios

	2017	2016	2015	2014	2013
EBITDA margin ⁶⁾	58.5%	42.2%	33.0%	23.4%	22.6%
Operating profit margin ⁷⁾	25.3%	17.3%	11.6%	4.9%	5.6%
Profit before tax margin ⁸⁾	24.2%	16.0%	10.0%	3.1%	4.4%
Profit margin ⁹⁾	34.8%	14.0%	9.2%	2.9%	4.2%
Equity-to-asset ratio ¹⁰⁾	64%	62%	60%	58%	57%
Net debt / EBITDA ¹¹⁾	1.1	1.7	2.3	2.9	2.6
Net debt / equity ¹²⁾	0.21	0.25	0.33	0.35	0.34
Current ratio ¹³⁾	3.2	1.7	1.9	1.3	1.6
Return on assets (ROA) ¹⁴⁾	7.7%	3.5%	2.4%	0.8%	1.3%
Return on equity (ROE) ¹⁵⁾	12.2%	5.8%	4.1%	1.5%	2.3%
Return on capital employed (ROCE) ¹⁶⁾	6.8%	5.3%	3.8%	1.7%	2.1%
Dividend pay-out ratio ¹⁷⁾	66%	82%	90%	92%	92%

Operational figures

		2017	2016	2015	2014	2013
Total electricity supply, incl.:	GWh	10,371	10,140	9,868	9,427	9,408
Retail*	GWh	6,923	7,665	7,961	8,800	8,065
Wholesale**	GWh	3,448	2,474	1,907	627	1,343
Electricity generated	GWh	5,734	4,707	3,882	3,625	4,854
Thermal energy generated	GWh	2,612	2,675	2,408	2,560	2,566
Number of employees		3,908	4,131	4,177	4,563	4,512
Moody's credit rating		Baa2 (stable)	Baa2 (stable)	Baa2 (stable)	Baa3 (stable)	Baa3 (stable)

* Including operating consumption

** Including sale of energy purchased within the mandatory procurement on the Nord Pool

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⁾ Dividends paid to the equity holder of the Parent Company. (see Note 20 b)

⁵⁾ Net debt = borrowings at the end of the year minus cash and cash equivalents at the end of the year

⁶⁾ EBITDA margin = EBITDA / revenue

⁷⁾ Operating profit margin = operating profit / revenue

⁸⁾ Profit before tax margin = profit before tax / revenue

⁹⁾ Profit margin = profit / revenue

¹⁰⁾ Equity-to-asset ratio = total equity at the end of the year / total assets at the end of the year

¹¹⁾ 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)

¹²⁾ Net debt / equity = net debt at the end of the year / equity at the end of the year

¹³⁾ Current ratio = current assets at the end of the year / current liabilities at the end of the year

¹⁴⁾ Return on assets (ROA) = profit / average value of assets ((assets at the beginning of the year + assets at the end of the year) / 2)

¹⁵⁾ Return on equity (ROE) = profit / average value of equity ((equity at the beginning of the year + equity at the end of the year) / 2)

¹⁶⁾ 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))

¹⁷⁾ Dividend pay-out ratio = dividends / profit of the Parent Company



LATVENERGO AS KEY FIGURES

Financial figures

EUR'000

	2017	2016	2015	2014*	2013*
Revenue	498,580	513,563	521,146	564,550	809,575
EBITDA ¹⁾	387,100	241,606	180,982	105,052	121,007
Operating profit ²⁾	177,416	141,071	90,475	18,158	27,880
Profit before tax ³⁾	185,906	156,290	103,212	35,045	29,928
Profit	150,891	137,441	94,750	34,800	25,659
Dividends ⁴⁾	90,142	77,413	31,479	23,605	40,618
Total assets	3,649,200	3,204,394	3,124,054	3,104,592	3,231,169
Non-current assets	2,546,014	2,626,560	2,638,048	2,634,150	2,678,442
Total equity	2,382,638	2,177,069	2,114,900	2,047,666	2,042,434
Borrowings	814,772	778,323	782,965	810,681	921,370
Net debt ⁵⁾	581,917	597,126	681,146	721,715	676,616
Net cash flows from operating activities	202,798	201,427	174,797	94,604	9,097
Investments	89,278	79,913	78,694	52,465	66,627

* all financial figures for 2013 – 2014 re-measured according to IFRS principles

Financial ratios

	2017	2016	2015	2014	2013
EBITDA margin ⁶⁾	77.6%	47.0%	34.7%	18.6%	14.9%
Operating profit margin ⁷⁾	35.6%	27.5%	17.4%	3.2%	3.4%
Profit before tax margin ⁸⁾	37.3%	30.4%	19.8%	6.2%	3.7%
Profit margin ⁹⁾	30.3%	26.8%	18.2%	6.2%	3.2%
Equity-to-asset ratio ¹⁰⁾	65%	68%	68%	66%	63%
Net debt / equity ¹¹⁾	0.24	0.27	0.32	0.35	0.33
Current ratio ¹²⁾	4.3	2.3	3.0	1.9	2.1
Return on assets (ROA) ¹³⁾	4.4%	4.3%	3.0%	1.1%	0.8%
Return on equity (ROE) ¹⁴⁾	6.6%	6.4%	4.6%	1.7%	1.3%
Return on capital employed (ROCE) ¹⁵⁾	5.8%	4.8%	3.1%	0.6%	1.0%
Dividend pay-out ratio ¹⁶⁾	66%	82%	90%	92%	92%

Operational figures

		2017	2016	2015	2014	2013
Retail electricity supply	GWh	4,619	5,290	5,422	5,748	5,984
Electricity generation	GWh	5,687	4,660	3,833	3,577	4,811
Thermal energy generation	GWh	2,354	2,422	2,179	2,312	2,310
Number of employees		1,431	1,472	1,464	1,439	1,428
Moody's credit rating		Baa2 (stable)	Baa2 (stable)	Baa2 (stable)	Baa3 (stable)	Baa3 (stable)

¹⁾ EBITDA – earnings before interest, income tax, share of result of associates, depreciation and amortisation, and impairment of intangible assets and property, plant and equipment

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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 (the Group) is the largest power supply provider in the Baltics operating in electricity and thermal energy generation and trade, natural gas trade, electricity distribution services and lease of transmission system assets. The parent company of Latvenergo Group is Latvenergo AS which is a power supply utility operating in electricity and thermal energy generation and trade, as well as natural gas trade in Latvia.

Operating Environment

In 2017, there was a convergence of electricity prices between the Nordic and the Baltic bidding areas. The average electricity spot price in the Latvian bidding area decreased by 3.9%, reaching 34.68 EUR/MWh. At the same time, the average electricity spot price in the Finnish bidding area increased to 33.19 EUR/MWh, while in the Swedish bidding area (SE4) it rose to 32.18 EUR/MWh.

Electricity price convergence between the Nordics and the Baltics

Electricity price convergence was mainly influenced by higher availability of the transmission interconnections (NordBalt and Estlink), lower water levels at Scandinavian hydropower reservoirs, and the relatively high level of electricity generation at the Daugava HPPs.

Until 3 April 2017, Latvian natural gas supply had been a fully regulated service and Latvijas Gāze AS was the only merchant in the territory of Latvia for natural gas supply service. On 3 April 2017, according to Energy Law stipulations, the natural gas market in Latvia was opened. After opening of the gas market, Latvenergo Group diversified its natural gas purchase portfolio, and now natural gas is also purchased from alternative sources of supply, including the Klaipeda Natural Gas Terminal. Meanwhile, use of Inčukalns Underground Gas Storage provides for timely reduction of natural gas purchase price risk exposure.

The natural gas market is open in Latvia

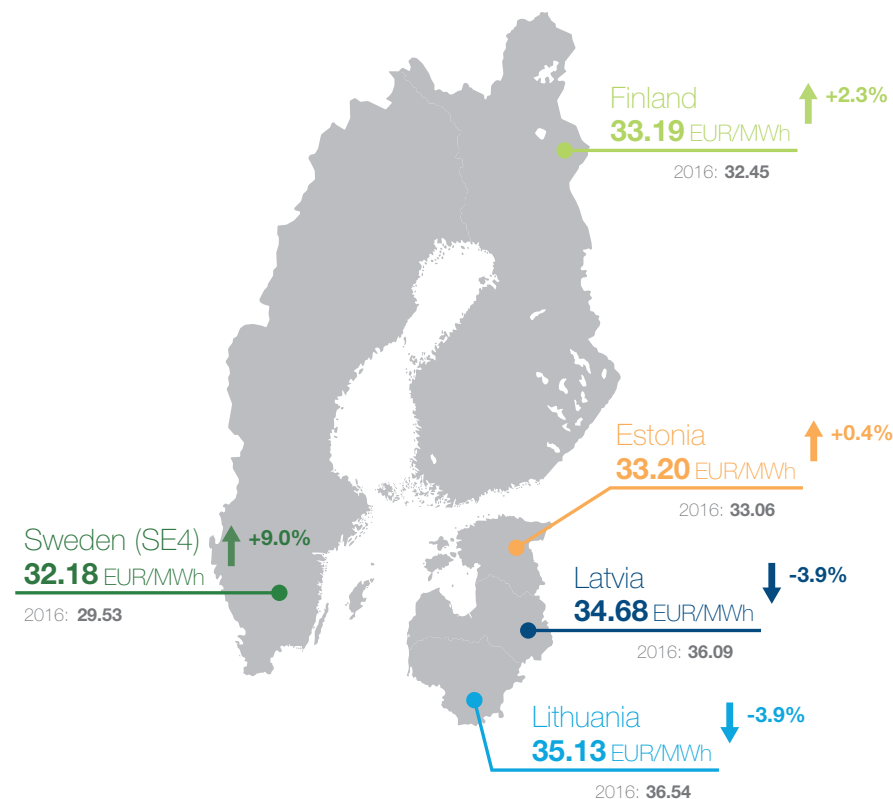
The price of natural gas in Latvia is affected by oil, coal and CO₂ emission prices. Due to the increase in oil, coal and CO₂ emission prices, there was an increase in the price of natural gas. In 2017, the average price of natural gas at the GASPOOL trading platform was 19.7% higher than in 2016, and at TTF it was 19.1% higher.

Significant Events

Latvenergo receives a one-off compensation for the Riga CHPPs' capacity payments

On 22 September 2017, the Cabinet of Ministers of the Republic of Latvia accepted the order "On the conceptual report 'Compound Measures for the Development of the Electricity Market'". It provides for an efficient and sustainable reduction of the mandatory procurement public service obligation

Electricity wholesale price on Nord Pool power exchange



fee for electricity users. The report envisages the establishment of a mechanism under which the state would reduce its future commitments in cogeneration power plants with installed electrical capacity above 100 MW by paying out a one-off payment, agreeing to a reduction of the support intensity in the future.

In October 2017, Latvenergo AS applied for a one-off compensation from the state, at the same time opting out of the receipt of 75% of the annual electrical capacity payments for cogeneration power plants Riga combined heat and power plant (CHPP)-1 and Riga CHPP-2. On 21 November 2017, the Cabinet of Ministers of the Republic of Latvia accepted an order which supports the reduction of the guaranteed support payments during the remaining support period for the installed capacity of Latvenergo AS Riga CHPPs. According to the order, Latvenergo AS obtained a government grant in the amount of EUR 454.4 million. The grant is divided into two parts, with the stipulation that EUR 140 million should be recognized as other income in the Group's and Latvenergo AS statement of profit or loss in 2017, while EUR 314.4 million should be recognized as deferred income in even distribution over the coming reporting periods and fulfilling obligations until the end of the support period – September 23, 2028. The compensation is financed by applying the rights of the state as



the Shareholder to carry out a capital release of Latvenergo AS which is done subsequently to the financial year end - in March 2018.

In the recent years, financial results of Latvenergo Group and Latvenergo AS have improved substantially. As of 31 December 2017, the Group's asset value reaches EUR 4.4 billion and its equity is EUR 2.8 billion. As of 31 December 2017, the Group's net debt to equity was 21% and its net debt to EBITDA ratio was 1.1. As of 31 December 2017 Parent Company's asset value reaches EUR 3.6 billion and its equity is EUR 2.4 billion, and the Parent Company's net debt to equity was 24%.

The impact of the abovementioned actions and results on the financial stability of Latvenergo Group has also been evaluated by the credit rating agency Moody's, which has published an Issuer Comment, but has not revised the credit rating of Latvenergo AS or its future outlook. Moody's sees that Latvenergo will be able to maintain adequate financial flexibility and key financial metrics at a level that corresponds to the current rating Baa2 with a stable future outlook.

With application for the compensation, Latvenergo AS has contributed to the reduction of mandatory procurement public service obligation fee (MP PSO fee). As of 1 January 2018, the fee has been reduced by 1 EUR/MWh and is now 25.79 EUR/MWh compared to the previous value of 26.79 EUR/MWh. Further MP PSO fee reduction is currently one of the issues under consideration by the government of Latvia.

Tax reform in Latvia

Starting from 2018 tax reform is implemented in Latvia. Henceforth, in accordance with the Law on Corporate Income Tax, CIT is not applied to profits, it is applied to distributed profits as dividends. As of 1 January 2018, distributed profits and conditionally distributed profits are taxed at a rate of 20% of the gross amount or 20/80 of the net amount. The calculated CIT on dividend payout is recognized in the profit and loss statement as expenses in the reporting period in which dividend payout is announced. CIT is applied to other conditionally distributed profits, which are recognized in the profit and loss statement as expenses at the moment costs are incurred.

New CIT regulation eliminated all temporary differences between the financial accounting basis and tax basis of assets and liabilities as of 1 January 2018. This means that deferred tax assets or liabilities will no longer be recognised in the balance sheet as of 31 December 2017. In accordance with the International Financial Reporting Standards, all deferred tax liabilities previously incurred are reversed and recorded as income in the profit and loss statement or in the balance sheet equity reserves, depending on how the deferred tax liabilities were originally recognized.

The value of Latvenergo Group's fixed assets exceeds EUR 3 billion. Taking into consideration the great value of its fixed assets, the Group has been making significant investments in order to ensure the reconstruction of its existing assets and construction of new assets. The considerable amount of investments made over many years have created significant deferred tax liabilities. At the end of 2016, deferred tax liabilities amounted to EUR 316 million. At the end of 2017, part of the deferred tax liabilities was reversed as income in the profit and loss statement (deferred income tax in the amount of EUR 149 million) and the remaining part was recorded in the long-term revaluation reserve (EUR 167 million).

Operating Results

Generation

In the reporting year, the total amount generated by Latvenergo Group's power plants comprised 5,734 GWh of electricity and 2,612 GWh of thermal energy.

Significantly higher electricity output generated at the Daugava HPPs

Overall, the amount of electricity generated increased by 22% compared to the previous year. In 2017, the amount of power generated at the Daugava HPPs increased by 74% compared to the previous year, reaching 4,270 GWh (in 2016: 2,449 GWh), which comprised 74% of the total electricity generated at the Group (2016: 52%). The increase was fostered by higher water inflow in the river Daugava. Electricity output generated at the Daugava HPPs in 2017 was the largest since 1998 and the third largest in observation history since the year 1966.

Taking into consideration increased production at the Daugava HPPs, the amount of power generated at the Riga CHPPs in 2017 decreased by 36% compared to the previous year, amounting to 1,411 GWh. The Riga CHPPs operated in a market conjuncture by effectively planning operating modes and fuel consumption.

In the reporting year, the total amount generated by Latvenergo Group's power plants comprised 5,734 GWh of electricity and 2,612 GWh of thermal energy (Latvenergo AS – 5,687 GWh and 2,354 GWh respectively).

The total amount of thermal energy generated by Latvenergo Group in 2017 decreased by 2% compared to the previous year. The decrease was influenced mainly by the relatively warm weather in the heating season. In addition, three independent heat producers started their operation in the Riga TEC-2 zone, thus increasing competition in the thermal energy market.

Trade

In 2017, Latvenergo Group maintained its leading position among energy companies in the Baltics. Latvenergo Group had approximately 27% of the market share of the Baltic electricity retail market.

Latvenergo – one of the leading electricity suppliers in the Baltics

The Group supplied 6.9 TWh of electricity to Baltic retail customers (in 2016: 7.7 TWh). The decrease in the amount of electricity supplied was primarily related to intensified competition in the business customer segment.

The overall amount of retail electricity trade outside Latvia accounts for 1/3 of the total, reaching 2.3 TWh. The electricity trade volume in Latvia is 4.6 TWh, while in Lithuania it is 1.3 TWh and in Estonia it is 1 TWh.

Latvenergo Group has managed to maintain a stable client portfolio in the Baltics. Its total number of electricity customers reaches 834 thousand, including more than 35 thousand foreign clients.

In 2017, two new products were introduced for the household segment. One of them is Elektrum Smart House, which allows for remote control of heating and home appliances. The second product is Elektrum solārais, which provides an opportunity to use independently generated electricity from sunlight.

Latvenergo launches natural gas trade to customers in Latvia and Estonia

In the reporting year, the Group also commenced natural gas trade to business customers in Latvia and Estonia by offering 12-month fixed-price contracts. The first contracts were signed with approximately 100 customers. Latvenergo is the second largest consumer of natural gas in the Baltics.



Financial Results

In 2017, Latvenergo Group's revenue remained at the same level as the previous year and comprises EUR 925.6 million. During the reporting year, Latvenergo Group's EBITDA increased by 38%, reaching EUR 541.7 million. The Group's EBITDA was positively impacted mainly by:

- 74% greater electricity output at the Daugava HPPs.
- one-off compensation for the Riga CHPPs' capacity payments in amount of EUR 454.4 million. Part of the compensation payment, in the amount of EUR 140 million, is recognized as the Group's revenue in 2017 and the remaining part, in the amount of EUR 314.4 million, is recognized as a deferred income in the Group's balance sheet.

The Group's EBITDA and profit has increased

However, the results were negatively impacted by lower electricity sales prices in the Baltics. Since 2016, the decrease in electricity prices in the Baltics has been impacted by the operation of the NordBalt electricity interconnection. The Group's net profit in 2017 is EUR 322.0 million, which consists of the Group's annual operating result in the amount of EUR 172.9 million and a deferred tax reversal in the amount of EUR 149.1 million as a result of the corporate income tax reform.

In line with the profit growth, also the financial ratios have similarly improved and they are in line with the Group's strategy and expectations.

In 2017, Latvenergo AS revenue decreased by 3% and comprises EUR 498.6 million. EBITDA increased by 60%, reaching EUR 387.1 million. Latvenergo AS EBITDA was impacted by the same factors as Latvenergo Group's EBITDA, details of which are set above. Latvenergo AS net profit in 2017 is EUR 150.9 million (2016: EUR 137.4 million).

Investments

In 2017, the total amount of the Group's investment increased by EUR 43 million or 21% compared to the previous year, it amounted to EUR 243.8 million. The increase resulted mainly from the greater investment in the transmission segment and the generation segment. Latvenergo AS investment amounted EUR 89.3 million in 2017 (2016: EUR 79.9 million).

Investment in power network assets – approximately 2/3 of the total

To ensure high quality power network service, technical parameters and operational safety, a significant amount is invested in the modernization of the power network. In the reporting year, the amount invested in power network assets represented 65% of total investment.

Investments in distribution assets during the reporting year reached EUR 107.7 million. The purpose of investments in the distribution segment is to promote the quality and security of the energy supply, reduce the frequency and duration of power supply disruptions caused by planned and unplanned maintenance, and ensure the appropriate voltage quality. Investments in modernization of distribution assets have increased the quality of distribution services by lowering System Average Interruption Frequency Index (SAIFI) and System Average Interruption Duration Index (SAIDI) indicators. Since 2013, SAIDI has decreased by 58% and SAIFI has decreased by 38%.

During the reporting year, investment in transmission system assets was in the amount of EUR 63.1 million. The amount of investments increased two and a half times compared to the previous year. The largest investment was made in the energy infrastructure project Kurzeme Ring.

In 2017, EUR 34.7 million was invested in this project. The Kurzeme Ring project will increase the safety level of power supply in the Kurzeme region and Latvia as a whole, providing an opportunity for more efficient use of the Lithuania-Sweden marine cable NordBalt and allowing further integration of the Baltics into the Nordic electricity market.

Contributing to environmentally friendly projects, in 2017, EUR 41.8 million was invested in the Daugava hydropower plants' (HPPs) hydropower unit reconstruction. Gradual overhaul of eleven Daugava HPPs hydropower units 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. At the end of the reporting year, work completed within the scope of the contract reached EUR 128.4 million. The first reconstructed hydropower unit of Plavinas HPP was put into operation at the end of 2017.

Funding

Latvenergo Group finances its investments from its own resources and external long-term borrowings, which are regularly sourced in financial and capital markets in a timely manner.

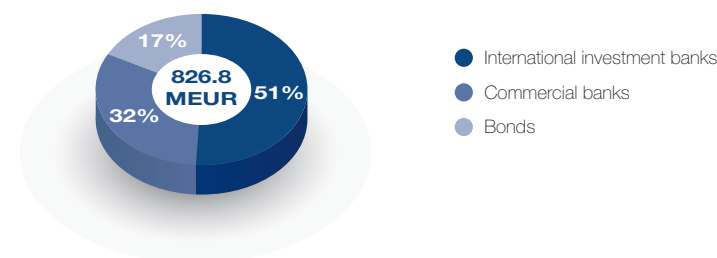
Best investor relations among Baltic bond issuers

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

On December 15, 2017, the first repayment of the principal amount of maturing bonds amounting to EUR 70 million was executed.

As of 31 December 2017, the Group's borrowings amount to EUR 826.8 million (31 December 2016: EUR 791.6 million), comprising loans from commercial banks, international investment banks, and bonds amounting to EUR 135 million, of which EUR 100 million are green bonds.

Debt by source of financing



As of 31 December 2017, the net borrowings of Latvenergo Group are EUR 590.8 million (31 December 2016: EUR 607.6 million), while the net debt / EBITDA ratio is 1.1 (31 December 2016: 1.7).

On 7 September 2017, the credit rating agency Moody's did not revise the credit rating of Latvenergo AS at the Baa2 level with a stable future outlook. In the assessment, Moody's also took into account the one-off compensation from the state, the planned changes in the support intensity for the Riga CHPPs and the planned Latvenergo AS capital release.



Corporate Governance

In the reporting year, Latvenergo Group's corporate governance improvement process has been continued.

Improved Corporate Governance

In March 2017, the Supervisory Board of Latvenergo AS established the Human Resources Committee for personnel management matters. The Human Resources Committee has been assigned the duty of preparing proposals for the Supervisory Board regarding the selection, remuneration and performance evaluation of the personnel of the Management Board, Audit Committee and internal audit of Latvenergo AS and the combining of positions. The Committee consists of three members who are elected by the Supervisory Board from among the Members of the Supervisory Board. Mārtiņš Bičevskis, Baiba Anda Rubesa and Andris Liepiņš were elected to the Committee.

Due to the amendments to the Law on the Financial Instruments Market, Supervisory Board Members Andris Ozoliņš and Andris Liepiņš were added to the Audit Committee in March 2017.

Along with the financial results of Latvenergo Group, also the Corporate Governance Report of Latvenergo AS for 2017 is published. The company has complied with all applicable principles of corporate governance in all key material aspects.

Non-Financial Report

Latvenergo Group has prepared a non-financial report in accordance with the Law on the Financial Instruments Market (Article 56⁴).

Latvenergo Group complies not only with the statutory requirements, but also voluntarily takes responsibility for its impact on society, the environment and the national economy, thus contributing to the sustainable development of the Group. By providing value added products and services, the Group aspires to operational processes that do not undermine public welfare and health, and have no adverse effect on the environment. Through corporate social responsibility (CSR) activities, the Group promotes a responsible business environment in the Baltic region. In everyday work the Group follows the principles of the Corporate Social Responsibility in compliance with the ISO 26000:2010 standard.

The Latvenergo Group's Corporate Social Responsibility policy specifies the basic CSR principles, directions and criteria. The Group implements CSR activities in line with its operations and strategic goals, raising public awareness of responsible business conduct and the energy industry, making a substantial long-term impact and ensuring the involvement of large groups of society.

Along with the sustainable and well-considered investments in the energy generation and network development, Latvenergo Group makes a direct economic contribution to the whole society – through the taxes paid to the state budget, dividends, and job creation. Efficiency plays an important role throughout the energy generation and supply process, thus improving the competitiveness and the service quality.

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

The Group's activities are focused on providing such electricity services that meet customers' needs and are competitive. At the same time, Latvenergo Group is building loyal and mutually rewarding relationships with its customers. Meanwhile, the electricity distribution services are based on the qualitative and reliable electricity supply to the residents of Latvia. In order to achieve these goals, the Group complies with the fundamental principles of the cost-effectiveness and operational excellence.

The Group is aware of the role of the environmental protection for a sustainable development and implements the key principles related to the environmental protection in all its operations. Continuing the progress made so far, the Latvenergo Group's Strategy 2017–2022 sets the environmental protection as one of its priorities regarding the energy generation and supply.

The Latvenergo Group's management acknowledges that its employees – their diversity and competencies – provide a valuable opportunity to view things from different perspectives, thus achieving better results. The Group attracts and develops managers and leaders capable of driving its advancement and ensuring that its employees' competences contribute to the achievement of the goals set and are suitable for future needs. The Group's management has set employee engagement and development and the creation of a work environment that promotes innovation as the basis for the successful future growth of the Group and its employees.

Non-financial report is in accordance with the GRI Standards

For more information on CSR activities, description of the policies and procedures in relation to those matters, the outcome of the policies, risks and risk management, and non-financial key performance indicators, please see the Sustainability Report 2017 which is available on the Latvenergo website: <https://www.latvenergo.lv/eng/investors/reports/>. The report is prepared in accordance with the GRI Standards – Core option requirements.

Further Development

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

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

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

Along with the strategy approval, Latvenergo Group's financial targets have been set in the strategy. The targets are divided into three groups – profitability, capital structure and dividend policy.

The financial targets are set to ensure:

- ambitious, yet achievable profitability, which is consistent with the average ratios of benchmark companies in the European energy sector and provides for an adequate return on the business risk;
- an optimal and industry-relevant capital structure that limits potential financial risks;
- an adequate dividend policy that is consistent with the planned investment policy and capital structure targets.



Target group	Ratio	Year 2022
Profitability	Return on equity (ROE)	> 6%
Capital structure	Net debt to equity	< 50%
	Net debt to EBITDA	< 3 times
Dividend policy	Dividend payout ratio	> 80%

Strategy development included a detailed analysis of the industry and operating environment, an evaluation of business opportunities, and discussions with industry experts and stakeholders.

Comprehensive Efficiency Programme

Taking into consideration the defined development directions of the Group, on 14 November 2017 the Management Board of Latvenergo AS approved the Strategic Development and Efficiency Programme. While the strategic development section includes major strategic projects, the efficiency section provides for the revision, centralization and digitalization of the Group's processes in order to maintain the Group's profitability in the long term considering the increase in costs due to inflation. The estimated efficiency potential for the Group's EBITDA is up to EUR 30 million. This is the Group's largest optimization plan in the last decade, and it will allow the Group to increase its value in the long-term and to remain competitive in an open market and a changing energy industry.

Financial Risk Management

The activities of Latvenergo Group and Latvenergo AS are exposed to a variety of financial risks: market risks, credit risk, and liquidity and cash flow risk. Latvenergo Group's Financial Risk Management Policy focuses on eliminating the potential adverse effects from such risks on financial performance. In the framework of financial risk management, Latvenergo Group and Latvenergo AS uses various financial risk controls and hedging to reduce certain risk exposures.

a) Market risks

I) Price risk

Price risk might negatively affect the financial results of the Group and the Parent Company due to falling revenue from generation and a mismatch between floating market prices and fixed retail prices.

The main sources of Latvenergo Group's and Latvenergo AS exposure to price risk are the floating market prices of electricity on the Nord Pool power exchange in Baltic bidding areas and the fuel price for CHPPs. The financial results of the Group and the Parent Company may be negatively affected by the volatility of the electricity market price, which depends on the weather conditions in the Nordic countries, global prices of resources, and the influence of local factors (water availability and ambient air temperature) on electricity generation opportunities. Due to supply-demand factors and seasonal fluctuations, natural gas price volatility may have a negative effect on the difference between fixed retail electricity prices in contracts with customers and variable generation costs at CHPPs.

In order to hedge the price risk, the Group and the Parent Company enters into long-term fixed price customer contracts, uses electricity financial derivatives and enters into fixed price contracts for natural gas supply. The impact of price risk on generation is hedged gradually – 80%–90% of projected electricity output is sold prior to the upcoming year. Further hedging of risk is limited by the seasonal generation pattern of the Daugava HPPs.

II) Interest rate risk

Latvenergo Group's and Latvenergo AS interest rate risk mainly arises from long-term borrowings at variable rates. They expose the Group and the Parent Company to the risk that finance costs might increase significantly when the reference rate surges. Most of the borrowings from financial institutions have a variable interest rate, comprising 3, 6 or 12-month EURIBOR and a margin. The Group's Financial Risk Management Policy stipulates maintaining at least 35% of its borrowings as fixed interest rate borrowings (taking into account the effect of interest rate swaps and issued bonds) with a duration of 2–4 years. Taking into account the effect of interest rate swaps and bonds with a fixed interest rate, 54% of the Group's and 55% of the Parent Company's borrowings had a fixed interest rate with an average period of 2.0 years both for the Group and the parent Company as of 31 December 2017.

III) Currency risk

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

As of 31 December 2017, all borrowings of Latvenergo Group and Latvenergo AS are denominated in euros, and during the reporting year, there was no substantial exposure to foreign currency risk in relation to the Group's investments.

The Financial Risk Management Policy provides for management of the Group's and the Parent Company's foreign currency exchange risk against functional currency. To manage the Group's and the Parent Company's foreign currency exchange risk arising from future transactions and recognised assets and liabilities, the Financial Risk Management Policy envisages use of forward contracts.

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 receivables. Credit risk exposure of receivables is limited due to the large number of Group customers as there is no significant concentration of credit risk with any single counterparty or group of counterparties with 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 simultaneously choose the best offers and reduce the probability of incurrence of loss. No credit limits were exceeded during the reporting year, and the management does not expect any losses due to the occurrence of credit risk.

c) Liquidity risk and cash flow risk

Latvenergo Group's liquidity and cash flow risk management policy is to maintain a sufficient amount of cash and cash equivalents and the availability of long and short-term funding through an adequate amount of committed credit facilities in order to meet existing and expected commitments and compensate for fluctuations in cash flows due to the occurrence of a variety of financial risks. On 31 December 2017, Latvenergo Group's liquid assets (cash and short-term deposits up to 3 months) reached EUR 236.0 million (2016: EUR 184.0 million), while the Latvenergo AS liquid assets reached EUR 232.9 million (2016: EUR 181.2 million).

The Group and the Parent Company continuously monitors cash flow and liquidity forecasts, which comprise the 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 and Latvenergo AS after the reporting period are disclosed in Note 27 of the Group's and the Parent Company's Financial Statements.



Statement of Management Responsibility

Based on the information available to the Management Board of Latvenergo AS, the Latvenergo Group Consolidated and Latvenergo AS Annual Report 2017, including the Management Report, have been prepared in accordance with the International Financial Reporting Standards and in all material aspects present a true and fair view of the assets, liabilities, financial position, profit and loss and its cash flows of Latvenergo Group and Latvenergo AS. Information provided in the Management Report is accurate.

The Management Board of Latvenergo AS:

Āris Žīgurs

Chairman of the Management Board

17 April 2018

Guntars Baļčūns

Member of the Management Board

Uldis Bariss

Member of the Management Board

Māris Kuņickis

Member of the Management Board

Profit Distribution

Fulfilling the requirements of the Article No. 41 of the law "On the State budget 2018" that determines the amount of dividends payable in the year 2018, the Management Board of Latvenergo AS proposes to pay out in dividends EUR 94.2 million, that consists from Latvenergo AS profit of 2017 in the amount of EUR 29.8 million and profit of 2016 in the amount of EUR 64.4 million, and the rest of Latvenergo AS profit of 2017 – EUR 121.1 million, to leave undistributed as retained earnings with a purpose to take the decision on pay out as dividends simultaneously with the decision on the distribution of Latvenergo AS profit of 2018.



FINANCIAL STATEMENTS

Statement of Profit or Loss

EUR'000

	Notes	Group		Parent Company	
		2017	2016	2017	2016
Revenue	6	925,627	931,619	498,580	513,563
Other income	7	149,950	6,656	147,502	3,115
Raw materials and consumables used	8	(346,911)	(385,814)	(153,954)	(186,258)
Personnel expenses	9	(113,289)	(96,019)	(44,892)	(39,165)
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	13 a, 14 a	(307,614)	(232,626)	(209,684)	(100,535)
Other operating expenses	10	(73,681)	(63,043)	(60,136)	(49,649)
Operating profit		234,082	160,773	177,416	141,071
Finance income	11 a	1,243	2,328	11,433	12,958
Finance costs	11 b	(11,211)	(14,156)	(12,054)	(14,772)
Dividends received from subsidiaries	15 a	–	–	9,111	17,033
Profit before tax		224,114	148,945	185,906	156,290
Current income tax	12	(51,199)	(23,498)	(45,097)	(20,331)
Deferred tax changes	12	149,106*	5,146	10,082*	1,482
Profit for the year		322,021	130,593	150,891	137,441
Profit attributable to:					
– Equity holder of the Parent Company		319,670	129,045	150,891	137,441
– Non-controlling interests		2,351	1,548	–	–
Basic earnings per share (in euros)	20 c	0.250	0.100	0.117	0.107
Diluted earnings per share (in euros)	20 c	0.250	0.100	0.117	0.107

* in 2017 deferred tax liabilities reversed in the Statement of Profit or Loss in accordance with the changes of tax regulations and laws of the Republic of Latvia starting from 1 January 2018

The notes on pages 15 to 65 are an integral part of these Financial Statements.

Arīš Žīgurs

Chairman of the Management Board

Guntars Baļčūns

Member of the Management Board

Statement of Comprehensive Income

EUR'000

	Notes	Group		Parent Company	
		2017	2016	2017	2016
Profit for the year		322,021	130,593	150,891	137,441
<i>Comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax):</i>					
Gains from change in hedge reserve	20 a, 21 c	5,422	2,847	5,422	2,847
Net comprehensive income to be reclassified to profit or loss in subsequent periods		5,422	2,847	5,422	2,847
<i>Comprehensive income / (loss) not to be reclassified to profit or loss in subsequent periods (net of tax):</i>					
Gains on revaluation of property, plant and equipment	20 a	18,842	269,485	18,842	–
Gains / (losses) as a result of re-measurement on defined post-employment benefit plan	22 a	3,460	(2,308)	1,053	(890)
Reversal of deferred income tax	12	169,978	–	119,503	–
Net comprehensive income not to be reclassified to profit or loss in subsequent periods		192,280	267,177	139,398	(890)
Comprehensive income for the year, net of tax		197,702	270,024	144,820	1,957
Total comprehensive income for the year		519,723	400,617	295,711	139,398
Attributable to:					
– Equity holder of the Parent Company		517,372	399,069	295,711	139,398
– Non-controlling interests		2,351	1,548	–	–

The notes on pages 15 to 65 are an integral part of these Financial Statements.

Uldis Bariss

Member of the Management Board

Māris Kuņickis

Member of the Management Board

Liāna Keldere

Accounting director of Latvenergo AS

17 April 2018



Statement of Financial Position

EUR'000

		Group		Parent Company	
	Notes	31/12/2017	31/12/2016	31/12/2017	31/12/2016
ASSETS					
Non-current assets					
Intangible assets	13 a	13,413	14,534	17,461	18,769
Property, plant and equipment	14 a	3,308,985	3,355,797	1,231,454	1,322,518
Investment property	14 b	753	563	64,807	72,833
Non-current financial investments	15	40	40	817,048	817,048
Non-current loans to subsidiaries	25 e, f	–	–	397,976	377,380
Other non-current receivables	17 b	3,229	986	284	978
Investments in held-to-maturity financial assets	21 a	16,984	17,034	16,984	17,034
Total non-current assets		3,343,404	3,388,954	2,546,014	2,626,560
Current assets					
Inventories	16	76,247	41,458	61,744	9,118
Prepayment for inventories	16	81	–	80	16,693
Receivables from contracts with customers	17 a	105,369	118,925	82,799	102,056
Other current receivables	17 b	646,761	155,033	18,079	11,603
Deferred expenses		3,241	3,227	2,205	2,189
Current loans to subsidiaries	25 e, f	–	–	700,805	245,324
Derivative financial instruments	21 c	4,619	6,134	4,619	6,134
Investments in held-to-maturity financial assets	21 a	–	3,520	–	3,520
Cash and cash equivalents	18	236,003	183,980	232,855	181,197
Total current assets		1,072,321	512,277	1,103,186	577,834
TOTAL ASSETS		4,415,725	3,901,231	3,649,200	3,204,394

EUR'000

		Group		Parent Company	
	Notes	31/12/2017	31/12/2016	31/12/2017	31/12/2016
EQUITY AND LIABILITIES					
EQUITY					
Share capital	19	1,288,715	1,288,715	1,288,715	1,288,715
Reserves	20 a	1,126,521	937,074	791,906	650,020
Retained earnings		423,613	185,840	302,017	238,334
Equity attributable to equity holder of the Parent Company		2,838,849	2,411,629	2,382,638	2,177,069
Non-controlling interests		8,042	7,084	–	–
Total equity		2,846,891	2,418,713	2,382,638	2,177,069
LIABILITIES					
Non-current liabilities					
Borrowings	21 b	718,674	635,620	710,125	627,691
Deferred income tax liabilities	12	–	315,759	–	126,260
Provisions	22	21,910	18,643	8,835	7,924
Derivative financial instruments	21 c	4,914	7,946	4,914	7,946
Deferred income on contracts from customers	23 a	142,132	141,817	–	–
Other liabilities and deferred income	23 b, c	350,926	53,590	286,085	1,055
Total non-current liabilities		1,238,556	1,173,375	1,009,959	770,876
Current liabilities					
Trade and other payables	24	147,072	117,817	94,689	85,569
Deferred income on contracts from customers	23 a	12,500	11,605	–	–
Other deferred income	23 b, c	31,728	2,417	29,358	59
Income tax payable		27,725	17,718	24,739	16,549
Borrowings	21 b	108,083	155,946	104,647	150,632
Derivative financial instruments	21 c	3,170	3,640	3,170	3,640
Total current liabilities		330,278	309,143	256,603	256,449
TOTAL EQUITY AND LIABILITIES		4,415,725	3,901,231	3,649,200	3,204,394

The notes on pages 15 to 65 are an integral part of these Financial Statements.

Arīš 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

Liāna Ķeldere

Accounting director of Latvenergo AS

17 April 2018



Statement of Changes in Equity

EUR'000

	Notes	Group						Parent Company			
		Attributable to equity holders of the Parent Company				Non-controlling interests	TOTAL	Attributable to equity holders of the Parent Company			
		Share capital	Reserves	Retained earnings	Total			Share capital	Reserves	Retained earnings	TOTAL
As of 31 December 2015		1,288,531	669,596	131,662	2,089,789	6,913	2,096,702	1,288,531	649,779	176,590	2,114,900
Increase in share capital	14 a, 19	184	–	–	184	–	184	184	–	–	184
Dividends for 2015	20 b	–	–	(77,413)	(77,413)	(1,377)	(78,790)	–	–	(77,413)	(77,413)
Disposal of non-current assets revaluation reserve net of deferred income tax	20 a	–	(4,854)	4,854	–	–	–	–	(2,606)	2,606	–
TOTAL contributions and profit distributions recognised directly in equity		184	(4,854)	(72,559)	(77,229)	(1,377)	(78,606)	184	(2,606)	(74,807)	(77,229)
Profit for the year		–	–	129,045	129,045	1,548	130,593	–	–	137,441	137,441
Other comprehensive income / (loss)	20 a	–	272,332	(2,308)	270,024	–	270,024	–	2,847	(890)	1,957
TOTAL comprehensive income for the year		–	272,332	126,737	399,069	1,548	400,617	–	2,847	136,551	139,398
As of 31 December 2016		1,288,715	937,074	185,840	2,411,629	7,084	2,418,713	1,288,715	650,020	238,334	2,177,069
Implementation effect of IFRS 15 'Revenue from Contracts with Customers'	2.29	–	–	(10)	(10)	–	(10)	–	–	–	–
As of 1 January 2017		1,288,715	937,074	185,830	2,411,619	7,084	2,418,703	1,288,715	650,020	238,334	2,177,069
Dividends for 2016	20 b	–	–	(90,142)	(90,142)	(1,393)	(91,535)	–	–	(90,142)	(90,142)
Disposal of non-current assets revaluation reserve net of deferred income tax	20 a	–	(4,377)	4,377	–	–	–	–	(1,762)	1,762	–
TOTAL contributions and profit distributions recognised directly in equity		–	(4,377)	(85,765)	(90,142)	(1,393)	(91,535)	–	(1,762)	(88,380)	(90,142)
Profit for the year		–	–	319,670	319,670	2,351	322,021	–	–	150,891	150,891
Other comprehensive income	12, 20 a	–	193,824	3,878	197,702	–	197,702	–	143,648	1,172	144,820
TOTAL comprehensive income for the year		–	193,824	323,548	517,372	2,351	519,723	–	143,648	152,063	295,711
As of 31 December 2017		1,288,715	1,126,521	423,613	2,838,849	8,042	2,846,891	1,288,715	791,906	302,017	2,382,638

The notes on pages 15 to 65 are an integral part of these Financial Statements.

Arīš 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

Liāna Keldere
Accounting director of Latvenergo AS

17 April 2018



Statement of Cash Flows

EUR'000

	Notes	Group		Parent Company	
		2017	2016	2017	2016
Cash flows from operating activities					
Profit before tax		224,114	148,945	185,906	156,290
Adjustments:					
– Amortisation, depreciation and impairment of intangible assets and property, plant and equipment	13 a, 14 a	307,614	232,626	209,684	100,535
– Loss from disposal of non-current assets		5,476	4,143	1,601	395
– Interest costs	11 b	9,825	14,156	10,667	14,772
– Interest income	11 a	(1,221)	(2,302)	(11,410)	(12,931)
– Fair value loss / (gains) on derivative financial instruments	8, 11	3,435	(7,275)	3,435	(7,275)
– Received dividends from subsidiaries	15 a	–	–	(9,111)	(17,033)
– Increase / (decrease) in provisions	22	6,726	(287)	1,966	272
– Unrealised income on currency translation differences	11 b	(22)	(26)	(22)	(26)
Operating profit before working capital adjustments		555,947	389,980	392,716	234,999
Increase in inventories		(34,870)	(16,667)	(36,013)	(17,423)
Increase in receivables from contracts with customers and other receivables		(7,770)	(10,170)	(123,095)	(9,501)
Increase / (decrease) in trade and other liabilities		(123,783)	(844)	6,790	3,594
Cash generated from operating activities		389,524	362,299	240,398	211,669
Interest paid		(11,484)	(15,529)	(12,324)	(16,136)
Interest received		1,390	2,457	11,632	13,306
Paid corporate income tax		(41,221)	(8,041)	(36,908)	(7,412)
Net cash flows from operating activities		338,209	341,186	202,798	201,427

Statement of Cash Flows continued on the right side

Statement of Cash Flows (continued)

EUR'000

	Notes	Group		Parent Company	
		2017	2016	2017	2016
Cash flows from investing activities					
Loans issued to subsidiaries	25 e, f	–	–	(81,889)	(78,446)
Repayment of loans issued to subsidiaries	25 e, f	–	–	60,225	80,319
Purchase of intangible assets and PPE		(233,744)	(185,674)	(88,793)	(67,282)
Proceeds on financing from EU funds and other financing		–	242	–	–
Proceeds from investments in subsidiaries	15 a	–	–	9,111	17,033
Proceeds from redemption of held-to-maturity assets		3,569	7,914	3,569	7,914
Net cash flows used in investing activities		(230,175)	(177,518)	(97,777)	(40,462)
Cash flows from financing activities					
Proceeds from issued debt securities (bonds)		–	26,267	–	26,267
Repayment of issued debt securities (bonds)	21 b	(70,000)	–	(70,000)	–
Proceeds on borrowings from financial institutions	21 b	186,500	55,744	185,000	55,000
Repayment of borrowings	21 b	(80,976)	(87,452)	(78,221)	(85,441)
Dividends paid to non-controlling interests	20 b	(1,393)	(1,377)	–	–
Dividends paid to equity holder of the Parent Company	20 b	(90,142)	(77,413)	(90,142)	(77,413)
Net cash flows used in financing activities		(56,011)	(84,231)	(53,363)	(81,587)
Net increase in cash and cash equivalents		52,023	79,437	51,658	79,378
Cash and cash equivalents at the beginning of the year	18	183,980	104,543	181,197	101,819
Cash and cash equivalents at the end of the year	18	236,003	183,980	232,855	181,197

The notes on pages 15 to 65 are an integral part of these Financial Statements.

Arīš 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

Liāna Keldere

Accounting director of Latvenergo AS

17 April 2018



NOTES TO THE FINANCIAL STATEMENTS

1. Corporate Information

All shares of public limited company Latvenergo, parent company of Latvenergo Group (hereinafter – Latvenergo AS or 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 Parent 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.

Latvenergo AS is power supply utility engaged in electricity and thermal energy generation, as well as sales 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.

Latvenergo AS 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 28 February 2018 was comprised of the following members: Āris Žigurs (Chairman), Uldis Bariss, Māris Kuņickis, Guntars Baļčūns and Guntis Stafeckis. The Management Board of Latvenergo AS since 1 March 2018 until the date of approving of the Latvenergo Group Consolidated and Latvenergo AS Annual Report 2017 was comprised of the following members: Āris Žigurs (Chairman), Uldis Bariss, Māris Kuņickis, Guntars Baļčūns.

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 Sedlacký.

The Supervisory body – Audit Committee since 4 December 2015 until the date of approving of the Latvenergo Group Consolidated and Latvenergo AS Annual Report 2017 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 Group Consolidated and Latvenergo AS Annual Report 2017 also of Andris Ozoliņš and Andris Liepiņš.

The Financial Statements for year 2017 include the financial information in respect of the Latvenergo Group and Latvenergo AS for the year ending 31 December 2017 and comparative information for year 2016. Where it has been necessary, comparatives for year 2016 are reclassified using the same principles applied for preparation of the Financial Statements for 2017.

The Management Board of Latvenergo AS has approved the Latvenergo Group and Latvenergo AS Financial statements 2017 on 17 April 2018. The 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 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 Financial Statements of the Latvenergo Group and Latvenergo AS are prepared in accordance with the International Financial Reporting Standards as adopted for use in the European Union (IFRS). 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 Financial Statements in the following periods if endorsed.

The 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 Financial Statements are presented in thousands of euros (EUR'000 or EUR thousand).

The preparation of the 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 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 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 2017, have been adopted by the Group and the Parent Company:

- **IAS 12: Recognition of Deferred Tax Assets for Unrealized Losses (Amendments).** The objective of the Amendments is to clarify the requirements of deferred tax assets for unrealized losses in order to address diversity in practice in the application of IAS 12 Income Taxes. The specific issues where diversity in practice existed relate to the existence of a deductible temporary difference upon a decrease in fair value, to recovering an asset for more than its carrying amount, to probable future taxable profit and to combined versus separate assessment. The application of these Amendments had no effect on the Group's and the Parent Company's financial statements.
- **IAS 7: Disclosure Initiative (Amendments).** The objective of the Amendments is to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The Amendments specify that one way to fulfil the disclosure requirement is by providing a tabular reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities, including changes from financing cash flows, changes



arising from obtaining or losing control of subsidiaries or other businesses, the effect of changes in foreign exchange rates, changes in fair values and other changes. The application of these Amendments had no effect on the Group's and the Parent Company's financial statements.

- The IASB has issued the **Annual Improvements to IFRSs 2014 – 2016 Cycle**, which is a collection of amendments to IFRSs. The following annual improvement has not yet been endorsed by the EU. This improvement did not have an effect on the Group's and the Parent Company's financial statements.
 - **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. These Amendments had no effect on The Group's and the Parent Company's financial statements as the Group and the Parent Company does not have any interests classified as held for sale.

Adoption of new standards issued and not yet effective, but early adopted by the Group and the Parent Company

■ **IFRS 15: Revenue from Contracts with Customers.**

The standard is effective for annual periods 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 (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles).

The Group and the Parent Company has applied IFRS 15 Revenue from contracts with customers for the first time in the 2017 financial statements with initial application date as of 1 January 2017 and has chosen a modified retrospective application of IFRS 15 (point 2.29.). Implementation of standard has changed the total amount of revenue recognised for customer contracts and contract liabilities, as well as timing of revenue recognition. The Group and the Parent Company does not have significant impact on its financial statements as the Group and the Parent Company does not have significant long-term contracts with multi-element arrangements in scope of IFRS 15 and therefore impact on total revenue of the Group and the Parent Company is not significant, however it has affected recognition of revenue from distribution system services for efficient use of connection load for its variable consideration. Adoption of new standard is disclosed in Note 2.29.

Standards issued and not yet effective, but are relevant for the Group's and the Parent Company's operations and not early adopted by the Group and the Parent Company

- **IFRS 9: Financial Instruments.** In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. The Group and the Parent Company plan to adopt the new standard on the required effective date and will not restate comparative information. During 2017, the Group and the Parent Company has performed an impact assessment of all three aspects of IFRS 9. This assessment is based on

currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group and the Parent Company in 2018 when the Group and the Parent Company will adopt IFRS 9.

Overall, the Group and the Parent Company expects no significant impact on its statement of financial position and equity except for the effect of applying the impairment requirements of IFRS 9. The Group and the Parent Company expect an increase in the loss allowance resulting in a negative impact on equity.

a) Classification and measurement

From a classification and measurement perspective, the new standard requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. The IAS 39 measurement categories will be replaced by fair value through profit or loss (FVPL), fair value through other comprehensive income (FVOCI) and amortised cost. IFRS 9 will also allow entities to continue to irrevocably designate instruments that qualify for amortised cost or fair value through OCI instruments as FVPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Equity instruments that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the income statement. The accounting for financial liabilities will largely be the same as the requirements of IAS 39. Classification and measurement requirements of IFRS 9 other than those related to impairment and calculation of expected credit losses are not expected to have significant impact on the Group's and Parent Company's financial statements.

Based on assessment performed it is expected to continue measuring at fair value all financial assets currently held at fair value. Loans and receivables from contracts with customers will be continued to be measured at amortised cost under IFRS 9. Parent Company's loans to its subsidiaries as well as trade receivables of the Group and the Parent Company are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Group and the Parent Company analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under IFRS 9. Therefore, reclassification for these instruments is not required. IAS 39 allowed an entity to measure investments in equity instruments at cost if those instruments do not have a quoted price in an active market and their fair value cannot be reliably measured. Under IFRS 9, there is no such possibility and investments in equities need to be measured at fair value in accordance with IFRS 13. Consequently, Group and Parent Company expects that an additional effort will be needed to value such investments.

b) Impairment

IFRS 9 will also fundamentally change the credit loss recognition methodology. The standard will replace IAS 39's incurred loss approach with a forward-looking expected loss (ECL) approach. IFRS 9 requires the Group and the Parent Company to record expected credit losses on all of its debt securities, loans, receivables from contracts with customers and cash and its equivalents, either on a 12-month or lifetime basis. The Group and the Parent Company will apply the simplified approach and record lifetime expected losses on all receivables, including receivables from contracts with customers. IFRS 9 allows using a provision matrix as a practical expedient for determining expected credit loss rates (ECLs) on trade receivables. The Group and the Parent Company expects to use provision matrix based on historical observed default rates, adjusted for forward-looking estimates. IFRS 9 impairment requirements are applied retrospectively, with transition impact recognized in retained earnings. Based on assessment performed to date, the transition impact (net of tax) on the opening balance of the Group's retained earnings at 1 January 2018 is estimated to fall within the range of EUR 397 – 854 thousand (Parent Company: approximately EUR 583 – 1,087 thousand). The results of the assessment presented above are preliminary and



based on the facts and circumstances as at 1 January 2018. Due to the possibility of changes in assumptions and estimations, the actual impact of adopting IFRS 9 on 1 January 2018 may be subject to change.

c) Hedge accounting

The Group and the Parent Company determined that all existing hedge relationships that are currently designated in effective hedging relationships will continue to qualify for hedge accounting under IFRS 9. As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, applying the hedging requirements of IFRS 9 will not have a significant impact on the Group's and the Parent Company's financial statements.

- **IFRS 16: Leases.** The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. The Group and the Parent Company will adopt IFRS 16 for the financial year beginning as of 1 January 2019. The Group and the Parent Company has assessed that the impact of adoption of this Standard will be material on the Group's and the Parent Company's financial statements, and considers that as the lessee the Group and the Parent Company will have to recognize right-of-use assets in its financial statements. Upon implementation of IFRS 16, among other considerations, the Group and the Parent Company will make an assessment on the identified right-of-use 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 finished in 2018.
- **IAS 40: Transfers to Investment Property (Amendments).** The Amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. 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. These Amendments have not yet been endorsed by the EU. The Group's and the Parent Company's Management has assessed the impact of the implementation of the Amendments, but does not consider that these Amendments will have a significant effect to the Group's and the Parent Company's financial statements.
- **IFRIC INTERPRETATION 22: Foreign Currency Transactions and Advance Consideration.** The Interpretation is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. 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. This Interpretation has not yet been endorsed by the EU. The Group's and the Parent Company's Management has assessed the impact of the implementation of the IFRIC Interpretation, but does not consider that it will have a significant effect to the Group's and Company's financial statements, as the Group and the Parent Company has not transactions in foreign currencies.
- **IFRIC INTERPRETATION 23: Uncertainty over Income Tax Treatments.** The Interpretation is effective for annual periods beginning on or after 1 January 2019 with earlier application

permitted. The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. This Interpretation has not yet been endorsed by the EU. The Group's and the Parent Company'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 Group's and the Parent Company's financial statements.

- **IFRS 9: Prepayment features with negative compensation (Amendment).** The Amendment is effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortized cost or at fair value through other comprehensive income. These Amendments have not yet been endorsed by the EU. The Group's and the Parent Company'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 Group's and the Parent Company's financial statements.

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

- **IFRS 2: Classification and Measurement of Share based Payment Transactions (Amendments).** The Amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. 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. These Amendments have not yet been endorsed by the EU. Management has assessed that these Amendments of the Standard will not have a significant effect to the Group's and the Parent Company's financial statements, as the Group and the Parent Company does not accomplish share-based payment transactions.
- **IAS 28: Long-term Interests in Associates and Joint Ventures (Amendments).** The Amendments are effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendments relate to whether the measurement, in particular impairment requirements, of long-term interests in associates and joint ventures that, in substance, form part of the 'net investment' in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The Amendments clarify that an entity applies IFRS 9 Financial Instruments, before it applies IAS 28, to such long-term interests for which the equity method is not applied. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long-term interests that arise from applying IAS 28. These Amendments have not yet been endorsed by the EU. Management has assessed that these Amendments of the Standard will not have a significant effect to the Group's and the Parent Company's financial statements, as the Group and the Parent Company does not have such long-term interests.
- **Amendment in IFRS 10: Consolidated Financial Statements and IAS 28: Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture.** 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 recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. 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 have not yet been endorsed by the EU. Management has assessed that these Amendments of the Standard will not have a significant effect to the Group's and the Parent Company's financial statements, as the Group and the Parent Company does not estimate to sell or invest such assets.

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

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 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.

The Group and the Parent Company has assessed that these improvements will have no impact on the Group's and the Parent Company's financial statements.

The **IASB has issued the Annual Improvements to IFRSs 2015 – 2017 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. These annual improvements have not yet been endorsed by the EU.

- **IFRS 3 Business Combinations and IFRS 11 Joint Arrangements:** The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it re-measures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not re-measure previously held interests in that business.
- **IAS 12 Income Taxes:** The amendments clarify that the income tax consequences of payments on financial instruments classified as equity should be recognized according to where the past transactions or events that generated distributable profits has been recognised.
- **IAS 23 Borrowing Costs:** The amendments clarify paragraph 14 of the standard that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally.

The adoption of these amendments may result in changes to accounting policies or disclosures but impact of adoption on the financial position or performance of the Group and the Parent Company has not yet assessed.

2.2. Consolidation (Group)

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 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 no investments in associates (Note 15, 4 h).

2.3. Disclosures of reportable segments

For segment reporting purposes the division into operating segments is based on the Latvenergo Group's and the Parent Company'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. The Parent Company divides its operations into one main operating segment – generation and trade.

In addition, corporate functions, that cover administration and other support services, are presented in the Group and the Parent Company as separate segment (Note 5).



2.4. Foreign currency translation

a) Functional and presentation currency

Items included in the Financial Statements are measured using the currency of the primary economic environment in which the Group's entity operates ("the functional currency"). The 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 Statement of Profit or Loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

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.

Assets under development are recognised in Statement of Financial Position within intangible assets and measured at cost until the intangible assets are completed and received.

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.

Connection usage rights are the payments for the rights to use the transmission or distribution system's power grid. Connection usage rights are recognized in the basis of upfront payments to transmission or distribution system operator for connection installation services. Connection usage rights are measured at cost net of amortisation and accumulated impairment that is calculated on straight-line basis to allocate the cost of connection usage rights to the residual value over the estimated period of relationship with a supplier (connection installer) – 20 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 or the Parent Company 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 and the Parent Company purchases additional allowances and carrying value of those allowances is determined on the basis of the market price of greenhouse gas emission allowances at the reporting period. Allowances are accounted for within 'Intangible assets' (see Note 13 b).

2.6. Property, plant and equipment

Property, plant and equipment (PPE) are measured on initial recognition at cost. Following initial recognition PPE are stated at historical cost or revalued amount (see point 2.8) less accumulated depreciation and accumulated impairment loss, if any.

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 or the Parent Company and the cost of an item can be measured reliably. All other repair and maintenance expenses are charged directly to the 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 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 and distribution lines	30 – 50
Technology equipment and machinery, including (TEM)	
– Hydropower plants	10 – 40
– Combined heat and power plants	3 – 25
– Transmission and distribution machinery and equipment	8 – 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 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 and the Parent Company as the owner to earn rentals or for capital appreciation, rather than for use in the production of goods or supply of services or for administrative purposes, or sale in the ordinary course of business. Investment property generates cash flows independently of the other assets held. 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 "Non-current assets 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 Statement of Profit or Loss.

At the date of revaluation, initial carrying amounts and accumulated depreciation are increased or decreased proportionately with the change in the carrying amount of the asset so that the carrying amount of the asset after the revaluation equals its revalued amount.

Non-current assets revaluation reserve is decreased and transferred to retained earnings at the moment, when revalued asset has been written off or disposed.

Revaluation reserve cannot be distributed in dividends, share capital, 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 post-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 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 Statement of Profit or Loss. Reversal of impairment loss for revalued assets is recognised in the Statement of Profit or Loss to the extent that an impairment loss on the same revalued asset was previously recognised in the 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 or the Parent Company is the lessee

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

b) The Group or the Parent Company 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 Statement of Profit or Loss on a straight-line basis over the period of the lease (Note 14 e).

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, except of natural gas inventory where cost is determined using FIFO 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. Receivables from contracts with customers and other receivables

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

Receivables from contracts with customers are classified in groups:

- a) Electricity, natural gas trade and related services receivables, including distribution system services,
- b) Heating receivables,
- c) Other receivables from contracts with customers (IT & telecommunication services, connection service fees and other services).

An allowance for impairment of doubtful debts is calculated on the basis of receivables from contracts with customers 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, natural gas trade and related services receivables are calculated for debts overdue 45 days, and, if the debt is overdue for more than 181 days, allowances are established at 100%. For heating and other receivables allowances are calculated for debts overdue 31 days, and, if the date of payment is overdue for more than 91 days, 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 Statement of Profit or Loss within 'Other operating expenses' as selling expenses and customer service costs. When a receivable is uncollectible, it is written off

against the allowance account for receivables from contracts with customers. Subsequent recoveries of amounts previously written off are credited against selling and customer services costs in the 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 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 Financial Statements in the period in which the dividends are approved by the Parent Company's shareholders.

2.15. Pensions, post-employment and employee termination benefits

a) Pension obligations

The Group and the Parent Company makes monthly contributions to a closed defined contribution pension plan on behalf of its employees. The plan is managed by the non-profit public limited company Pirmais Slēgtais Pensiju Fonds, with the participation of the Group companies amounting for 48.15% (Parent Company – 46.30%) of its share capital. A defined contribution plan is a pension plan under which the Group and the Parent Company pays contributions into the plan. The Group and the Parent Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior periods. The contributions amount to 5% of each pension plan member's salary. The Group and the Parent Company 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 and the Parent Company provides certain post-employment benefits to employees whose employment meets certain criteria. Obligations for benefits are calculated taking into account the current level of salary and number of employees eligible to receive the payment, historical termination rates as well as number of actuarial assumptions.

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

The liability recognised in the 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 and the Parent Company 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 and the Parent Company's obligations of post-employment benefits. The Group and the Parent Company uses objective and mutually compatible actuarial assumptions on variable demographic factors and financial factors (including expected remuneration increase and determined changes in benefit amounts).



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

c) Provisions for termination benefits

Termination benefits are measured in accordance with IAS 19 and are payable when employment is terminated by the Group Companies before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group and the Parent Company recognises termination benefits at the earlier of the following dates: (a) when the Group entity can no longer withdraw the offer of those benefits; and (b) when the Group entity recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of terminations benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value. Management judgements related to the measurement of provisions for termination benefits is disclosed in Note 4.

2.16. Income tax

Corporate income tax includes current and deferred taxes.

a) Corporate income tax

Latvia

Current corporate income tax is applied at the rate of 15% on taxable income generated by a company during the taxation period.

Legal entities will not be required to pay income tax on earned profits starting from 1 January 2018 in accordance with amendments made to the Corporate Income Tax Law of the Republic of Latvia issued on 28 July 2017. Corporate income tax will be paid on distributed profits and deemed profit distributions. Consequently, current and deferred tax assets and liabilities are measured at the tax rate applicable to undistributed profits. Starting from 1 January 2018, both distributed profits and deemed profit distributions will be subject to the tax rate of 20% of their gross amount, or 20/80 of net expense. Corporate income tax on dividends is recognized in the statement of profit or loss as expense in the reporting period when respective dividends are declared, while, as regards other deemed profit items, at the time when expense is incurred in the reporting year.

Lithuania

Current corporate income tax is applied at the rate of 15% on taxable income generated by a company during the taxation period.

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

Deferred corporate income tax arising from temporary differences in the timing of the recognition of items in the tax returns and these financial statements was calculated using the liability method. Deferred corporate income tax assets and liabilities were determined on the basis of the tax rates that were expected to apply when the timing differences reverse.

Deferred tax assets and liabilities are not recognized for the year 2017 in accordance with amendments to the legislation of the Republic of Latvia, which entered into force on 1 January 2018. Accordingly, deferred tax liabilities which have been calculated and recognized in previous reporting periods are reversed through the current statement of profit or loss or other comprehensive income (depending on whether the original entry was recorded in the statement of profit or loss or other comprehensive income) in the financial statements for the year ended 31 December 2017, as it is laid down in the IAS 12, changes in the tax legislation must be presented in financial statements in the period when they are adopted (Note 12).

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 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.

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 public service obligation (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, achieved from 1 January 2014 till 31 December 2017, in accordance with SET. 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 are recognised in the 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 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 the Group and the Parent Company incurs in connection with the borrowing of funds.

2.19. Provisions

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

Provisions are presented in the 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 or the Parent Company's past environmental policies have demonstrated that the Group and the Parent Company 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 c).

2.20. Grants

a) Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. 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.

For grants received as part of a package of financial or fiscal aid to which a number of conditions are attached, those elements which have different costs and conditions are identified. Treatment of the different elements determine the periods over which the grant will be earned.

l) Grants related to expense items

A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to a company with no future related costs are recognised in profit or loss of the period in which it becomes receivable. Related income is recognised in the Statement of Profit or Loss as 'Other income' (Note 7).

When a grant relates to an expense item, and it has a number of conditions attached, it is initially recognised at fair value as deferred income. Grants are credited to income on a systematic basis over

the periods that the related costs, for which it is intended to compensate, are expensed (Note 23). Management judgements related to the measurement of government grants is disclosed in Note 4.

II) Grants related to assets

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 Statement of Profit or Loss on a straight-line basis over the expected lives of the related assets.

b) Financing provided by European Union funds

The Group and the Parent Company ensures the management, application of internal controls and accounting for the Group's and the Parent Company'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 and the Parent Company ensures separate accounting of financed projects with detailed income and expense, non-current investments and value added tax in the relevant positions of the Statement of Profit or Loss and 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 classification of financial assets is determined 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 and the Parent Company 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 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 and the Parent Company 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 through 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 effective interest rate (hereinafter – EIR) method, less impairment. The losses arising from impairment are recognised in the 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 exists 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 and the Parent Company were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available for sale. Held-to-maturity financial assets with maturities more than 12 months from the end of the reporting period are included in non-current assets, however those with maturities less than 12 months from the end of the reporting period are classified as current assets.

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

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

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

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 and the Parent Company 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 and the Parent Company 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 and the Parent Company has transferred substantially all the risks and rewards of the asset, or (b) the Group and the Parent

Company 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 and the Parent Company 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.

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 and the Parent Company 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 Statement of Profit or Loss.

Loans and borrowings

Loans and borrowings are recognised initially at fair value. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the Statement of Profit or Loss, except for the capitalised part. Borrowings are classified as current liabilities unless the Group and the Parent Company 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 and the Parent Company's trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method.

III) De-recognition

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

2.22. Derivative financial instruments and hedging activities

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

The fair 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 held 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 Statement of Profit or Loss.

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

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

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

b) 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 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 and the Parent Company 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 and the Parent Company is the current bid prices.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group and the Parent Company 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 and the Parent Company are disclosed in Financial Statements.

2.24. Revenue recognition

Revenue from contracts with customers (IFRS 15)

Revenue from contracts with customers in scope for IFRS 15 encompasses sold goods or services provided as output of the entity's ordinary activities. The Group and Parent Company uses the following criteria to identify contracts with customers:

- the parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to perform their respective obligations;
- can be identified each party's rights regarding the goods or services to be transferred;
- can be identified the payment terms for the goods or services to be transferred;
- the contract has commercial substance (i.e. the risk, timing or amount of the entity's future cash flows is expected to change as a result of the contract);
- it is probable that the company will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.

In evaluating whether collectability of an amount of consideration is probable, the Group and the Parent Company uses portfolio approach practical expedient for all energy and related supply services, distribution system services and heat sales customers. Group and the Parent Company reasonably expects that, the effects on the financial statements from applying these requirements to the portfolio would not differ materially from applying the requirements to the individual contracts within the portfolio. For other customers collectability is assessed individually.

The Group and the Parent Company considers only the customer's ability and intention to pay that amount of consideration when it is due.

Performance obligations are promises in the contracts (either explicitly stated or implied) with Group's and the Parent Company's customers to transfer to the customers either distinct goods or services, or series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.



Promised goods or services represent separate performance obligations if the goods or services are distinct. A promised good or service is considered distinct if the customer can benefit from the good or service on its own or with other readily available resources (i.e. distinct individually) and the good or service is separately identifiable from other promises in the contract (distinct within the context of the contract). Both of these criteria must be met to conclude that the good or service is distinct.

Major distinct performance obligations identified in the contracts with customers by the Group and the Parent Company include sale of energy and related supply services, provision of distribution system services and sale of heat. Group has assessed that connecting a customer to the distribution grid as a separate performance obligation is not distinct as connection fees to distribution system are not distinct within the context of the contract due to being highly interrelated to sales of distribution services (Note 4 d III).

The Group and the Parent Company has further assessed that in providing Mandatory procurement PSO fees it is acting as an agent due to lack of control over PSO fee (Note 4 d I). The Parent Company has also concluded that it is acting as an agent in the provision of distribution system services and transmission system services because the Parent Company has no control over these services (Note 4 d II).

Where contracts with customers include variable consideration, the Group and the Parent Company estimates at contract inception the variable consideration expected over the life of the respective contracts and updates that estimate each reporting period. A constrained variable consideration is identified in relation to sales of distribution system services (Note 4 d IV).

The Group and the Parent Company recognises revenue when (or as) it satisfies a performance obligation to transfer a promised good or service to a customer. Revenue is recognized when customer obtains control of the respective good or service.

The Group and the Parent Company uses method output method to measure progress towards complete satisfaction of a performance obligations. Revenue from sale of energy and related supply services, provision of distribution system services and sale of heat are recognized over time as a continuous delivery of these goods and services is made over the term of the respective contracts.

Revenue from satisfied performance obligations under such contracts is recognised over time, if one of the following criteria is met:

- customer simultaneously receives and consumes the benefits;
- customer controls the asset as it is created or enhanced;
- the Group's and Parent Company's performance does not create an asset and has a right to payment for performance completed.

Revenue from satisfaction of performance obligations is recognized based on identified transaction price. Transaction price reflects the amount to which the Group and the Parent Company has rights under the present contract. It is allocated to the distinct performance obligations based on standalone selling prices of the goods or services promised in the contract. The Group and the Parent Company allocates transaction price to the distinct performance obligations in proportion to their observable stand-alone selling prices and recognises revenue as those performance obligations are satisfied.

Payment terms for goods or services transferred to customers according to contract terms are within 20 to 45 days from the provision of services or sale of goods. Invoices are mostly issued monthly.

Revenue from contracts with customers is recognised as follows:

I) Revenue recognised over time

Trade of energy and related supply services

Revenue from electricity and natural gas sales are recognised on the basis of issued invoices to customers for supplied electricity on the basis of reported meter readings. Revenue from other energy

and related supply services are recognised on the basis of provided services and prices included in contracts with customers. Revenues from trade of electricity in Nord Pool power exchange are based on the calculated market prices in accordance with contract terms, therefore 'right to invoice' practical expedient is used to recognise revenue from such contracts.

Sales of distribution system services (Group)

Revenues from electricity distribution services are based on regulated tariffs that are subject to approval by the Public Utilities Commission and regulations by Cabinet of Ministers of the Republic of Latvia 'Regulations on electricity trade and usage'. The Group recognizes revenue from sales of distribution system services at the end of each month on the basis of the automatically made meter readings or customers' reported meter readings, on the period in which the services are rendered. Revenue is recognized in the amount for which the Group has right to invoice.

Distribution system service fee includes variable consideration, it can be reduced due to use of efficient connection load, which is measured on the basis of the rules defined by the Public Utilities Commission. Reduction is applied to the distribution service fee amounting to 0.5 coefficient after specified annual consumption levels are reached. There are certain limitations for the application of 0.5 coefficient (Note 4 d IV).

Heat sales

Revenue from sales of thermal energy is recognised at the end of each month on the basis of the meter readings and corresponds to the invoiced amount.

Connection fees to distribution system (Group)

Connection fees to distribution system are non-refundable upfront fees paid by customers to secure connection to the distribution network, such fees are not distinct performance obligations as are highly interrelated with distribution system services. Connection fees partly reimburses for the cost of infrastructure to be built needed to connect the respective customer to the network. Connection fees to distribution system fee is calculated in accordance with Latvian regulatory authority (Public Utilities Commission) stated methodology.

Revenue from connection fees to distribution system are initially recognised as contract liabilities and recognised over the estimated customer relationship period of 20 years (Note 4 d III).

Sales of IT & telecommunication services

Other revenue (Note 6), mainly includes revenues derived from information technology services (internet connection services, data communication services), open electronic communication network and telecommunication services to customers. Revenues are recognised on the basis of invoices which are prepared for clients upon usage of services listed in telecommunications billing system. Revenue is recognized in the amount for which the Group and the Parent Company has right to invoice.

II) Revenue recognised applying agent accounting principle

Mandatory procurement PSO fees

Revenue from mandatory procurement public service obligation (PSO) fees in the Group is recognised on net (agent) basis. PSO fee is managed within the context of mandatory procurement process by subsidiary Enerģijas publiskais tirgotājs AS (hereinafter – EPT) and is the difference (residual) between the gross revenue from the 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 and the related costs. Such costs include 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). EPT is acting as



agent in administration of the mandatory procurement process and receives revenue from mandatory procurement administration services (agent fee), which is recognised over time in the Group's Statement of Profit or Loss as "Other revenue" (Notes 6 and 4 d, l).

Revenue from mandatory procurement PSO fees obtained by trader (Parent Company – Latvenergo AS) and distribution system operator (Sadale tikls AS) is revenue which consists from payments of electricity end-users for covering mandatory electricity procurement costs of electricity public trader - EPT. The Electricity Market Law provides that all electricity end-users in Latvia shall compensate the mandatory electricity purchase costs. As a result, the PSO fees are included in invoices issued by Latvenergo AS and by Sadale tikls AS and are paid by customers together with unite invoice for electricity and system services. System operators have the obligation to collect revenues of PSO fees from customers or traders and further to transfer these revenues to EPT. PSO fees are based on regulated tariffs that are subject to approval by the Public Utilities Commission. Due to lack of influence and control over PSO fees before they are transferred to a customer, the Group and the Parent Company considers themselves an agent in these transactions. Therefore, PSO fees are recognised in the Statement of Profit or Loss in net amount by applying the agent accounting principles (Note 6, Note 4 d, l).

Distribution system and transmission system services (Parent Company)

The Parent Company on behalf of distribution system operator (DSO) and transmission system operator (TSO) issues unite invoice including per invoice distribution system or transmission system services, and transfers these revenues to DSO or TSO accordingly.

Distribution system services and transmission system services are based on regulated tariffs that are subject to approval by the Public Utilities Commission. Due to lack of influence and control over distribution system and transmission system services before they are transferred to a customer, the Parent Company considers itself an agent in these transactions. Therefore, distribution system and transmission system services are recognised in the Statement of Profit or Loss in net amount by applying the agent accounting principles (Note 4 d, l).

Revenue for other sources

Lease of transmission system assets (IAS 17) (Group)

Revenues from lease of transmission system assets are recognised on the basis of invoices which are prepared for transmission system operator accordingly to determined fee per lease agreement. Lease of transmission system assets is a lease contract within the scope of IAS 17 Leases. Revenue is disclosed per Note 6 and 14 e.

Connection fees to transmission system (IAS 17) (Group)

Revenue from connection fees to transmission system are within the scope of IAS 17. Connection fees to transmission system are received upfront payments from lessee under operating lease agreement. Upfront payments are recognized as deferred income (Note 23).

Connection fees to transmission system are carried in the Statement of Financial Position as deferred income and amortised to Statement of Profit or Loss on a straight-line basis over 20 years, which is the estimated lease period (see Note 4 i)).

Electricity connection fees to transmission system are recognised by the Group based on the necessity for a connection to the transmission network based on the request of lessee, which acts on behalf of users. For each connection fee a separate arrangement within the base lease agreement is concluded. Connection fee to transmission system partly reimburses the cost of infrastructure to be built and is needed for connection of transmission system user to the network. Connection service fee to transmission system is calculated in accordance with Latvian regulatory authority (Public Utilities Commission) stated methodology.

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 and the Parent Company are Shareholder of the Parent Company who controls or who has significant influence over the Parent Company in accepting operating business decisions, members of Latvenergo Group entities' management boards, members of the Supervisory board of the Parent Company, members of Supervisory body of the Parent Company – the 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 and the Parent Company classifies non-current assets as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use, and sale 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 and the Parent Company'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.

2.29. Changes in accounting policies

The Group and the Parent Company has applied IFRS 15 Revenue from contracts with customers for the first time in the 2017 financial statements with initial application date: 1 January 2017 and has chosen a modified retrospective application of IFRS 15. In accordance with the transition provisions in IFRS 15 the Group and the Parent Company has adopted the standard using the modified retrospective approach with cumulative effect only for the agreements that are not completed as of initial application date.

All relevant figures in the financial statements for the year ended 31 December 2017 have been presented in accordance with IFRS 15. The Group and the Parent Company has assessed its revenue, change in revenue recognition does not have significant impact on financial statements, however it has affected recognition of revenue from distribution system services for efficient use of connection load for its variable consideration.

The cumulative impact of the adoption has been recognised in retained earnings as of 1 January 2017 and comparatives are not restated. Cumulative effect upon adoption of IFRS 15 has decreased Group's retained earnings as of 1 January 2017 by EUR 10 thousand (the Parent Company: nil) and adoption of standard has decreased year 2017 Group revenue by EUR 243 thousand (the Parent Company: nil), that is recognised as deferred income as of 31 December 2017.



The cumulative effect upon adoption of IFRS 15

EUR'000

Statement of Financial Position (extract)	Group				Parent Company			
	31/12/2016	Effect on IFRS 15 adoption	Positions reclassified	01/01/2017	31/12/2016	Effect on IFRS 15 adoption	Positions reclassified	01/01/2017
ASSETS								
Current assets								
Receivables from contracts with customers	–	–	118,925	118,925	–	–	102,056	102,056
Other current receivables	273,958	–	(118,925)	155,033	113,659	–	(102,056)	11,603
Total current assets	512,277	–	–	512,277	577,834	–	–	577,834
TOTAL ASSETS	3,901,231	–	–	3,901,231	3,204,394	–	–	3,204,394
EQUITY AND LIABILITIES								
Equity								
Retained earnings	185,840	(10)	–	185,830	238,334	–	–	238,334
Total equity	2,418,713	(10)	–	2,418,703	2,177,069	–	–	2,177,069
Non-current liabilities								
Deferred income on contracts with customers	–	–	141,817	141,817	–	–	–	–
Other liabilities and deferred income	195,407	–	(141,817)	53,590	1,055	–	–	1,055
Total non-current liabilities	1,173,375	–	–	1,173,375	770,876	–	–	770,876
Current liabilities								
Deferred income on contracts with customers	–	10	11,605	11,615	–	–	–	–
Other deferred income	14,022	–	(11,605)	2,417	59	–	–	59
Total current liabilities	309,143	10	–	309,153	256,449	–	–	256,449
TOTAL EQUITY AND LIABILITIES	3,901,231	–	–	3,901,231	3,204,394	–	–	3,204,394



In accordance with the IFRS 15 requirements, the disclosure of the impact of adoption on Statement of profit or loss and statement of financial position is as follows:

EUR'000

Statement of Financial Position (extract)	Group			Parent Company		
	31/12/2017			31/12/2017		
Financial Position	As reported	Without adoption of IFRS 15	Effect of Change (higher/(lower))	As reported	Without adoption of IFRS 15	Effect of Change (higher/(lower))
ASSETS						
Current assets						
Receivables from contracts with customers	105,369	105,369	–	82,799	82,799	–
Other current receivables	646,761	646,761	–	18,079	18,079	–
Total current assets	1,072,321	1,072,321	–	1,103,186	1,103,186	–
TOTAL ASSETS	4,415,725	4,415,725	–	3,649,200	3,649,200	–
EQUITY AND LIABILITIES						
Equity						
Retained earnings	423,613	423,866	(253)	302,017	302,017	–
Total equity	2,846,891	2,847,144	(253)	2,382,638	2,382,638	–
Non-current liabilities						
Deferred income on contracts with customers	142,132	142,132	–	–	–	–
Other liabilities and deferred income	350,926	350,926	–	286,085	286,085	–
Total non-current liabilities	1,238,556	1,238,556	–	1,009,959	1,009,959	–
Current liabilities						
Deferred income on contracts with customers	12,500	12,247	253	–	–	–
Other deferred income	31,728	31,728	–	29,358	29,358	–
Total current liabilities	330,278	330,025	253	256,603	256,603	–
TOTAL EQUITY AND LIABILITIES	4,415,725	4,415,472	253	3,649,200	3,649,200	–

EUR'000

Statement of Profit or Loss (extract)	Group			Parent Company		
	31/12/2017			31/12/2017		
Profit or Loss	As reported	Without adoption of IFRS 15	Effect of Change (higher/(lower))	As reported	Without adoption of IFRS 15	Effect of Change (higher/(lower))
Revenue	925,627	925,870	(243)	498,580	498,580	–
Distribution system services	301,874	302,117	(243)	–	–	–
Profit / (loss) for the year	322,021	322,264	(243)	150,891	150,891	–

Disaggregation of revenue from contracts with customers has not changed existing categorising and presents the nature of the revenue as reviewed by the management.



3. Financial Risk Management

3.1. Financial risk factors

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

EUR'000

		Group				Parent Company			
		Loans and receivables	Derivatives used for hedging	Financial assets at fair value through the profit or loss	Held-to-maturity assets	Loans and receivables	Derivatives used for hedging	Financial assets at fair value through the profit or loss	Held-to-maturity assets
Notes									
Financial assets as of 31 December 2017									
Receivables from contracts with customers	17 a	105,369	–	–	–	82,799	–	–	–
Other current receivables	17 b	641,832	–	–	–	17,938	–	–	–
Loans to subsidiaries	25	–	–	–	–	1,098,781	–	–	–
Other non-current receivables		3,229	–	–	–	284	–	–	–
Derivative financial instruments	21 c, l	–	4,074	545	–	–	4,074	545	–
Held-to-maturity financial assets	21 a	–	–	–	16,984	–	–	–	16,984
Cash and cash equivalents	18	236,003	–	–	–	232,855	–	–	–
		986,433	4,074	545	16,984	1,432,657	4,074	545	16,984
Financial assets as of 31 December 2016									
Receivables from contracts with customers	17 a	118,925	–	–	–	102,056	–	–	–
Other trade and current receivables	17 b	149,861	–	–	–	11,436	–	–	–
Loans to subsidiaries	25	–	–	–	–	622,704	–	–	–
Other non-current receivables		986	–	–	–	978	–	–	–
Derivative financial instruments	21 c, l	–	2,154	3,980	–	–	2,154	3,980	–
Held-to-maturity financial assets	21 a	–	–	–	20,554	–	–	–	20,554
Cash and cash equivalents	18	183,980	–	–	–	181,197	–	–	–
		453,752	2,154	3,980	20,554	918,371	2,154	3,980	20,554



Financial liabilities by categories

EUR'000

Financial liabilities by category							
		Group			Parent Company		
	Notes	Derivatives used for hedging	Other financial liabilities at amortised cost	Financial liabilities at fair value through the profit or loss	Derivatives used for hedging	Other financial liabilities at amortised cost	Financial liabilities at fair value through the profit or loss
Financial liabilities as of 31 December 2017							
Borrowings	21 b	–	826,757	–	–	814,772	–
Derivative financial instruments	21 c, I	8,061	–	23	8,061	–	23
Trade and other payables	24	–	115,742	–	–	79,341	–
		8,061	942,499	23	8,061	894,113	23
Financial assets as of 31 December 2016							
Borrowings	21 b	–	791,566	–	–	778,323	–
Derivative financial instruments	21 c, I	11,563	–	23	11,563	–	23
Trade and other payables	24	–	88,555	–	–	71,197	–
		11,563	880,121	23	11,563	849,520	23

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 2017 the Parent Company and the Group had borrowings denominated only in euros (Note 21 b).

The Financial Risk Management Policy provides for management of the Group's and the Parent Company's foreign currencies exchange risk against functional currency. To manage the Group's and the Parent Company'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 and the Parent Company'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 2017 the Parent Company and the Group had no capital expenditure project which expected transactions would create significant currency risk.

In 2017 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 the Parent Company's investments in subsidiary in Lithuania.

II) Cash flow and fair value interest rate risk

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

During 2017, 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 994 thousand higher or lower (2016: EUR 906 thousand) and the Parent Company's income from the cash reserves held at bank for the year would have been EUR 986 thousand higher or lower (2016: EUR 892 thousand).

The Group's and the Parent Company's cash flow interest rate risk mainly arises from long-term borrowings at variable rates. They expose the Group and the Parent Company 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 and the Parent Company analyses its interest rate risk exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and hedging. Based on these scenarios, the Group and the Parent Company calculates the impact on profit and loss as well as on cash flows of a defined interest rate shift.

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

To hedge cash flow interest rate risk the Group and the Parent Company has entered into rate swap agreements with total notional amount of EUR 193.5 million (2016: EUR 174.2 million) (Note 21 c, II). 54% of the total Group's and 55% the Parent Company's borrowings as of 31 December 2017 (31/12/2016: 62% and 63% respectively) had fixed interest rate (taking into account the effect of the interest rate swaps) and average fixed rate duration was 2.0 years for the Group and the Parent Company (2016: 2.1 and 2.2 years respectively).

During 2017, 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 1,166 thousand lower (2016: EUR 1,465 thousand), the Parent Company's profit for the year net of taxes would have been EUR 1,066 thousand lower (2016: EUR 1,408 thousand), while if the rates had been 50 basis points lower – profit for the year net of taxes would have been EUR 704 thousand higher (2016: EUR 974 thousand) for the Group and EUR 654 thousand higher (2016: EUR 917 thousand) for the Parent Company.



The 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 2017, if short and long term euro interest rates had been 50 basis points higher or lower with all other variables held constant fair value of interest rate swaps would have been EUR 51 thousand higher or lower respectively (31/12/2017: EUR 3,238 thousand higher or EUR 3,346 thousand lower), which would have been attributable to the 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 and the Parent Company under the free market conditions, as well as the purchases of resources used in production is impacted by the price risk.

The most significant price risk is related to purchase of electricity. To hedge the risk related to changes in the price of electricity the Parent Company during 2017 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 receivables is limited due to broad range of the Group's and the Parent Company's customers. The Group and the Parent Company 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), receivables from contracts with customers 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

EUR'000

	Notes	Group		Parent Company	
		31/12/2017	31/12/2016	31/12/2017	31/12/2016
Receivables from contracts with customers	17 a	105,369	118,925	82,799	102,056
Receivables for lease	17 b	3,535	3,911	2,443	2,610
Other financial receivables from related parties	17 b	–	–	10,664	6,875
Accrued income	17 b	3,572	1,024	872	1,024
Other non-current financial receivables		3,229	986	284	978
Other current financial receivables	17 b	15,947	2,794	3,959	927
Loans to subsidiaries	25	–	–	1,098,781	622,704
Cash and cash equivalents	18	236,003	183,980	232,855	181,197
Derivative financial instruments	21 c	4,619	6,134	4,619	6,134
Held-to-maturity financial assets	21 a	16,984	20,554	16,984	20,554
		389,258	338,308	1,454,260	945,059

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 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:

EUR'000

	Group		Parent Company	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Investment level credit rating*	227,686	175,911	224,538	173,128
No or non-investment level credit rating	8,317	8,069	8,317	8,069
	236,003	183,980	232,855	181,197

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

No credit limits were exceeded during the reporting period, and the Group and the Parent Company 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.

Latvenergo Group's liquidity and cash flow risk management policy is to maintain a sufficient amount of cash and cash equivalents (Note 18) and the availability of long and short-term funding through an

adequate amount of committed credit facilities in order to meet existing and expected commitments and compensate for fluctuations in cash flows due to the occurrence of a variety of financial risks.

The table below analyses the Group's and the Parent Company'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)

EUR'000

	Group					Parent Company				
	Less than 1 year	From 1 to 2 years	From 3 to 5 years	Over 5 years	TOTAL	Less than 1 year	From 1 to 2 years	From 3 to 5 years	Over 5 years	TOTAL
As of 31 December 2017										
Borrowings from banks	113,285	119,074	313,149	191,748	737,256	109,727	117,985	310,411	194,733	732,855
Issued debt securities (bonds)	2,880	2,880	142,041	–	147,801	2,880	2,880	142,041	–	147,801
Derivative financial instruments	5,304	5,077	3,273	318	13,972	3,260	2,534	3,273	318	9,385
Financial liabilities (Note 24)*	115,742	–	–	–	115,742	79,341	–	–	–	79,341
	237,211	127,031	458,463	192,066	1,014,771	195,208	123,399	455,725	195,051	969,382
As of 31 December 2016										
Borrowings from banks	88,142	109,663	279,637	135,335	612,777	82,646	106,856	274,674	134,879	599,055
Issued debt securities (bonds)	74,915	2,880	42,389	102,577	222,761	74,915	2,880	42,389	102,577	222,761
Derivative financial instruments	3,737	2,894	4,594	779	12,004	3,737	2,894	4,594	779	12,004
Financial liabilities (Note 24)*	88,555	–	–	–	88,555	71,197	–	–	–	71,197
	255,349	115,437	326,620	238,691	936,097	232,495	112,630	321,657	238,235	905,017

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

3.2. Capital risk management

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

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

This ratio is calculated by dividing the equity by the sum of total assets and nominal value of issued and outstanding financial guarantees. According to the 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:

EUR'000

	Group		Parent Company	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Total equity	2,846,891	2,418,713	2,382,638	2,177,069
Total assets	4,415,725	3,901,231	3,649,200	3,204,394
Capital Ratio	64%	62%	65%	68%

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 and the Parent Company 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

l) Useful lives of property, plant and equipment

The Group and the Parent Company makes estimates concerning the expected useful lives and residual values of property, plant and equipment. These are reviewed at the end of each reporting period and are based on the past experience as well as industry practice. Previous experience has shown that the actual useful lives have sometimes been longer than the estimates. As of 31 December 2017, the net book amount of property, plant and equipment of the Group totalled EUR 3,309 million and for the Parent Company 1,231 million (31/12/2016: EUR 3,356 million and 1,323 million), and the depreciation charge of the Group for the reporting period was EUR 185.6 million and for the Parent Company 85.9 million (2016: EUR 183.5 million and 84.9 million) (Note 14 a). Estimating of useful lives assessed as impracticable therefore sensitivity analysis of the depreciation rate changes effect in future periods is not disclosed.



II) Recoverable amount of property, plant and equipment

When the events and circumstances indicate a potential impairment, the Group and the Parent Company performs impairment tests for items of property, plant and equipment. For the items of PPE are defined separate cash-generating units – the distribution system assets, transmission system assets, assets of HPPs (Riga, Plavīnu, Keguma and Aiviekste HPPs) and assets of Riga combined heat and power plants as disclosed per Note 14 d. 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. Impairment charges recognised during the current reporting year are disclosed in Note 14 d.

III) Revaluation

External, certified valuers had performed revaluation for part of the Group's and the Parent Company's property, plant and equipment by applying the depreciated replacement cost model. Valuation has been performed according to international standards on property valuation and IAS 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 difference between the cost of replacement or renewal of similar asset at the time of revaluation and the obsolescence of an asset that encompasses physical deterioration, functional (technological) obsolescence and economic (external) obsolescence. 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. Income method is based on the

identification and analysis of generation capacity, forecasting of electricity trade prices, analysis of historical generation and operating expenses and forecast of future costs, capital expenditure, net cash flows, as well calculation of discount and capitalisation rates, based on market data.

In 2016 the Group revaluated transmission system assets and distribution system electrical lines. Amounts of revalued distribution system and transmission system assets had been determined as of 1 April 2016. Revaluation on Latvenergo AS property, plant and equipment of Daugava hydropower plants had been determined as of 1 April 2017. For detailed revaluation results see Note 14 c.

b) Recoverable amount of receivables from contracts with customers

The estimated collectability of accounts receivable is assessed on the basis of receivables from contracts with customers 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 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).

EUR'000

		Group				Parent Company			
As of 31 December 2017	Notes	Level 1	Level 2	Level 3	TOTAL balance	Level 1	Level 2	Level 3	TOTAL balance
Assets									
Financial assets at fair value through profit or loss:									
- Electricity trading derivatives	21 c, III	–	545	–	545	–	545	–	545
Electricity trading derivatives used for hedging	21 c, III	–	4,043	–	4,043	–	4,043	–	4,043
Interest rate derivatives used for hedging	21 c, II	–	31	–	31	–	31	–	31
TOTAL assets		–	4,619	–	4,619	–	4,619	–	4,619
Liabilities									
Financial liabilities at fair value through profit or loss:									
- Electricity trading derivatives	21 c, III	–	23	–	23	–	23	–	23
Interest rate derivatives used for hedging	21 c, II	–	8,061	–	8,061	–	8,061	–	8,061
TOTAL liabilities		–	8,084	–	8,084	–	8,084	–	8,084



EUR'000

EUR 000

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

d) Estimates concerning revenue recognition from contracts with customers

I) Recognition of mandatory procurement PSO fees

The Group and the Parent Company 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 Statement of Profit or Loss, but as assets or liabilities in the Statement of Financial Position by applying agent accounting principle as subsidiary Energijas publiskais tirgotājs AS (EPT) is acting in management of the mandatory procurement process as an agent. 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.

Management has considered following indicators that the Group and the Parent Company is acting as an agent:

- the Group or the Parent Company does not have control over the mandatory procurement PSO fee before transferring to the customer;
- the Group or the Parent Company has duty for including the mandatory procurement PSO fee per invoices issued to the end customers, but are not entitled on revenues from mandatory procurement PSO fee. These fees are determined by state support mechanism and are covered by all electricity end-users in proportion to their electricity consumption;
- the Group or the Parent Company have no discretion in establishing mandatory procurement PSO fees price, either directly or indirectly;
- the Group or the Parent Company does not have exposure to rewards associated with mandatory procurement PSO fees.

II) Recognition of distribution system services and transmission system services (Parent Company)

Management has evaluated that it does not have influence and control over distribution system services and transmission system services, therefore acts as an agent. In particular, Management has considered the following indicators that the Parent Company is acting as an agent:

- The Parent Company does not control provision of distribution system and transmission system services;
- The Parent Company includes the distribution system and transmission system services per invoices issued to the customers on behalf of distribution system operator or transmission system operator and receives payment, but is not entitled to the respective revenues.
- The Parent Company has no discretion in distribution system or transmission system services price, either directly or indirectly;
- The Parent Company has no inventory risk that would arise.

III) Recognition of connection service fees to distribution system (Group)

Connection fees to distribution system are not considered as separate (distinct) performance obligations, as are not distinct individually or within the context of the contract. Sales of distribution services are provided after customers have paid for the network connection, therefore network connection fees and sales of distribution services are highly interdependent and interrelated.

Income from connection and other service fees is deferred as an ongoing service is identified as part of agreement to provide distribution system services with customers (Note 2.24) and accounted as deferred income from contracts with customers under IFRS 15 (see Note 23). Connection and other service fees are recognised as income over the estimated customer relationship period. Based on Management estimate, 20 years is the estimated customer relationship period, which is estimated as period after which requested power output for connection object could significantly change due to technological reasons.

Thus period over which revenue is recognised is based on Management estimate, as it is reasonably certain that assets, whose costs are partly reimbursed by connection service fees will be used by distribution system customers for a longer period than original system services agreement term (Note 2.24.).

IV) Recognition of efficient use of permitted load (Group)

Distribution system services from efficient use of permitted load are recognised in accordance with IFRS 15 as constrained variable consideration. Based on historical experience on application of the 0.5 coefficient using a portfolio of data, Management has estimated that from distribution system revenues earned from those customers, who qualified for efficient use of permitted load by meeting certain criteria, are decreased in amount of 6%. See Note 2.24.



e) Recognition and revaluation of provisions

As of 31 December 2017, the Group had set up provisions for environmental protection, post-employment benefits and termination benefits totalling EUR 25.3 million (31/12/2016: EUR 18.6 million) and the Parent Company in amount of EUR 9.7 million (31/12/2016: EUR 7.9 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. According to defined development directions per Strategy of Latvenergo Group for the period 2017-2022 approved the Strategic Development and Efficiency Programme. Provisions for employees' termination benefits are recognised on a basis of Strategic Development and Efficiency Programme of Latvenergo Group for the period in which it is planned to implement the efficiency programme (including Latvenergo AS and Sadales tīkls AS efficiency activities), by which it is intended to reduce gradually the number of employees by 2022. The key assumptions made to determine the amount of provisions are provided in Note 22.

f) Evaluation of effectiveness of hedging instruments

The Group and the Parent Company 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 Statement of Profit or Loss (Note 21 c).

g) Held-to-maturity financial assets

The management 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 or the Parent Company 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 2017 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 and the Parent Company has applied judgement in determining that it has a financial investment with 48.15% (the Parent Company: 46.30%) interest held in the company Pirmāis Slēgtāis Pensiju Fonds AS that manages closed pension plan in Latvia as investment that has been valued at

cost. The Group and the Parent Company is only a nominal shareholder and do not have significant influence and control over Pirmāis Slēgtāis Pensiju Fonds AS even though it holds more than 20% of the voting rights as do not have power over its financial and operating policy decisions and all risks and benefits arising from management of pension plan will accrue to the employees who are members of the pension plan and the Group and the Parent Company does not have existing rights that give it the current ability to direct the relevant activities of the investee. The Group and the Parent Company do not have material transactions with its investee except the contributions made on behalf of employees and do not participate in policy-making process. Therefore, this investment has been determined as financial investment in Pirmāis Slēgtāis Pensiju Fonds AS and not as investment in associate.

i) Recognition of connection service fees to transmission system (IAS 17)

Connection fees to transmission system are recognised as income over the estimated lease period, which is 20 years. The estimated lease period is based on the Management estimate.

Income from connection to transmission system and other service fees is deferred as an ongoing service is identified as part of the agreement with the lessee. Operating lease agreement term is 5 years, the period over which revenue from connection fees is recognised is 20 years, as it is reasonably certain that assets, whose costs are partly reimbursed by connection fee will be leased for a longer period than original lease term.

Based on Management estimate 20 years is the estimated customer relationship period, which is estimated as period after which power output at each specific location would have to be changed due to technological reasons.

j) Lease classification

The Group and the Parent Company has entered into non-cancellable lease agreement and leases its property, plant and equipment. Based on an evaluation of the terms of the agreement, disclosed per Note 14 e, such as rights of the ownership is not transferred as determined by Energy law of the Republic of Latvia, that it retains all the significant risks and rewards of ownership of these assets, and accounts for the agreements as operating leases.

k) Recognition of one-off compensation in relation to Riga cogeneration power plants

In October 2017, the Parent Company applied for a one-off compensation from the state in the amount of EUR 454,413 thousand, at the same time opting out of the receipt of 75% of the annual electrical capacity payments for cogeneration power plants Riga combined heat and power plant Riga CHPP-1 and Riga CHPP-2. On 21 November 2017, the Cabinet of Ministers of the Republic of Latvia accepted an order No. 685 on one-off compensation to Latvenergo AS on guaranteed support for the installed capacity of cogeneration power plants, therefore the Parent Company obtained a government grant in the amount of EUR 454,413 thousand (see Note 23).

The grant is divided into two parts, it is considered that unconditional grant in amount of 140 000 thousand should be recognized as other income in the Group's and Latvenergo AS statement of profit or loss in 2017, while conditional grant in amount of EUR 314 413 thousand should be recognized as deferred income and to be allocated to income on a straight-line basis until fulfilling obligation till the end of the support period – September 23, 2028. The order No. 685 of the Cabinet of Ministers of the Republic of Latvia stipulates that fulfilling of obligations in accordance with Regulations No. 221 of Cabinet of Ministers of the Republic of Latvia in relation to the obtained grant is in even distribution over the coming reporting periods till the end of the support period.



5. Operating Segment Information

Operating segments

For segment reporting purposes, the division into operating segments is based on 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. The Parent Company divides its operations into one main operating segment – generation and trade.

In addition, corporate functions, that cover administration and other support services, are presented in the Group and the Parent Company as separate segment.

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 trade

(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 and the Parent Company's operating segments. Inter-segment revenue is eliminated on consolidation and reflected in the 'adjustments and eliminations' column. All transactions between segments are made on an arm's length principle.

EUR'000

	Group							Parent Company				
	Gene-ration and trade	Distri-bution	Lease of trans-mission system assets	Corporate functions	TOTAL segments	Adjust-ments and elimina-tions	TOTAL Group	Gene-ration and trade	Corporate functions	TOTAL segments	Adjust-ments and elimina-tions	TOTAL Parent Company
2017												
Revenue												
External customers	554,489	318,851	44,415	7,872	925,627	–	925,627	448,660	49,920	498,580	–	498,580
Inter-segment	1,605	1,851	2,541	52,739	58,736	(58,736)	–	346	29,089	29,435	(29,435)	–
TOTAL revenue	556,094	320,702	46,956	60,611	984,363	(58,736)	925,627	449,006	79,009	528,015	(29,435)	498,580
Results												
Amortisation, depreciation and intangible assets and property, plant and equipment impairment loss	(194,376)	(76,630)	(24,345)	(12,263)	(307,614)	–	(307,614)	(191,228)	(18,456)	(209,684)	–	(209,684)
Segment profit / (loss)	178,453	34,969	20,960	(300)	234,082	(9,968)	224,114	171,306	6,110	177,416	8,490	185,906
Segment assets at the end of the year	1,956,888	1,641,318	500,863	85,584	4,184,653	231,072	4,415,725	1,286,478	192,435	1,478,913	2,170,287	3,649,200
Segment liabilities at the end of the year	393,759	188,025	67,502	6,551	655,837	912,997	1,568,834	383,708	8,695	392,403	874,159	1,266,562
Capital expenditure	74,021	107,683	63,085	10,815	255,604	(11,793)	243,811	73,150	16,128	89,278	–	89,278
2016												
Revenue												
External customers	570,828	306,700	45,879	8,212	931,619	–	931,619	464,928	48,635	513,563	–	513,563
Inter-segment	13,310	1,712	2,538	46,330	63,890	(63,890)	–	342	23,060	23,402	(23,402)	–
TOTAL revenue	584,138	308,412	48,417	54,542	995,509	(63,890)	931,619	465,270	71,695	536,965	(23,402)	513,563
Results												
Amortisation, depreciation and intangible assets and property, plant and equipment impairment loss	(86,308)	(98,317)	(36,416)	(11,585)	(232,626)	–	(232,626)	(83,168)	(17,367)	(100,535)	–	(100,535)
Segment profit / (loss)	138,185	7,154	10,642	4,792	160,773	(11,828)	148,945	130,840	10,231	141,071	15,219	156,290
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	1,372,835	183,922	1,556,757	1,647,637	3,204,394
Segment liabilities at the end of the year	63,404	190,371	46,218	7,380	307,373	1,175,145	1,482,518	58,318	20,453	78,771	948,554	1,027,325
Capital expenditure	59,964	106,436	25,513	12,664	204,577	(3,900)	200,677	58,248	21,665	79,913	–	79,913



The Group's and the Parent Company's revenue from external customers (Note 6)

EUR'000

	Group						Parent Company			
	Gene- ration and trade	Distri- bution	Lease of transmis- sion system assets	Corporate functions	TOTAL Segments	TOTAL Group	Gene- ration and trade	Corporate functions	TOTAL segments	TOTAL Parent Company
Year ended 31 December 2017										
Revenue from contracts with customers recognised over time										
Trade of energy and related supply services	464,030	3,096	–	–	467,126	467,126	370,626	–	370,626	370,626
Distribution system services	1	301,873	–	–	301,874	301,874	–	–	–	–
Heat sales	83,156	75	–	8	83,239	83,239	71,413	9	71,422	71,422
Other revenue	7,300	13,681	–	6,124	27,105	27,105	6,620	33,990	40,610	40,610
Total revenue from contracts with customers	554,487	318,725	–	6,132	879,344	879,344	448,659	33,999	482,658	482,658
Other revenue										
Lease of transmission system assets (Note 14 e)	–	–	43,911	–	43,911	43,911	–	–	–	–
Lease of other assets	2	126	–	1,740	1,868	1,868	1	15,921	15,922	15,922
Other revenue	–	–	504	–	504	504	–	–	–	–
Total other revenue	2	126	44,415	1,740	46,283	46,283	1	15,921	15,922	15,922
TOTAL revenue, including	554,489	318,851	44,415	7,872	925,627	925,627	448,660	49,920	498,580	498,580
Latvia	404,136	318,851	44,415	7,272	774,674	774,674	386,513	48,407	434,920	434,920
Outside Latvia	150,353	–	–	600	150,953	150,953	62,147	1,513	63,660	63,660
Year ended 31 December 2016										
Revenue from contracts with customers recognised over time										
Trade of energy and related supply services	480,754	3,209	–	–	483,963	483,963	386,679	–	386,679	386,679
Distribution system services	2	290,082	–	–	290,084	290,084	–	–	–	–
Heat sales	82,628	73	–	8	82,709	82,709	71,086	7	71,093	71,093
Other revenue	7,442	13,193	–	6,488	27,123	27,123	7,163	33,196	40,359	40,359
Total revenue from contracts with customers	570,826	306,557	–	6,496	883,879	883,879	464,928	33,203	498,131	498,131
Other revenue										
Lease of transmission system assets (Note 14 e)	–	–	45,371	–	45,371	45,371	–	–	–	–
Lease of other assets	2	143	1	1,716	1,862	1,862	–	15,432	15,432	15,432
Other revenue	–	–	507	–	507	507	–	–	–	–
Total other revenue	2	143	45,879	1,716	47,740	47,740	–	15,432	15,432	15,432
TOTAL revenue	570,828	306,700	45,879	8,212	931,619	931,619	464,928	48,635	513,563	513,563
Latvia	432,443	306,700	45,879	7,392	792,414	792,414	430,080	46,962	477,042	477,042
Outside Latvia	138,385	–	–	820	139,205	139,205	34,848	1,673	36,521	36,521



Adjustments and eliminations

Finance income and expenses, fair value gains and losses on financial assets, financial instruments and deferred taxes are not allocated to individual segments as the underlying instruments are managed on a group basis. Taxes and certain financial assets and liabilities, including loans and borrowings 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

EUR'000

	Notes	Group		Parent Company	
		2017	2016	2017	2016
Segment profit		234,082	160,773	177,416	141,071
Finance income	11 a	1,243	2,328	11,433	12,958
Finance costs	11 b	(11,211)	(14,156)	(12,054)	(14,772)
Dividends received from subsidiaries	15 a	–	–	9,111	17,033
Profit before tax		224,114	148,945	185,906	156,290

Reconciliation of assets

EUR'000

	Notes	Group		Parent Company	
		2017	2016	2017	2016
Segment operating assets		4,184,653	3,723,277	1,478,913	1,556,757
Connection usage rights		(26,652)	(32,791)	–	–
Non-current financial investments	15	40	40	817,048	817,048
Loans to subsidiaries	25 f	–	–	1,098,781	622,704
Held-to-maturity financial assets	21 a	16,984	20,554	16,984	20,554
Derivative financial instruments	21 c	4,619	6,134	4,619	6,134
Other assets and assets held for sale		78	37	–	–
Cash and cash equivalents	18	236,003	183,980	232,855	181,197
Operating assets		4,415,725	3,901,231	3,649,200	3,204,394

Reconciliation of liabilities

EUR'000

	Notes	Group		Parent Company	
		2017	2016	2017	2016
Segment operating liabilities		655,837	307,373	392,403	78,771
Deferred income tax liabilities	12	–	315,759	–	126,260
Current corporate income tax liabilities		27,725	17,718	24,739	16,549
Borrowings	21 b	826,757	791,566	814,772	778,323
Derivative financial instruments	21 c	8,084	11,586	8,084	11,586
Trade and other payables		50,431	38,516	26,564	15,836
Operating liabilities		1,568,834	1,482,518	1,266,562	1,027,325

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 2017 for the Group amounted to EUR 72,788 thousand and for the Parent Company EUR 72,785 thousand (2016: EUR 79,467 thousand and 98,637 thousand) arising from sales by the generation and trade segment.



6. Revenue

EUR'000					
	IFRS or IAS applied	Group		Parent Company	
		2017	2016	2017	2016
Revenue from contracts with customers recognised over time					
Trade of energy and related supply services	IFRS 15	467,126	483,963	370,626	386,679
Distribution system services	IFRS 15	301,874	290,084	–	–
Heat sales	IFRS 15	83,239	82,709	71,422	71,093
Other revenue	IFRS 15	27,105	27,123	40,610	40,359
Total revenue from contracts with customers		879,344	883,879	482,658	498,131
Other revenue					
Lease of transmission system assets (Note 14 e)	IAS 17	43,911	45,371	–	–
Lease of other assets (Note 14 e)	IAS 17	1,868	1,862	15,922	15,432
Other revenue	IAS 17	504	507	–	–
Total other revenue		46,283	47,740	15,922	15,432
TOTAL revenue		925,627	931,619	498,580	513,563

The Group and the Parent Company derives revenue from contracts with customers from Latvia and outside Latvia.

EUR'000				
	Group		Parent Company	
	2017	2016	2017	2016
Latvia	728,991	745,494	421,124	463,961
Outside Latvia	150,353	138,385	61,534	34,170
TOTAL revenue from contracts with customers	879,344	883,879	482,658	498,131

Gross amounts transferred to customers by applying agent accounting principle (see Note 4 d), recognized on net basis under trade of energy and related supply services:

EUR'000				
	Group		Parent Company	
	2017	2016	2017	2016
Mandatory procurement PSO fees	114,299	121,764	119,562	125,831
Distribution system services	10,125	2,425	217,999	224,859
Transmission system services	1,750	1,561	1,783	1,615
TOTAL revenue recognised applying agent accounting principle	126,174	125,750	339,344	352,305

The Group has recognised the following liabilities from contracts with customers:

EUR'000			
	31/12/2017	01/01/2017	31/12/2016
Non-current contract liabilities on deferred income from connection fees (Note 23 I, a)	142,132	141,817	141,817
Current contract liabilities on deferred income from connection fees (Note 23 II, a)	12,247	11,605	11,605
Contract liabilities – deferred income from use of allowed effective electrical load (distribution system services)	253	10	–
TOTAL liabilities	154,632	153,432	153,422

Movement in deferred connection fees – contract liability from contracts with customers for the Group (non-current and current part):

EUR'000		
	2017	2016
At the beginning of the year	153,432	153,643
Received fees	12,848	11,097
Credited to the Statement of Profit or Loss	(11,648)	(11,318)
Charged to the retained earnings	–	10
At the end of the year	154,632	153,432

In 2017 contract liabilities on deferred income from distribution system services has increased by EUR 243 thousand as expected that the customers who have qualified for 0.5 tariffs for distribution system services from efficient use of permitted load will reach its determined consumption level in the next financial year. This amount was charged to the Statement of Profit or Loss as reduction of distribution system services revenues (see Note 2.29.).

The Group has recognised in year 2017 distribution system services revenues from all contract liabilities and at the beginning of the year cumulative effect in retained earnings upon modified retrospective approach in amount of EUR 10 thousand.

7. Other Income

EUR'000				
	Group		Parent Company	
	2017	2016	2017	2016
One-off compensation from the state on state support for the installed capacity of CHPPs*	140,000	–	140,000	–
Net gain from sale of assets held for sale and PPE	254	635	929	503
Net gain from sale of current assets and other income	9,696	6,021	6,573	2,612
TOTAL other income	149,950	6,656	147,502	3,115

* information about compensation is disclosed in Note 23



8. Raw Materials and Consumables Used

EUR'000

	Group		Parent Company	
	2017	2016	2017	2016
Electricity:				
Purchased electricity	124,521	148,453	27,094	48,083
Fair value loss / (income) on electricity forwards and futures (Note 21 c, III)	3,435	(6,515)	3,435	(6,515)
Electricity transmission services costs	71,044	72,584	845	1,009
	199,000	214,522	31,374	42,577
Energy resources costs	118,185	137,720	112,248	131,952
Raw materials, spare parts and maintenance costs	29,726	33,572	10,332	11,729
TOTAL raw materials and consumables used	346,911	385,814	153,954	186,258

9. Personnel Expenses

EUR'000

	Group		Parent Company	
	2017	2016	2017	2016
Wages and salaries	74,453	71,848	31,233	29,375
Expenditure of employment termination	15,086	1,522	3,845	600
Pension costs – defined contribution plan	2,225	2,301	901	938
State social insurance contributions and other benefits defined in the Collective Agreement	18,574	17,887	7,685	7,200
Life insurance costs	3,131	2,670	1,228	1,052
Capitalised personnel expenses	(180)	(209)	–	–
TOTAL personnel expenses, including remuneration to the management	113,289	96,019	44,892	39,165
Including remuneration to the management:				
Wages and salaries	1,880	1,531	865	644
Expenditure of employment termination	206	22	–	–
Pension costs – defined contribution plan	30	36	–	7
State social insurance contributions and other benefits defined in the Collective Agreement	451	367	206	152
Life insurance costs	26	22	7	8
TOTAL remuneration to the management*	2,593	1,978	1,078	811

* remuneration to the Group's management includes remuneration to the members of the Management Boards of the Group entities, the Supervisory Board and the Supervisory body (Audit Committee) of the Parent Company. Remuneration to the Company's management includes remuneration to the members of the Company's Management Board, the Supervisory Board and the Supervisory body (Audit Committee)

10. Other Operating Expenses

EUR'000

	Group		Parent Company	
	2017	2016	2017	2016
Selling expenses and customer services	6,210	7,524	4,817	5,590
Information technology maintenance	5,143	4,974	4,931	4,730
Transportation expenses	6,204	6,125	2,185	2,228
Environment protection and work safety	11,900	4,507	11,205	3,852
Real estate maintenance and utilities expenses	8,261	6,226	7,825	6,424
Telecommunications services	2,224	1,974	2,552	2,303
Electric power transit and capacity services	303	294	4	4
Real estate tax	1,086	1,091	1,074	1,073
Public utilities regulation fee	1,996	1,486	932	780
Subsidised energy tax (SET)*	15,087	14,847	14,859	14,650
Audit fee**	93	89	38	41
Other expenses	15,174	13,906	9,714	7,974
TOTAL other operating expenses	73,681	63,043	60,136	49,649

* 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.)

** audit fee consists from audit of the Group's entities financial statements in the amount of EUR 85 thousand; Parent Company - EUR 30 thousand (2016: EUR 80 thousand; Parent Company - EUR 32 thousand)) and audit of The Group's Sustainability report and financial covenants - EUR 8 thousand (2016: EUR 9 thousand)

11. Finance Income and Costs

a) Finance income

EUR'000

	Group		Parent Company	
	2017	2016	2017	2016
Interest income on bank accounts and deposits	16	45	17	40
Interest income on loans to subsidiaries	–	–	10,189	10,635
Interest income from held-to-maturity financial assets	1,085	1,414	1,085	1,414
Fair value gain on interest rate swaps (Note 21 c, II)	–	760	–	760
Net gain on issued debt securities (bonds)	120	83	120	83
Net gain from currency exchange rate fluctuations	22	26	22	26
TOTAL finance income	1,243	2,328	11,433	12,958



b) Finance costs

EUR'000

	Group		Parent Company	
	2017	2016	2017	2016
Interest expense on borrowings	3,883	5,185	4,744	5,819
Interest expense on issued debt securities (bonds)	4,753	4,701	4,753	4,701
Interest expense on interest rate swaps	3,760	4,922	3,760	4,922
Net losses on redemption of held-to-maturity financial assets	50	58	50	58
Capitalised borrowing costs (Note 14 a)	(1,359)	(780)	(1,359)	(780)
Other finance costs	124	70	106	52
TOTAL finance costs	11,211	14,156	12,054	14,772

12. Income Tax

EUR'000

	Group		Parent Company	
	2017	2016	2017	2016
Current income tax for the year	51,199	23,498	45,097	20,331
Deferred income tax relating to origination and reversal of temporary differences	(20,083)	(5,146)	(20,187)	(1,482)
Reversal of deferred tax	(129,023)	–	10,105	–
TOTAL income tax	(97,907)	18,352	35,015	18,849

The movement on the deferred income tax accounts

EUR'000

	Group		Parent Company	
	2017	2016	2017	2016
Deferred tax liabilities at the beginning of the year	315,759	273,987	126,260	127,899
Attributable to re-measurement on defined post-employment benefit plan (Note 22 a)	–	(638)	–	(157)
Attributable to non-current assets revaluation reserve in equity (Note 20 a)	3,325	47,556	3,325	–
Income credited to the Statement of Profit or Loss	(20,083)	(5,146)	(20,187)	(1,482)
Deferred tax liabilities at the end of the year before reversal	299,001	315,759	109,398	126,260
Reversed to the Statement of Comprehensive Income	(169,978)	–	(119,503)	–
Reversed in the Statement of Profit or Loss	(129,023)	–	10,105	–
Deferred tax liabilities at the end of the year	–	315,759	–	126,260



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

EUR'000

	Statement of Financial Position				Statement of Profit or Loss			
	Group		Parent Company		Group		Parent Company	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016	2017	2016	2017	2016
Deferred corporate income tax liabilities								
Accelerated depreciation for tax purposes	133,103	151,871	(8,403)	10,820	(18,768)	(6,947)	(19,223)	(2,726)
Attributable to non-current assets revaluation reserve	169,560	167,007	119,384	116,370	–	–	–	–
Attributable to re-measurement on defined post-employment benefit plan	–	(354)	(35)	(227)	–	–	–	–
Gross deferred corporate income tax liabilities	302,663	318,524	110,946	126,963	(18,768)	(6,947)	(19,223)	(2,726)
Deferred corporate income tax assets								
Tax loss carried forward	–	(226)	–	–	226	487	–	10
Accrued personnel expenses	(3,594)	(2,552)	(1,414)	(959)	(1,044)	207	(456)	153
Provisions for derivative financial instruments	78	594	78	594	(515)	1,091	(515)	1,091
Provisions for impaired inventories	(224)	(249)	(148)	(159)	25	(7)	11	(5)
Other provisions	(340)	(332)	(183)	(179)	(7)	23	(4)	(5)
Gross deferred corporate income tax assets	(4,080)	(2,765)	(1,667)	(703)	(1,315)	1,801	(964)	1,244
Net deferred corporate income tax liabilities before reversal	298,583	315,759	109,279	126,260	–	–	–	–
Net deferred corporate income tax income before reversal	–	–	–	–	(20,083)	(5,146)	(20,187)	(1,482)
Reversal of deferred tax*:								
In Statement of Profit or Loss	(129,023)	–	10,105	–	(129,023)	–	10,105	–
In reserves (Note 20 a)	(169,560)	–	(119,384)	–	–	–	–	–
Net deferred corporate income tax (liabilities)	–	–	–	–	–	–	–	–
Net income from deferred corporate income tax	–	–	–	–	(149,106)	(5,146)	(10,082)	(1,482)

* deferred tax liabilities for the year 2017 are reversed from the Statement of Profit or Loss and from reserves, as they have initially been recorded in the Statement of profit or loss and reserves, respectively, pursuant to amendments made to the tax legislation of the Republic of Latvia, which entered into force on 1 January 2018

Actual corporate income tax charge for the reporting year, if compared with theoretical calculations:

EUR'000

	Group		Parent Company	
	2017	2016	2017	2016
Profit before tax	224,114	148,945	185,906	156,290
Tax at the applicable tax rate of 15%	33,617	22,342	27,886	23,444
Permanent differences:				
Received dividends from subsidiaries	–	–	(1,367)	(2,555)
Non-operating expenses	272	266	120	115
Other expenses	17,310	890	18,458	(673)
Deferred income tax relating to origination and reversal of temporary differences	(20,083)	(5,146)	(20,187)	(1,482)
Actual corporate income tax for the reporting year	31,116	18,352	24,910	18,849
Reversal of deferred tax	(129,023)	–	10,105	–
TOTAL income tax	(97,907)	18,352	35,015	18,849
Effective income tax rate	13.9%	12.3%	13.4%	12.1%



13. Intangible Assets

a) Intangible assets

EUR'000

	Group				Parent Company			
	Usage rights, licences	Soft-ware	Assets under development	TOTAL	Usage rights, licences	Soft-ware	Assets under development	TOTAL
As of 31 December 2015								
Cost	2,507	44,038	343	46,888	10,888	41,588	202	52,678
Accumulated amortisation	(1,859)	(30,624)	–	(32,483)	(3,182)	(29,650)	–	(32,832)
Net book amount	648	13,414	343	14,405	7,706	11,938	202	19,846
Year ended 31 December 2016								
Additions	–	966	2,737	3,703	1	758	1,933	2,692
Transfers	–	1,568	(1,568)	–	(48)	1,568	(1,568)	(48)
Disposals	(211)	–	–	(211)	(698)	–	–	(698)
Amortisation charge	–	(3,363)	–	(3,363)	–	(3,023)	–	(3,023)
Closing net book amount	437	12,585	1,512	14,534	6,961	11,241	567	18,769
As of 31 December 2016								
Cost	2,507	45,631	1,512	49,650	10,796	43,912	567	55,275
Accumulated amortisation	(2,070)	(33,046)	–	(35,116)	(3,835)	(32,671)	–	(36,506)
Net book amount	437	12,585	1,512	14,534	6,961	11,241	567	18,769
Year ended 31 December 2017								
Additions	–	468	2,120	2,588	–	468	2,063	2,531
Transfers	–	3,536	(3,536)	–	–	2,589	(2,589)	–
Disposals	(212)	–	–	(212)	(656)	–	–	(656)
Amortisation charge	–	(3,497)	–	(3,497)	–	(3,183)	–	(3,183)
Closing net book amount	225	13,092	96	13,413	6,305	11,115	41	17,461
As of 31 December 2017								
Cost	225	49,635	96	49,956	6,305	46,969	41	53,315
Accumulated amortisation	–	(36,543)	–	(36,543)	–	(35,854)	–	(35,854)
Net book amount	225	13,092	96	13,413	6,305	11,115	41	17,461

b) Greenhouse gas emission allowances

	Group		Parent Company	
	Number of allowances		Number of allowances	
	2017	2016	2017	2016
At the beginning of the year	795,153	1,516,203	546,409	1,220,761
Allowances allocated free of charge	314,160	364,488	295,942	343,330
Purchased allowances	–	117,400	–	117,400
Used allowances	(871,982)	(1,129,538)	(855,429)	(1,112,682)
Sold allowances	(30,700)	(73,400)	(700)	(22,400)
At the end of the year	206,631	795,153	(13,778)	546,409

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 2017 the number of allowances in the Group received in 2017 from the Government free of charge was 314,160 (31/12/2016: 364,488), the number of allowances Latvenergo AS received in 2017 from the Government free of charge was 295,942 (31/12/2016: 343,330). Therefore, their carrying amount as of 31 December 2017 was nil (31/12/2016: nil).

The fair value of greenhouse gas emission allowances as of 31 December 2017 for the Group was EUR 1,670 thousand (31/12/2016: EUR 5,208 thousand). Latvenergo AS has a shortage of allowance at the same date, a respective liability of EUR 112 thousand is recognised (31/12/2016 fair value of allowances: EUR 3,579 thousand). For estimation of the fair value of allowances was used fixed daily price in ICE (the Intercontinental Exchange) for European Union Allowances (EUA) on 29 December 2017 what was the last trade date in 2017 – 8.14 EUR/t (30/12/2016: 6.55 EUR/t).

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

From greenhouse gas emission allowances purchased for the Group in 2017 are sold 30.7 thousand (2016: 73.4 thousand) and for the Latvenergo AS in 2017 are sold 0.7 thousand (2016: 22.4 thousand).



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:

EUR'000

	Group					Parent Company				
	Land, build-ings and facilities	Technology equipment and machinery	Other PPE	Assets under construction and advance payments	Property, plant and equipment TOTAL	Land, build-ings and facilities	Technology equipment and machinery	Other PPE	Assets under construction and advance payments	Property, plant and equipment TOTAL
As of 31 December 2015										
Cost or valuation	4,469,448	2,072,520	173,118	93,858	6,808,944	1,835,378	931,181	148,126	68,046	2,982,731
Accumulated depreciation and impairment	(2,455,220)	(1,149,878)	(121,484)	(6,106)	(3,732,688)	(976,255)	(546,822)	(109,102)	(5,882)	(1,638,061)
Net book amount	2,014,228	922,642	51,634	87,752	3,076,256	859,123	384,359	39,024	62,164	1,344,670
Year ended 31 December 2016										
Increase due PPE revaluation (Note 20 a)	303,933	12,954	154	–	317,041	–	–	–	–	–
Decrease due PPE revaluation	(25,816)	(9,909)	(49)	–	(35,774)	–	–	–	–	–
Additions	–	–	–	196,838	196,838	–	–	–	73,196	73,196
Invested in share capital (Note 19)*	177	7	–	–	184	177	7	–	–	184
Transfers	72,299	39,680	24,784	(136,763)	–	4,231	5,562	12,104	(21,849)	48
Reclassified to investment property	(214)	–	–	–	(214)	(195)	–	–	–	(195)
Disposals	(2,819)	(1,987)	(199)	(40)	(5,045)	(140)	(223)	(10)	(39)	(412)
Impairment charge	–	(10,140)	–	116	(10,024)	–	(10,140)	–	24	(10,116)
Depreciation	(89,432)	(79,609)	(14,424)	–	(183,465)	(27,879)	(45,604)	(11,374)	–	(84,857)
Closing net book amount	2,272,356	873,638	61,900	147,903	3,355,797	835,317	333,961	39,744	113,496	1,322,518
As of 31 December 2016										
Cost or valuation	4,615,210	2,059,129	186,442	153,893	7,014,674	1,833,638	925,505	150,827	119,354	3,029,324
Accumulated depreciation and impairment	(2,342,854)	(1,185,491)	(124,542)	(5,990)	(3,658,877)	(998,321)	(591,544)	(111,083)	(5,858)	(1,706,806)
Net book amount	2,272,356	873,638	61,900	147,903	3,355,797	835,317	333,961	39,744	113,496	1,322,518
Year ended 31 December 2017										
Increase/(decrease) due PPE revaluation (Note 20 a)	(23,337)	48,261	(2,757)	–	22,167	(23,337)	48,261	(2,757)	–	22,167
Decrease due PPE revaluation	(1,162)	(993)	(105)	–	(2,260)	(1,162)	(993)	(105)	–	(2,260)
Additions	–	–	–	241,220	241,220	–	–	–	84,373	84,373
Transfers	85,841	63,460	16,728	(166,029)	–	17,348	37,634	9,693	(64,675)	–
Reclassified to investment property	(1,182)	–	–	–	(1,182)	(1,059)	–	–	–	(1,059)
Reclassified from investment property	–	–	–	–	–	8,335	–	–	–	8,335
Disposals	(2,953)	(1,513)	(97)	(337)	(4,900)	(40)	(78)	(35)	(334)	(487)
Impairment charge	(261)	(116,799)	–	814	(116,246)	(261)	(116,799)	–	803	(116,257)
Depreciation	(85,710)	(82,906)	(16,995)	–	(185,611)	(23,815)	(50,217)	(11,844)	–	(85,876)
Closing net book amount	2,243,592	783,148	58,674	223,571	3,308,985	811,326	251,769	34,696	133,663	1,231,454
As of 31 December 2017										
Cost or valuation	4,567,205	2,313,351	199,880	228,748	7,309,184	1,769,280	1,184,339	157,609	138,718	3,249,946
Accumulated depreciation and impairment	(2,323,613)	(1,530,203)	(141,206)	(5,177)	(4,000,199)	(957,954)	(932,570)	(122,913)	(5,055)	(2,018,492)
Net book amount	2,243,592	783,148	58,674	223,571	3,308,985	811,326	251,769	34,696	133,663	1,231,454

* 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



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

As of 31 December 2017 cost of fully depreciated PPE which are still in use for the Group amounted to EUR 237,692 thousand (31/12/2016: EUR 266,463 thousand) and for the Parent Company amounted to EUR 194,531 thousand (31/12/2016: EUR 242,479 thousand).

In 2017 the Group and the Parent Company has capitalised borrowing costs in the amount of EUR 1,359 thousand (2016: EUR 780 thousand) (see Note 11 b). Rate of capitalised borrowing costs was of 1.23% (2016: 1.29%).

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

b) Investment property

Land or a building or part of a building held by the Group and the Parent Company as the owner to earn rentals or for capital appreciation, rather than for use in the production of goods or supply of services or for administrative purposes, or sale in the ordinary course of business, after decision of the Group's or the Parent Company'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.).

EUR'000

	Group		Parent Company					
	Investment property		Investment properties for lease		Investment property held for sale		TOTAL Investment property	
	2017	2016	2017	2016	2017	2016	2017	2016
Net book amount at the beginning of the year	563	696	72,335	71,041	498	522	72,833	71,563
Additions	–	–	2,373	3,842	–	–	2,373	3,842
Reclassified to investment property held for capital appreciation	–	–	(125)	(167)	125	167	–	–
Reclassified from property, plant and equipment to investment property	1,182	214	–	178	1,059	17	1,059	195
Reclassified to property, plant and equipment	–	–	(8,335)	–	–	–	(8,335)	–
Disposal	(1)	(1)	(33)	(20)	(1)	–	(34)	(20)
Sold	(284)	(504)	–	–	(275)	(373)	(275)	(373)
Impairment charge	(685)	187	–	–	(685)	187	(685)	187
Depreciation	(22)	(29)	(2,108)	(2,539)	(21)	(22)	(2,129)	(2,561)
Net book amount at the end of the year	753	563	64,107	72,335	700	498	64,807	72,833

c) Property, plant and equipment revaluation

In 2016 the Group finished revaluation process with the revaluation of groups of distribution system facilities determining amounts of revalued assets as of 1 April 2016. Valuation have been done by independent certified valuator by applying the depreciated replacement cost model. Replacement cost for distribution system electrical lines is based on Sadales tīkls AS aggregate construction costs in 2015, by electricity lines type and region. As a result of revaluation in 2016 the carrying amounts of revalued distribution system property, plant and equipment increased by EUR 262,541 thousand.

In 2016 the Group accomplished revaluation process for property, plant and equipment of transmission system determining amounts of revalued assets as of 1 April 2016. Valuation have been done by independent certified valuator by applying the depreciated replacement cost model. 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. As a result of revaluation in 2016 the carrying amounts of revalued transmission system property, plant and equipment increased by EUR 18,726 thousand.

Revaluation on Latvenergo AS property, plant and equipment of Daugava hydropower plants had been determined as of 1 April 2017. Valuation have been done by independent certified valuator using the income method. Income method is based on the identification and analysis of generation capacity, forecasting of electricity trade prices, analysis of historical generation and operating expenses and forecast of future costs, capital expenditure, net cash flows, as well calculation of discount and capitalisation rates, based on market data.

As a result of revaluation in 2017 the carrying amounts of property, plant and equipment of Daugava hydropower plants increased by EUR 19,907 thousand. Increase of property, plant and equipment in the amount of EUR 22,167 thousand, less deferred income tax, is included in the equity as non-current assets revaluation reserve (see Note 20 a), while impairment charge due to property, plant and equipment revaluation in the amount of EUR 2,260 thousand – in the Statement of Profit or Loss position 'Depreciation, amortisation and impairment of intangible assets and property, plant and equipment'.



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:

EUR'000

	Group				Parent Company			
	Revalued property, plant and equipment groups				Revalued property, plant and equipment groups			
	Revalued buildings and facilities	Revalued technology equipment and machinery	Revalued other equipment	TOTAL revalued PPE	Revalued buildings and facilities	Revalued technology equipment and machinery	Revalued other equipment	TOTAL revalued PPE
AT REVALUED AMOUNTS								
As of 31 December 2016								
Revalued	4,150,707	1,433,417	30,406	5,614,530	1,515,376	324,771	15,769	1,855,916
Accumulated depreciation	(2,205,076)	(815,208)	(18,084)	(3,038,368)	(907,067)	(229,374)	(9,647)	(1,146,088)
Revalued net book amount	1,945,631	618,209	12,322	2,576,162	608,309	95,397	6,122	709,828
As of 31 December 2017								
Revalued	4,087,589	1,673,602	37,908	5,799,099	1,424,022	568,670	21,921	2,014,613
Accumulated depreciation	(2,174,197)	(1,009,021)	(28,629)	(3,211,847)	(852,544)	(420,294)	(19,176)	(1,292,014)
Revalued net book amount	1,913,392	664,581	9,279	2,587,252	571,478	148,376	2,745	722,599
AT AMOUNTS STATED ON HISTORICAL COST BASIS								
As of 31 December 2016								
Cost	1,151,577	755,462	26,403	1,933,442	127,520	152,449	13,030	292,999
Accumulated depreciation	(324,536)	(347,718)	(16,092)	(688,346)	(42,065)	(113,718)	(9,822)	(165,605)
Net book amount	827,041	407,744	10,311	1,245,096	85,455	38,731	3,208	127,394
As of 31 December 2017								
Cost	1,200,277	785,849	33,994	2,020,120	129,353	169,405	13,096	311,854
Accumulated depreciation	(330,719)	(354,280)	(17,739)	(702,738)	(59,492)	(120,245)	(10,378)	(190,115)
Net book amount	869 558	431 569	16 255	1 317 382	69 861	49 160	2 718	121 739

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

d) Impairment

I) Riga combined heat and power plants (Riga CHPPs)

Impairment review performed for Riga CHPPs is based on value in use calculations. The cash-generating unit is defined as the assets of Riga CHPPs.

In October 2017, Latvenergo AS applied for a one-off compensation from the state, at the same time opting out of the receipt of 75% of the annual electrical capacity payments for cogeneration power plants Riga CHPP-1 and Riga CHPP-2 (Note 23). On 21 November 2017, the Cabinet of Ministers of the Republic of Latvia accepted an order which supports the reduction of the guaranteed support payments during the remaining support period for the installed capacity of Riga CHPPs. According to the order, Latvenergo AS obtained a government grant in the amount of EUR 454,413 thousand. The grant is divided into two parts, with the stipulation that EUR 140,000 thousand should be recognized as 'Other income' in the Group's and Latvenergo AS statement of profit or loss in 2017, while EUR 314,413 thousand should be recognized as deferred income in even distribution over the coming reporting periods and fulfilling obligations until the end of the support period.

As a result of the above transactions, additional impairment in the amount of EUR 116,799 thousand was recognised for Riga CHPPs in 2017. The recognised impairment charge is included in the Statement of Profit or Loss position 'Depreciation, amortisation and impairment of intangible assets and property, plant and equipment'.

Value in use is determined by evaluating the future cash flows expected to be derived from an asset. Forecasted period is 2018 – 2028 and the terminal value appraisal, evaluated as a fraction of the balance sheet's assets value, is included. Revenue stream forecast mainly corresponds to the remaining intensity of electrical capacity payments and the support period till September 23, 2028, as it is 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 2018, the service maintenance agreements and assumed inflation. As a result of calculation, the future revenue stream is close to the amount of expenses – cash generating unit's value in use is insignificant. Nominal pre-tax discount rate used to determine value in use of cash-generating unit by discounting cash flows is 7.5% (2016: 7.8%).

The accumulated impairment as of 31 December 2017 amounted to EUR 220,709 thousand (31/12/2016: EUR 103,910 thousand). In 2016, additional impairment of EUR 10,140 thousand was recognised 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 CHPPs.

II) Distribution system assets (Group)

Impairment review based on value in use calculations is performed for electricity distribution system assets. As a result of impairment test there is no impairment loss to be recognised (2016: nil). The cash-generating unit is defined as all distribution system assets. Nominal pre-tax discount rate used to determine value in



use of cash-generating units by discounting cash flows is 5.3% (2016: 5.1%) as included in the electricity distribution system service tariff calculation methodology. Revenue stream forecasts are based on the tariff calculation methodology and assumptions related investment plans. The forecast of expenses and investments is based on historical data, the budgets approved by the management and assumed inflation. The growth rate used for the terminal value appraisal is in line with the assumed distributed electricity growth.

III) Transmission system assets (Group)

Impairment review based on value in use calculations is performed for electricity transmission system assets. As a result of impairment test there is no impairment loss to be recognised (2016: nil). The cash-generating unit is defined as all transmission system assets. Nominal pre-tax discount rate used to determine value in use of cash-generating units by discounting cash flows is 5.3% (2016: 5.1%) as included in electricity transmission system service tariff calculation methodology. Revenue stream forecasts are based on the tariff calculation methodology and assumptions related investment plans. The forecast of expenses and investments is based on historical data, the budgets approved by the management and assumed inflation. The growth rate used for the terminal value appraisal is in line with the assumed transmitted electricity growth.

IV) Daugava hydropower plants (HPPs)

Impairment review based on value in use calculations is performed for Daugava HPPs at the end of reporting period and there is no impairment loss to be recognised in addition to impairment already recognized as part of HPPs revaluation (Note 14 c). The cash-generating unit is defined as Daugava HPPs assets. Nominal pre-tax discount rate used to determine value in use of cash-generating units by discounting cash flows is 9.0%. Revenue stream forecasts are based on the most recent long-term forecasts of electricity prices and long-term output of electricity. The forecast of expenses and investments is based on historical data, the budget approved by the management for 2018 and assumed inflation. The growth rate used for the terminal value appraisal is in line with the assumed inflation.

e) Leases

EUR'000

	Group		Parent Company	
	2017	2016	2017	2016
Rental income (the Group or the Parent Company is the lessor) (Note 6)	45,779	47,233	15,922	15,432
of which,				
Transmission system assets lease	43,911	45,371	–	–
Rental expense (the Group or the Parent Company is the lessee)	1,577	1,274	1,267	1,296

Future minimum lease receivables under non-cancellable operating lease contracts by due dates (the Group and the Company is the lessor)

EUR'000

	Group		Parent Company	
	2017	2016	2017	2016
– < 1 year	41,149	48,206	17,118	17,779
– 1–5 years	199,012	195,914	66,924	70,163
– > 5 years	244,546	240,732	93,694	98,228
TOTAL rental income	484,707	484,852	177,736	186,170

Transmission system assets had been leased out by the Group 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 and the Parent Company is the lessee)

EUR'000

	Group		Parent Company	
	2017	2016	2017	2016
– < 1 year	1,628	1,420	1,418	1,350
– 1–5 years	6,512	6,018	5,672	6,453
– > 5 years	9,768	9,038	9,075	10,325
TOTAL rental expense	17,908	16,476	16,165	18,128

15. Non-Current Financial Investments

Name	Country of incorporation	Business activity held	31/12/2017		31/12/2016	
			Interest held,%	EUR'000	Interest held,%	EUR'000
Subsidiaries (Parent Company):						
Latvijas elektriskie tīkli AS	Latvia	Lease of transmission system assets	100%	185,624	100%	185,624
Sadales tīkls AS	Latvia	Electricity distribution	100%	627,656	100%	627,656
Enerģijas publiskais tirgotājs AS	Latvia	Administration of mandatory electricity procurement process	100%	40	100%	40
Elektrum Eesti OÜ	Estonia	Electricity trade & gas	100%	35	100%	35
Elektrum Lietuva, UAB	Lithuania	Electricity trade	100%	98	100%	98
Liepājas enerģija SIA	Latvia	Thermal energy generation and trade in Liepāja, electricity generation	51%	3,556	51%	3,556
Other non-current financial investments (Group):				817,009		817,009
Pirmais Slēgtais Pensiju Fonds AS	Latvia	Management of pension plans	48.15%	37	48.15%	37
Rīgas siltums AS	Latvia	Thermal energy generation and trade in Riga, electricity generation	0.0051%	3	0.0051%	3
				40		40

The Group owns 48.15% of the shares of the closed pension fund Pirmais Slēgtais Pensiju Fonds AS (Latvenergo AS – 46.30%). However, the Group and the Parent Company is only a nominal shareholder as all risks and benefits arising from associate's activities will accrue to the employees who are members of the pension fund. Therefore, investment in Pirmais Slēgtais Pensiju Fonds AS is valued at cost.



a) Investments in subsidiaries (Parent Company)

Movement in investments in subsidiaries		EUR'000
	Parent Company	
	2017	2016
At the beginning of the year	817,009	817,009
At the end of the year	817,009	817,009

Share of profit of subsidiaries		EUR'000
	2017	2016
Dividends received		
Latvijas elektriskie tīkli AS	6,852	14,880
Sadales tīkls AS	3	–
Elektrum Lietuva, UAB	542	528
Elektrum Eesti OÜ	264	192
Liepājas enerģija SIA	1,450	1,433
	9,111	17,033

EUR'000						
Name	Equity		Net profit / (loss) for the year		Carrying amount of interest from investment	
	31/12/2017	31/12/2016	2017	2016	31/12/2017	31/12/2016
Subsidiaries						
Latvijas elektriskie tīkli AS*	269,801	221,675	50,463	6,850	185,624	185,624
Sadales tīkls AS*	993,329	820,992	124,268	(79)	627,656	627,656
Enerģijas publiskais tirgotājs AS	40	40	–	–	40	40
Elektrum Eesti OÜ	904	936	232	264	35	35
Elektrum Lietuva, UAB	859	920	481	542	98	98
Liepājas enerģija SIA	16,413	14,458	4,799	3,159	3,556	3,556
	1,281,346	1,059,021	180,243	10,736	817,009	817,009

* re-measured according to applied IFRS after first time adoption of IFRS

b) Other non-current financial investments

EUR'000				
	Group		Parent Company	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Other non-current financial investments				
Investment in Pirmais Slēgtais Pensiju Fonds AS	37	37	36	36
Investment in Rīgas siltums AS	3	3	3	3
	40	40	39	39

16. Inventories

EUR'000				
	Group		Parent Company	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Raw materials and materials	16,547	17,438	1,583	1,267
Natural gas*	53,079	17,506	53,078	817
Other inventories	8,115	8,173	8,075	8,094
Prepayments for inventories	81	–	80	16,693
Allowance for raw materials and other inventories	(1,494)	(1,659)	(992)	(1,060)
TOTAL inventories	76,328	41,458	61,824	25,811

* on 3 April 2017, according to Energy Law, the natural gas market in Latvia was opened, inventories of purchased natural gas are used for production of electricity and heat, as well for trade to customers

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

Movement on the allowance for raw materials, spare parts and technological fuel					EUR'000	
	Group		Parent Company		2017	2016
	2017	2016	2017	2016		
At the beginning of the year	1,659	1,614	1,060	1,027		
Inventories written off	(62)	(87)	–	–		
Charged to the Statement of Profit or Loss	(103)	132	(68)	33		
At the end of the year	1,494	1,659	992	1,060		



17. Receivables from Contracts with Customers and Other Receivables

a) Receivables from contracts with customers, net

EUR'000				
	Group		Parent Company	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Receivables from contracts with customers:				
– Electricity, natural gas trade and related services customers	134,699	147,808	105,257	120,500
– Heating customers	10,922	11,629	8,851	9,530
– Other receivables from contracts with customers	8,610	7,588	4,155	3,086
– Subsidiaries	–	–	9,404	13,117
	154,231	167,025	127,667	146,233
Provisions for impaired receivables from contracts with customers:				
– Electricity, natural gas trade and related services customers	(45,561)	(44,801)	(44,472)	(43,674)
– Heating customers	(329)	(391)	(310)	(369)
– Other receivables from contracts with customers	(2,972)	(2,908)	(86)	(134)
	(48,862)	(48,100)	(44,868)	(44,177)
Receivables from contracts with customers, net:				
– Electricity, natural gas trade and related services customers	89,138	103,007	60,785	76,826
– Heating customers	10,593	11,238	8,541	9,161
– Other receivables from contracts with customers	5,638	4,680	4,069	2,952
– Subsidiaries	–	–	9,404	13,117
	105,369	118,925	82,799	102,056

There is no significant concentration of credit risk with respect to receivables from contracts with customers, as the Group and the Parent Company has a large number of customers except the major heating customer the net debt of which as of 31 December 2017 amounted to EUR 8,627 thousand (31/12/2016: EUR 9,040 thousand).

Electricity, natural gas trade and related services receivables grouped by past due days and calculated impairment loss

EUR'000

	Group		Parent Company	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Electricity, natural gas trade and related services receivables:				
– Fully performing receivables	70,290	92,450	46,956	69,766
Receivables past due but not impaired:				
– Receivables past due by 1–45 days	7,183	7,277	3,134	5,251
Impaired receivables:				
– Receivables past due by 46–90 days	743	1,608	657	1,402
– Receivables past due by 91–180 days	1,173	2,154	1,110	2,029
– Receivables past due by more than 181 days	17,623	15,988	16,780	15,136
– Individually impaired receivables with scheduled payments*	37,687	28,331	36,620	26,916
	134,699	147,808	105,257	120,500
Provisions for impaired electricity, natural gas trade and related services receivables:				
– Receivables past due by 46–90 days	(371)	(744)	(329)	(640)
– Receivables past due by 91–180 days	(880)	(1,480)	(833)	(1,387)
– Receivables past due by more than 181 days	(17,623)	(15,988)	(16,780)	(15,136)
– Individually impaired receivables with scheduled payments*	(26,687)	(26,589)	(26,530)	(26,511)
	(45,561)	(44,801)	(44,472)	(43,674)
Electricity, natural gas trade and related services receivables, net:				
– Fully performing receivables	70,290	92,450	46,956	69,766
Receivables past due but not impaired:				
– Receivables past due by 1–45 days	7,183	7,277	3,134	5,251
Net impaired receivables:				
– Receivables past due by 46–90 days	372	864	328	762
– Receivables past due by 91–180 days	293	674	277	642
– Individually impaired receivables with scheduled payments*	11,000	1,742	10,090	405
	89,138	103,007	60,785	76,826

* receivables under insolvency process and other individually impaired receivables



Heating and other receivables from contracts with customers grouped by past due days and calculated impairment loss

EUR'000

	Group		Parent Company	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Heating and other receivables from contracts with customers:				
– Fully performing receivables	16,029	15,606	12,549	11,997
Receivables past due but not impaired:				
– Receivables past due by 1–30 days	143	214	55	101
Impaired receivables:				
– Receivables past due by 31–90 days	118	199	12	31
– Receivables past due by more than 91 days	3,160	3,051	390	487
– Individually impaired receivables with scheduled payments*	82	147	–	–
	19,532	19,217	13,006	12,616
Provisions for impaired heating and other receivables from contracts with customers:				
– Receivables past due by 31–90 days	(59)	(101)	(6)	(16)
– Receivables past due by more than 91 days	(3,160)	(3,051)	(390)	(487)
– Individually impaired receivables with scheduled payments*	(82)	(147)	–	–
	(3,301)	(3,299)	(396)	(503)
Heating and other receivables from contracts with customers, net:				
– Fully performing receivables	16,029	15,606	12,549	11,997
Receivables past due but not impaired:				
– Receivables past due by 1–30 days	143	214	55	101
Net impaired receivables:				
– Receivables past due by 31–90 days	59	98	6	15
	16,231	15,918	12,610	12,113

* receivables under insolvency process and other individually impaired receivables

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

The Management assumptions and methodology for estimation of recoverable amount of receivables from contracts with customers and evaluation of impairment risk are described in Note 4 b.

Credit quality of receivables from contracts with customers

EUR'000

	Group		Parent Company	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Fully performing electricity, natural gas trade and related services receivables:				
– customers with no overdue receivables and not impaired	58,955	73,236	37,147	53,262
– customers with overdue receivables with impaired receivables	11,335	19,214	9,809	16,504
	70,290	92,450	46,956	69,766
Fully performing heating and other receivables:				
– customers with no overdue receivables	15,459	14,790	12,257	11,727
– customers with overdue receivables	570	816	292	270
	16,029	15,606	12,549	11,997

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

Movements in provisions for impaired receivables from contracts with customers

EUR'000

	Group		Parent Company	
	2017	2016	2017	2016
At the beginning of the year	48,100	46,089	44,177	43,422
Receivables written off during the year as uncollectible	(1,710)	(1,511)	(1,343)	(1,294)
Allowance for impaired receivables	2,472	3,522	2,034	2,049
At the end of the year	48,862	48,100	44,868	44,177

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



b) Other receivables

	Group		Parent Company	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Other non-current receivables*	3,229	986	284	978
Total non-current receivables	3,229	986	284	978
Current financial receivables:				
Receivable of guaranteed fee for the installed electrical capacity of cogeneration power plants CHPP-1 and CHPP-2**	454,413	–	–	–
Unsettled revenue on mandatory procurement PSO fee recognised as assets ***	164,365	142,132	–	–
Receivables for lease	3,535	3,911	2,443	2,610
Other financial receivables from related parties	–	–	10,664	6,875
Other accrued income	3,572	1,024	872	1,024
Other current financial receivables	15,947	2,794	3,959	927
Total current financial receivables	641,832	149,861	17,938	11,436
Current non-financial receivables:				
Pre-tax and overpaid taxes	3,703	4,008	22	17
Other current receivables	1,226	1,164	119	150
Total current non-financial receivables	4,929	5,172	141	167
TOTAL current receivables	646,761	155,033	18,079	11,603
TOTAL other receivables	649,990	156,019	18,363	12,581

* other non-current receivables of the Group as of 31 December 2017 include financing for capital expenditure project "Construction of the 330 kV Kurzeme loks" in the amount of EUR 2,941 thousand

** on 21 November 2017, the Cabinet of Ministers of the Republic of Latvia accepted an order on one-off compensation to Latvenergo AS on guaranteed support for the installed capacity of cogeneration power plants in the amount of EUR 454,413 thousand (see Note 23)

*** 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)

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

	Group		Parent Company	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Cash at bank	233,624	176,626	230,476	173,843
Short-term bank deposits	–	7,000	–	7,000
Restricted cash and cash equivalents*	2,379	354	2,379	354
TOTAL cash and cash equivalents	236,003	183,980	232,855	181,197

* restricted cash and cash equivalents as of 31 December 2017 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

In existing rate environment, cash at bank balances practically doesn't earn any interests. Short-term deposits are placed for different periods between several days and three months depending on the immediate cash needs of the Group and the Parent Company and cash flow forecasts. During 2017 the average annual effective interest rate earned on short-term cash deposits was 0.175% (2016: 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 2017, the registered share capital of the Latvenergo AS is EUR 1,288,715 thousand (31/12/2016: EUR 1,288,715 thousand) and consists of 1,288,715 thousand ordinary shares (31/12/2016: 1,288,715 thousand) with the nominal value of EUR 1 per share (31/12/2016: EUR 1 per share). All shares have been fully paid.

In 2017 there were no increase per share capital. 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. 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.



20. Reserves, Dividends and Earnings Per Share

a) Reserves

EUR'000

	Note	Group					Parent Company		
		Non-current assets revaluation reserve	Hedge reserve	Currency translation	Other reserves	TOTAL	Non-current assets revaluation reserve	Hedge reserve	TOTAL
As of 31 December 2015		681,742	(12,256)	97	13	669,596	662,035	(12,256)	649,779
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)	(2,606)	–	(2,606)
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, l	–	2,847	–	–	2,847	–	2,847	2,847
As of 31 December 2016		946,373	(9,409)	97	13	937,074	659,429	(9,409)	650,020
Increase of non-current assets revaluation reserve as a result of revaluation	14 a	22,167	–	–	–	22,167	22,167	–	22,167
Disposal of non-current assets revaluation reserve net of deferred tax		(4,377)	–	–	–	(4,377)	(1,762)	–	(1,762)
Deferred tax related to non-current assets revaluation reserve	12	(3,325)	–	–	–	(3,325)	(3,325)	–	(3,325)
Reversed deferred corporate income tax	12	169,560	–	–	–	169,560	119,384	–	119,384
Gains from fair value changes in derivative financial instruments	21 c, l	–	5,422	–	–	5,422	–	5,422	5,422
As of 31 December 2017		1,130,398	(3,987)	97	13	1,126,521	795,893	(3,987)	791,906

Non-current assets revaluation reserve, currency translation and hedge reserves cannot be distributed as dividends. Other reserves are maintained with the aim to maintain stability in the operations of the Group entities.

b) Dividends

The dividends declared to equity holders of the Parent Company for 2016 were EUR 90,142 thousand or EUR 0.06995 per share (2015: EUR 77,413 thousand or EUR 0.06008 per share) and to non-controlling interests – EUR 1,393 thousand or EUR 0.408 per share (2015: EUR 1,377 thousand or EUR 0.403 per share).

Fulfilling the requirements of the Article No. 41 of the law “On the State budget 2018” that determines the amount of dividends payable in the year 2018, the Management Board of Latvenergo AS proposes to pay out in dividends EUR 94.2 million, that consists from Latvenergo AS profit of 2017 in the amount of EUR 29.8 million and profit of 2016 in the amount of EUR 64.4 million, and the rest of Latvenergo AS profit of 2017 – EUR 121.1 million to leave undistributed as retained earnings with a purpose to take the decision on pay out as dividends simultaneously with the decision on the distribution of Latvenergo AS profit of 2018.

The distribution of net profit for the 2017 is subject to a resolution of the Latvenergo AS Shareholders Meeting.

c) Earnings per share

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

EUR'000

	Group		Parent Company	
	2017	2016	2017	2016
Profit attributable to the equity holder of the Parent Company (in thousand EUR)	319,670	129,045	150,891	137,441
Weighted average number of shares (thousand)	1,288,715	1,288,623	–	–
Basic earnings per share (in euros)	0.250	0.100	0.117	0.107
Diluted earnings per share (in euros)	0.250	0.100	0.117	0.107



21. Financial Assets and Liabilities

a) Held-to-maturity financial assets

As of 31 December 2017 the entire Group's and the Parent Company's held-to-maturity financial assets were State Treasury bonds with 5 year and 10 year maturity, which were purchased with the purpose to invest liquidity reserve in the low risk financial instruments with higher yield. During 2017 in connection with the amortisation of held-to-maturity financial assets are recognised net losses in the amount of EUR 50 thousand (2016: EUR 58 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 2017 the fair value of held-to-maturity financial assets is greater than the carrying amount by EUR 4,108 thousand (2016: EUR 4,991 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

EUR'000

	Group		Parent Company	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Held-to-maturity financial assets:				
– current	–	3,520	–	3,520
– non-current	16,984	17,034	16,984	17,034
TOTAL held-to-maturity financial assets	16,984	20,554	16,984	20,554

b) Borrowings

EUR'000

	Group		Parent Company	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Non-current borrowings from financial institutions	583,313	500,215	574,764	492,286
Issued debt securities (bonds)	135,361	135,405	135,361	135,405
Total non-current borrowings	718,674	635,620	710,125	627,691
Current portion of non-current borrowings from financial institutions	105,931	82,762	102,522	78,222
Current portion of issued debt securities (bonds)	–	70,075	–	70,075
Current borrowings from financial institutions	–	744	–	–
Accrued interest on non-current borrowings	468	594	441	564
Accrued coupon interest on issued debt securities (bonds)	1,684	1,771	1,684	1,771
Total current borrowings	108,083	155,946	104,647	150,632
TOTAL borrowings	826,757	791,566	814,772	778,323

Movement in borrowings

EUR'000

	Group		Parent Company	
	2017	2016	2017	2016
At the beginning of the year	791,566	797,483	778,323	782,965
Borrowings received	186,500	55,744	185,000	55,000
Borrowings repaid	(80,976)	(87,452)	(78,221)	(85,441)
Change in accrued interest on borrowings	(126)	15	(123)	23
Issued debt securities (bonds)	–	25,776	–	25,776
Repaid issued debt securities (bonds)	(70,000)	–	(70,000)	–
Changes in outstanding value of issued debt securities (bonds)	(207)	–	(207)	–
At the end of the year	826,757	791,566	814,772	778,323

Borrowings by categories of lenders

EUR'000

	Group		Parent Company	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Foreign investment banks	426,102	394,917	426,102	394,917
Commercial banks	263,610	189,398	251,625	176,155
Issued debt securities (bonds)	137,045	207,251	137,045	207,251
TOTAL borrowings	826,757	791,566	814,772	778,323

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

EUR'000

	Group		Parent Company	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Fixed rate non-current and current borrowings:				
– < 1 year (current portion of non-current borrowings)	51,733	71,921	51,733	71,921
– 1–5 years	203,543	152,911	203,543	152,911
– > 5 years	–	100,676	–	100,676
Total fixed rate borrowings	255,276	325,508	255,276	325,508
Floating rate non-current and current borrowings:				
– < 1 year (current borrowings)	–	744	–	–
– < 1 year (current portion of non-current borrowings)	56,350	83,281	52,915	78,711
– 1–5 years	338,240	255,126	330,119	247,646
– > 5 years	176,891	126,907	176,462	126,458
Total floating rate borrowings	571,481	466,058	559,496	452,815
TOTAL borrowings	826,757	791,566	814,772	778,323

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

EUR'000

	Group		Parent Company	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
– < 1 year	379,854	376,099	367,869	362,856
– 1–5 years	396,903	264,791	396,903	264,791
– > 5 years	50,000	150,676	50,000	150,676
TOTAL borrowings	826,757	791,566	814,772	778,323

As of 31 December 2017 and as of 31 December 2016 all of the Group's and the Parent Company'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 Parent Company, and the effect of fair value revaluation is not significant.

I) Pledges

As of 31 December 2017 the Group's and the Parent Company's assets are not pledged to secure the borrowings, except the pledge on assets of Liepājas Energija SIA of maximum secured claims in the amount of EUR 32.3 million (31/12/2016: EUR 29 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 27 million and the claims on the receivables accounts in the amount of EUR 5.3 million (31/12/2016: EUR 26.6 million and EUR 2.4 million, respectively).

II) Un-drawn borrowing facilities

As of 31 December 2017 there are no un-drawn committed non-current credit facilities (31/12/2016: EUR 235 million).

As of 31 December 2017 the Group had entered into three overdraft agreements with total notional amount of EUR 34 million (31/12/2016: 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 1.73% (2016: 1.91%), weighted average effective interest rate for current borrowings was 0.87% (2016: 0.87%). At 31 December 2017 interest rates for non-current borrowings in euros were 3, 6 and 12 month EURIBOR+ 0.96% (31/12/2016: +1.13%) for the Group and 3, 6 and 12 month EURIBOR+ 0.95% (31/12/2016: +1.10%) for Latvenergo AS. At 31 December 2017 the total notional amount of interest rate swap agreements concluded by the Group amounts to EUR 193.4 million (31/12/2016: EUR 174.2 million) and the interest rate was fixed for the initial periods from 6 to 10 years.

IV) Bonds outstanding

The Parent Company (Latvenergo AS) 2013 issued bonds in the amount of EUR 35 million with maturity date – 22 May 2020 (ISIN code – LV0000801165) 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 10 June 2022 (ISIN code – LV0000801777) with the annual coupon rate of 1.9%. Five-year bonds issued in 2012 and 2013 in the amount of EUR 70 million (ISIN code – LV0000801090) have reached their maturity on 15 December 2017. Thus the total nominal amount of outstanding bonds amounts to EUR 135 million. All issued bonds are quoted in NASDAQ Baltic Stock Exchange. The issued debt securities (bonds) are measured at amortised cost at the end of reporting year.

As of 31 December 2017 the fair value of issued debt securities (bonds) exceeds their carrying amount by EUR 5,546 thousand (31/12/2016: EUR 6,523 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:

EUR'000

	Notes	Group				Parent Company			
		31/12/2017		31/12/2016		31/12/2017		31/12/2016	
		Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Interest rate swaps	21 c, II	(31)	8,061	–	11,563	(31)	8,061	–	11,563
Electricity forwards and futures	21 c, III	(4,588)	23	(6,134)	23	(4,588)	23	(6,134)	23
TOTAL outstanding fair values of derivatives		(4,619)	8,084	(6,134)	11,586	(4,619)	8,084	(6,134)	11,586

EUR'000

	Notes	Group				Parent Company			
		31/12/2017		31/12/2016		31/12/2017		31/12/2016	
		Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Non-current		–	4,914	–	7,946	–	4,914	–	7,946
Current		(4,619)	3,170	(6,134)	3,640	(4,619)	3,170	(6,134)	3,640
TOTAL fair values of derivative financial instruments		(4,619)	8,084	(6,134)	11,586	(4,619)	8,084	(6,134)	11,586



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

EUR'000

		Group		Parent Company	
	Notes	2017	2016	2017	2016
Included in the Statement of Profit or Loss					
Interest rate swaps	11 a	–	(760)	–	(760)
Electricity forwards and futures	8	3,435	(6,515)	3,435	(6,515)
		3,435	(7,275)	3,435	(7,275)
Included in the Statement of Other Comprehensive Income					
Interest rate swaps	20 a	(3,533)	(693)	(3,533)	(693)
Electricity forwards and futures	20 a	(1,889)	(2,154)	(1,889)	(2,154)
		(5,422)	(2,847)	(5,422)	(2,847)

Fair value changes of interest rate swaps

EUR'000

	Group				Parent Company			
	2017		2016		2017		2016	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Outstanding fair value at the beginning of the year	–	11,563	–	13,016	–	11,563	–	13,016
Included in the Statement of Profit or Loss, net (Note 11 a)	–	–	–	(760)	–	–	–	(760)
Included in other comprehensive income (Note 20 a)	(31)	(3,502)	–	(693)	(31)	(3,502)	–	(693)
Outstanding fair value at the end of the year	(31)	8,061	–	11,563	(31)	8,061	–	11,563

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 2017 54% (31/12/2016: 62%) of the Group's and 55% (2016: 63%) of the Parent Company's borrowings had fixed interest rates (taking into account the effect from the interest rate swaps), and average remaining time to interest re-pricing was 2.0 years (2016: 2.1 years) for the Group and 2.0 years (2016: 2.2 years) for the Parent Company.

III) Electricity forwards and futures

As of 31 December 2017 the Group and the Parent Company has entered into electricity forward and future contracts with total outstanding volume of 1,838,732 MWh (31/12/2016: 2,195,685 MWh) and notional value of EUR 29.0 million (31/12/2016: EUR 36.0 million). Electricity forward and future contracts are concluded for the maturities from one quarter to one year during the period from 1 January 2018 to 31 December 2019.

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 2017 the Group and the Parent Company had interest rate swap agreements with total notional amount of EUR 193.4 million (31/12/2016: EUR 174.2 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 2017 fixed interest rates vary from 0.315% to 2.5775% (31/12/2016: from 0.7725% to 4.4925%).

At the end of the year all of outstanding interest rate swap agreements or agreements are designated to comply with hedge accounting and were re-measured prospectively and retrospectively to test whether they are effective within the hedging period (31/12/2016: 100% with notional amount of EUR 174.2 million). All contracts are designed as cash flow hedges. It was established that they are fully effective and therefore there is no ineffective portion to be recognised within profit or loss in the Statement of Profit or Loss.

The Parent Company 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 1,829,972 MWh as of 31 December 2017 are designated to comply with hedge accounting treatment (31/12/2016: 1,626,285) 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 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

EUR'000

	Group				Parent Company			
	2017		2016		2017		2016	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Outstanding fair value at the beginning of the year	(6,134)	23	–	2,558	(6,134)	23	–	2,558
Included in the Statement of Profit or Loss (Note 8)	3,435	–	(3,980)	(2,535)	3,435	–	(3,980)	(2,535)
Included in other comprehensive income (Note 20 a)	(1,889)	–	(2,154)	–	(1,889)	–	(2,154)	–
Outstanding fair value at the end of the year	(4,588)	23	(6,134)	23	(4,588)	23	(6,134)	23



d) Fair values and fair value measurement

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

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

EUR'000

	Date of valuation	Group				Parent Company			
		Fair value measurement using				Fair value measurement using			
		Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	TOTAL	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	TOTAL
Assets measured at fair value									
Revalued property, plant and equipment (Note 14 c)	31/12/2017	–	–	2,587,252	2,587,252	–	–	722,599	722,599
	31/12/2016	–	–	2,576,162	2,576,162	–	–	709,828	709,828
<i>Derivative financial instruments, including:</i>									
Electricity forwards and futures (Note 21 c, III)	31/12/2017	–	4,588	–	4,588	–	4,588	–	4,588
	31/12/2016	–	6,134	–	6,134	–	6,134	–	6,134
Interest rate swaps (Note 21 c, II)	31/12/2017	–	31	–	31	–	31	–	31
	31/12/2016	–	–	–	–	–	–	–	–
Assets for which fair values are disclosed									
Held-to-maturity financial assets (Note 21 a)	31/12/2017	–	21,092	–	21,092	–	21,092	–	21,092
	31/12/2016	–	25,545	–	25,545	–	25,545	–	25,545
Floating rate loans to subsidiaries (Note 25 e)	31/12/2017	–	–	–	–	–	103,928	–	103,928
	31/12/2016	–	–	–	–	–	100,872	–	100,872
Fixed rate loans to subsidiaries (Note 25 e)	31/12/2017	–	–	–	–	–	394,215	–	394,215
	31/12/2016	–	–	–	–	–	350,398	–	350,398

There have been no transfers for assets between Level 1, Level 2 and Level 3 during the reporting period.



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

EUR'000

	Date of valuation	Group				Parent Company			
		Fair value measurement using				Fair value measurement using			
		Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	TOTAL	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	TOTAL
Liabilities measured at fair value									
<i>Derivative financial instruments, including:</i>									
Interest rate swaps (Note 21 c, II)	31/12/2017	–	8,061	–	8,061	–	8,061	–	8,061
	31/12/2016	–	11,563	–	11,563	–	11,563	–	11,563
Electricity forwards and futures (Note 21 c, III)	31/12/2017	–	23	–	23	–	23	–	23
	31/12/2016	–	23	–	23	–	23	–	23
Liabilities for which fair values are disclosed									
Issued debt securities (bonds) (Note 21 b, IV)	31/12/2017	–	142,591	–	142,591	–	142,591	–	142,591
	31/12/2016	–	213,774	–	213,774	–	213,774	–	213,774
Floating rate borrowings (Note 21 b)	31/12/2017	–	689,712	–	689,712	–	677,727	–	677,727
	31/12/2016	–	584,315	–	584,315	–	571,072	–	571,072
Fixed rate borrowings (Note 21 b)	31/12/2017	–	–	–	–	–	–	–	–
	31/12/2016	–	–	–	–	–	–	–	–

There have been no transfers for liabilities between Level 1, Level 2 and Level 3 during the reporting period. The fair value hierarchy for the Group's and the Parent Company'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 and the Parent Company's financial instruments, other than those with carrying amounts which approximates their fair values:

EUR'000

	Group				Parent Company			
	Carrying amount		Fair value		Carrying amount		Fair value	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Financial assets								
Held-to-maturity financial assets	16,984	20,554	21,092	25,545	16,984	20,554	21,092	25,545
<i>Derivative financial instruments not designated for hedging, including:</i>								
– electricity forwards and futures	545	3,980	545	3,980	545	3,980	545	3,980
<i>Derivative financial instruments used for hedging, including:</i>								
– electricity forwards and futures	4,043	2,154	4,043	2,154	4,043	2,154	4,043	2,154
– interest rate swaps	31	–	31	–	31	–	31	–
Financial liabilities								
<i>Interest-bearing liabilities, including:</i>								
– issued debt securities (bonds)	137,045	207,251	142,591	213,774	137,045	207,251	142,591	213,774
– floating rate borrowings	689,712	584,315	689,712	584,315	677,727	571,072	677,727	571,072
– fixed rate borrowings	–	–	–	–	–	–	–	–
<i>Derivative financial instruments not designated for hedging, including:</i>								
– electricity forwards and futures	23	23	23	23	23	23	23	23
– interest rate swaps	–	–	–	–	–	–	–	–
<i>Derivative financial instruments used for hedging, including:</i>								
– interest rate swaps	8,061	11,563	8,061	11,563	8,061	11,563	8,061	11,563



The management assessed that cash and short-term deposits, 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:

- 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 and the Parent Company;
- 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 Group and the Parent Company 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 and the Parent Company's credit risk margin;
- The Group and the Parent Company 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;
- 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

EUR'000				
	Group		Parent Company	
	2017	2016	2017	2016
At the beginning of the year	16,428	13,619	6,733	5,445
Current service cost	1,392	1,011	572	457
Interest cost	304	204	124	82
Post-employment benefits paid	(943)	(1,352)	(465)	(298)
(Gains) / losses as a result of changes in actuarial assumptions less of deferred income tax	(3,460)	2,946	(1,053)	1,047
At the end of the year	13,721	16,428	5,911	6,733

Total charged / (credited) provisions are included in the Statement of Profit or Loss position 'Personnel expenses' within state social insurance contributions and other benefits defined in the Collective agreement (Note 9), while gains / (losses) as a result on re-measurement on defined post-employment benefit plan net of deferred income tax are included in the Statement of Other Comprehensive Income, according to IAS 19 *Employee Benefits*:

EUR'000				
	Group		Parent Company	
	2017	2016	2017	2016
At the beginning of the year	16,428	13,619	6,733	5,445
(Credited) / charged to the Statement of Other Comprehensive Income less of deferred income tax	(3,460)	2,946	(1,053)	1,047
Deferred income tax on re-measurement on defined post-employment benefit plan (Note 12)	–	(638)	–	(157)
Charged to the Statement of Profit or Loss	753	501	231	398
At the end of the year	13,721	16,428	5,911	6,733

Weighted average discount rate used for discounting benefit obligations was 1.85% (2016: 1.50%), 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% (2016: 3.0%) 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 on provisions for post-employment benefits as of the end of the year is as shown below:

EUR'000													
	Date of valuation	Group						Parent Company					
		Discount rate		Future salary changes		Retirement probability changes		Discount rate		Future salary changes		Retirement probability changes	
		1% increase	1% decrease	1% increase	1% decrease	1% increase	1% decrease	1% increase	1% decrease	1% increase	1% decrease	1% increase	1% decrease
Impact on provisions for post-employment benefits	31/12/2017	1,508	(1,246)	1,468	(1,240)	1,634	(1,360)	594	(488)	578	(486)	644	(533)
	31/12/2016	1,945	(1,590)	1,886	(1,577)	2,071	(1,709)	752	(611)	728	(606)	800	(656)



The sensitivity analysis above has 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) Termination benefits

Termination benefits paid out in 2017 are included in the Statement of Profit or Loss position 'Personnel expenses' within expenditure of employment termination (Note 9), while termination benefits and projected future liability values for years 2018 to 2022 is recognised as a liability in the Statement of Financial Position and as accrued costs within expenditure of employment termination (Note 9):

EUR'000		
	Group	Parent Company
	2017	2017
At the beginning of the year	–	–
Termination benefits paid	(3,974)	(407)
Provisions for current termination benefits	7,364	1,310
Provisions for non-current termination benefits	5,925	1,704
At the end of the year	9,315	2,607

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

EUR'000													
	Date of valuation	Group						Parent Company					
		Discount rate		Future salary changes		Average employee length of service		Discount rate		Future salary changes		Average employee length of service	
		1% increase	1% decrease	1% increase	1% decrease	1% increase	1% decrease	1% increase	1% decrease	1% increase	1% decrease	1% increase	1% decrease
Impact on provisions for termination benefits	31/12/2017	(134)	138	261	(254)	53	(53)	(68)	71	69	(67)	15	(15)

c) Environmental provisions

EUR'000				
	Group		Parent Company	
	2017	2016	2017	2016
At the beginning of the year	2,215	2,365	1,191	1,160
Charged to the Statement of Profit or Loss	49	(150)	29	31
At the end of the year	2,264	2,215	1,220	1,191

According to defined development directions per Strategy of Latvenergo Group for the period 2017-2022 approved the Strategic Development and Efficiency Programme. Provisions for employees' termination benefits are recognised on a basis of Strategic Development and Efficiency Programme of Latvenergo Group for the period in which it is planned to implement the efficiency program (including Latvenergo AS and Sadales tīkls AS efficiency activities), by which it is intended to reduce gradually the number of employees by 2022.

Assumptions used in calculation of termination benefits are as follow – average employee earnings at the time of termination - average earnings per year, with projected increase (salary indexation) in the following years by 3.0% for Latvenergo AS and by 2.5% for Sadales tīkls AS, average employee length of service at the time of termination, the State Social Insurance Contributions rate is 24.09% in 2018 and in subsequent years.

The amount of provisions at the end of reporting year is estimated in accordance with the estimated future liability value as of 31 December 2017, using the fixed discount rate of 1.093% as adopted by the Latvenergo Group. The discount rate is comprised of a 5-year EUROSAP rate of 0.314% and a corporate risk premium of 0.779% (determined on the basis of interest rate on Latvenergo AS issued bonds yield spreads above the market rate).

The environmental provision in the amount of EUR 2,264 thousand (31/12/2016: EUR 2,215 thousand) for the Group represents the estimated cost for Latvenergo AS 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 1,220 thousand (31/12/2016: EUR 1,191 thousand) and Liepājas Enerģija SIA provision for the environmental recovery measures in the amount of EUR 1,044 thousand (31/12/2016: EUR 1,024 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

	EUR'000			
	Group		Parent Company	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
I) Non-current deferred income				
a) from contracts from customers				
Deferred income from connection fees	142,132	141,817	–	–
	142,132	141,817	–	–
b) from lease				
Deferred income from connection fees	4,319	4,787	–	–
Other deferred income	18,056	3,483	423	444
	22,375	8,270	423	444
c) other				
Deferred income on grant for the installed electrical capacity of CHPPs	285,109	–	285,109	–
Effective allowable load (distribution service) IFRS 15	–	–	–	–
Deferred income on financing from European Union funds	43,159	45,013	270	304
Deferred income from plant and equipment received free of charge	283	307	283	307
	328,551	45,320	285,662	611
TOTAL non-current liabilities and deferred income	493,058	195,407	286,085	1,055

	EUR'000			
	Group		Parent Company	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
II) Current deferred income				
a) from contracts from customers				
Deferred income from connection fees	12,247	11,605	–	–
Deferred income from use of allowed effective electrical load (distribution system services)	253	–	–	–
	12,500	11,605	–	–
b) from lease				
Deferred income from connection fees	449	449	–	–
	449	449	–	–
c) other				
Other deferred income	121	57	20	20
Deferred income on grant for the installed electrical capacity of CHPPs	29,304	–	29,304	–
Deferred income on financing from European Union funds	1,854	1,911	34	39
	31,279	1,968	29,358	59
TOTAL current liabilities and deferred income	44,228	14,022	29,358	59
TOTAL other liabilities and deferred income	537,286	209,429	315,443	1,114

Movement in other liabilities and deferred income (non-current and current part)

EUR'000

	Group		Parent Company	
	2017	2016	2017	2016
At the beginning of the year	209,429	209,860	1,114	1,192
Deferred non-current income	14,707	2,249	–	–
Received fees	12,848	11,097	–	–
Received income from grant for the installed electrical capacity of CHPPs	314,413	–	314,413	–
Credited to the Statement of Profit or Loss (Note 6 "Other revenue")	(14,111)	(13,777)	(84)	(78)
At the end of the year	537,286	209,429	315,443	1,114

Deferred income on grant for the installed electrical capacity of CHPPs

In October 2017, the Parent Company applied for a one-off compensation from the state, at the same time opting out of the receipt of 75% of the guaranteed annual payments for installed electrical capacity in combined heat and power plant Riga CHPP-1 and Riga CHPP-2. The one-off compensation is calculated as 75% of the discounted future guaranteed payments for installed electrical capacity. On 21 November 2017, the Cabinet of Ministers of the Republic of Latvia accepted an order on one-off compensation to Latvenergo AS on guaranteed support for the installed capacity of cogeneration power plants, therefore the Parent Company obtained a government grant in the amount of EUR 454,413 thousand.

The grant is divided into two parts and recognised in accordance with accounting policy stated in Note 2.20 a:

- 1) an unconditional grant in amount of EUR 140,000 thousand recognised as 'Other income' (Note 7) in the Group's and the Parent Company's statement of profit or loss in 2017
- 2) a conditional grant in amount of EUR 314,413 thousand recognised as deferred income in the Group's and the Parent Company's statement of financial position and to be allocated to income on a straight-line basis until fulfilling obligation till the end of the support period – September 23, 2028

Following the order No. 685 of the Cabinet of Ministers of the Republic of Latvia on 28 November 2017 a trilateral agreement was concluded between Republic of Latvia (represented by Ministry of Economics), the Parent Company and its subsidiary Enerģijas publiskais tirgotājs AS (public trader) on settlement of the one-off compensation. Accordingly, public trader has recognised receivable from state for one-off compensation in the amount of EUR 454,413 thousand. This balance is recognized as government grant receivable in Group financial statements (Note 17). For Enerģijas publiskais tirgotājs AS to ensure financing of compensation, the Parent Company has concluded agreement on loan issue in amount equal to the grant receivable (see Note 25 f).

The compensation is financed by applying the rights of the state as the Shareholder of the Parent Company to carry out a share capital reduction of the Parent Company. As disclosed in Note 27, after the reporting year, in March 2018, the Parent Company has decreased its share capital in amount of EUR 454,413 thousand. Further in March 2018 the Parent Company settled its liability towards Ministry of Economics for the capital release by netting of the balance with the respective grant receivable from the state in accordance with the trilateral agreement. In accordance with the provisions of the same agreement, the Parent Company netted balances with public trader on the same date (see Note 27).



24. Trade and Other Payables

EUR'000				
	Group		Parent Company	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Financial liabilities:				
Payables for materials and services	75,395	54,366	68,820	66,805
Payables for electricity and natural gas	21,094	20,275	933	465
Accrued expenses	10,093	7,315	4,722	3,452
Other financial current payables	9,160	6,599	4,866	475
Total financial liabilities	115,742	88,555	79,341	71,197
Non-financial liabilities:				
State social security contributions and other taxes	15,919	12,536	9,025	5,583
Advances received	11,784	12,845	4,993	7,205
Other current payables	3,627	3,881	1,330	1,584
Total non-financial liabilities	31,330	29,262	15,348	14,372
TOTAL trade and other current payables	147,072	117,817	94,689	85,569

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

25. Related Party Transactions

The Parent Company and, indirectly, its subsidiaries are controlled by the Latvian state. Related parties of the Latvenergo Group and the Parent Company are Shareholder of the Parent Company who controls or who has significant influence over the Parent Company in accepting operating business decisions, members of Latvenergo Group entities' management boards, members of the Supervisory board of the Parent Company, members of Supervisory body of the Parent Company – the 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 are excluded from the scope of related party disclosures. Quantification of transactions with those related parties is impossible due to broad range of the Latvenergo Group's and the Parent Company's customers.

a) Income and expenses from transactions with subsidiaries (Parent Company) EUR'000

	Parent Company	
	2017	2016
Income:		
– Subsidiaries	155,338	172,522
	155,338	172,522
Expenses:		
– Subsidiaries	344,038	360,421
	344,038	360,421
<i>including expenses from transactions with subsidiaries recognised in net amount through profit or loss:</i>		
– Sadales tīkls AS	332,172	346,753
– Enerģijas publiskais tirgotājs AS	520	534
	332,692	347,287

b) Balances at the end of the period arising from sales/purchases of goods and services EUR'000

	Group		Parent Company	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Prepayments for inventories:				
– Subsidiaries (Note 16)*	–	–	–	16,682
	–	–	–	16,682
Receivables from related parties:				
– Subsidiaries (Note 17 a)	–	–	17,435	14,851
	–	–	17,435	14,851
Payables to related parties:				
– Subsidiaries	–	–	30,994	33,267
– Other related parties**	281	236	88	98
	281	236	31,082	33,365

* advance payment for subsidiary - Elektrum Eesti OÜ

** Pirmais Slēgtais Pensiju fonds AS



c) Accrued income raised from transactions with related parties

EUR'000

	Group		Parent Company	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
– For goods sold / services received from subsidiaries (Note 17 a)	–	–	3,199	5,581
– For interest received from subsidiaries (Note 17 a)	–	–	1,875	2,170
	–	–	5,074	7,751

d) Accrued expenses raised from transactions with related parties

EUR'000

	Group		Parent Company	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
– For purchased goods / received services from subsidiaries	–	–	1,176	826
	–	–	1,176	826

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

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

Remuneration to the Latvenergo Group's management includes remuneration to the members of the Management Boards the Group entities, the Supervisory Board and the Supervisory body (Audit Committee) of the Parent Company. Remuneration to the Company's management includes remuneration to the members of the Company's Management Board, the Supervisory Board and the Supervisory body (Audit Committee). Information 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.

e) Non-current loans to related parties (Parent Company)

Concluded non-current borrowing agreements with Latvijas elektriskie tīkli AS:

EUR'000

Agreement conclusion date	Principal amount of the loan	Interest rate	Maturity date
		6 months EURIBOR	
01/04/2011	97,467	+ fixed rate	01/04/2025
03/09/2013	44,109	fixed rate	10/09/2023
10/06/2016*	156,500	fixed rate	10/06/2027
TOTAL	298,076		

* as of 31 December 2017 within the loan agreement issued loan have been disbursed in the amount of EUR 45,000 thousand with the maturity date on 10 June 2027 for issued loan in 2017 in amount of EUR 30,000 thousand and with the maturity date on 10 June 2026 for disbursed loan in 2016 in the amount of EUR 15,000 thousand

Total outstanding amount of non-current loans with Latvijas elektriskie tīkli AS as of 31 December 2017 amounted to EUR 93,883 thousand (31/12/2016: EUR 75,229 thousand), including current portion of the loan repayable in 2018 – EUR 8,490 thousand (31/12/2016: EUR 12,931 thousand). As of 31 December 2017

for 17% (31/12/2016: 29%) of the loans issued to Latvijas elektriskie tīkli AS was set floating interest rate, which was influenced by 6 months EURIBOR interbank rate fluctuations. During 2017 the effective average interest rate of non-current loans was 2.36% (2016: 2.69%). Non-current loans are not secured with a pledge or otherwise.

Non-current loans to Latvijas elektriskie tīkli AS by maturity

EUR'000

	Parent Company	
	31/12/2017	31/12/2016
Non-current loan:		
– < 1 year	8,490	12,931
– 1 – 5 years	64,790	30,866
– > 5 years	20,603	31,432
	93,883	75,229

Concluded non-current borrowing agreements with Sadales tīkls AS

EUR'000

Agreement conclusion date	Principal amount of the loan	Interest rate	Maturity date
		6 months EURIBOR	
29/09/2011	316,271	+ fixed rate	01/09/2025
06/02/2013	42,686	fixed rate	10/09/2022
18/09/2013	42,686	fixed rate	10/08/2023
29/10/2014	90,000	fixed rate	10/09/2024
20/10/2015	90,000	fixed rate	21/10/2025
22/08/2016	60,000	fixed rate	22/08/2026
22/08/2016	50,000	fixed rate	14/06/2027
TOTAL	691,643		

Total outstanding amount of non-current loans with Sadales tīkls AS as of 31 December 2017 amounted to EUR 363,497 thousand (31/12/2016: EUR 362,376 thousand), including current portion of the loan repayable in 2018 – EUR 50,915 thousand (31/12/2016: EUR 48,880 thousand). As of 31 December 2017 for 16% of the loans issued to subsidiary (31/12/2016: 21%) was set floating interest rate, which was influenced by 6 months EURIBOR interbank rate fluctuations. During 2017 the effective average interest rate of non-current loans was 1.84% (2016: 1.96%). Non-current loans are not secured with a pledge or otherwise.

Non-current loans to Sadales tīkls AS by maturity

EUR'000

	Parent Company	
	31/12/2017	31/12/2016
Non-current loan:		
– < 1 year	50,915	48,880
– 1 – 5 years	238,425	220,023
– > 5 years	74,157	93,473
	363,497	362,376

**f) Current loans to related parties (Parent Company)**

Financial transactions between related parties have been carried out by using current loans with a target to effectively and centrally manage Latvenergo Group companies' financial resources, using Group accounts. In the reporting period Latvenergo AS issued loans to subsidiaries in accordance with mutually concluded agreement 'On provision of mutual financial resources'. In 2017 the effective average interest rate was 0.52% (2016: 0.55%).

In the reporting period Enerģijas publiskais tirgotājs AS received current loan from Latvenergo AS in accordance with mutually concluded agreement 'On provision of mutual financial resources', using Group accounts.

On 31 March 2017 an agreement was concluded between Latvenergo AS and Enerģijas publiskais tirgotājs AS for issue of the current loan in amount of EUR 200,000 thousand to ensure Enerģijas publiskais tirgotājs AS financial resources for the fulfilment of public supplier duties and mandatory procurement process administration. Loan annual interest rate is fixed at 1.000% (2016: 1.000%). Maturity date of the loan is 31 March 2018. Latvenergo AS issued and Enerģijas publiskais tirgotājs AS accepted loan or its part at the end of each month, reassigned Enerģijas publiskais tirgotājs AS current loan liabilities from Latvenergo AS at the end of last calendar day of the current calendar month. As of 31 December 2017 issued, but unpaid net amount of current loan is EUR 150,231 thousand (31/12/2016: EUR 129,936 thousand).

On 29 November 2017 an agreement was concluded between Latvenergo AS and Enerģijas publiskais tirgotājs AS for issue a short term loan in amount of EUR 454,413 thousand. Loan amount equals to the government grant receivable (Note 23) and loan is intended to ensure Enerģijas publiskais tirgotājs AS financial resources for financing of one-off compensation (see Note 23). The maturity of the loan is 11 April 2018 and the loan is settled subsequently to the reporting year by using the funds generated through capital release of Latvenergo AS (Note 27).

Non-current and current loans to related parties

EUR'000

	Parent Company	
	31/12/2017	31/12/2016
Non-current loans to subsidiaries		
Sadales tīkls AS	312,582	313,497
Latvijas elektriskie tīkli AS	85,394	63,883
Total non-current loans	397,976	377,380
Current portion of non-current loans		
Sadales tīkls AS	50,914	48,880
Latvijas elektriskie tīkli AS	8,490	11,345
Current loans to subsidiaries		
Latvijas elektriskie tīkli AS	1,294	3,678
Sadales tīkls AS	28,157	41,651
Elektrum Eesti OÜ	5,134	5,046
Elektrum Lietuva, UAB	2,172	4,788
Enerģijas publiskais tirgotājs AS	604,644	129,936
Total current loans	700,805	245,324
TOTAL loans to subsidiaries	1,098,781	622,704

Movement in loans

EUR'000

	Parent Company	
	31/12/2017	31/12/2016
At the beginning of the year	622,704	624,577
Issued current loans (net)	536,302	78,446
Repaid non-current loans	(60,225)	(80,319)
At the end of the year	1,098,781	622,704

Interest received from related parties

EUR'000

	Parent Company	
	2017	2016
Interest received	1,682	1,408
	1,682	1,408

g) Current borrowings from related parties (Parent Company)

Financial transactions between related parties have been carried out by using current loans with a target to effectively and centrally manage Latvenergo Group companies' financial resources, using Group accounts. In the reporting period Latvenergo AS has received borrowings from subsidiaries in accordance with mutually concluded agreement 'On provision of mutual financial resources'. In 2017 the effective average interest rate was 0.52% (2016: 0.55%). At the end of the reporting year Latvenergo AS has no borrowings from related parties (31/12/2016: nil).

	Parent Company	
	2017	2016
Interest paid	41	51
	41	51

26. Capital Commitments and Contingent Liabilities

As of 31 December 2017 the Group had commitments amounting to EUR 225.6 million (31/12/2016: EUR 264.7 million) and the Parent Company had commitments amounting to EUR 105.2 million (31/12/2016: EUR 150.1 million) for capital expenditure contracted but not delivered at the end of the reporting period.

Latvenergo AS has concluded contracts with PJSC Power Machines for reconstruction of Pļavinas HPP's hydroelectric units HA1 and HA3 and reconstruction of Keguma HPP's hydroelectric units HA5, HA6 and HA7 until the year 2020 with the total amount of contracts EUR 78.0 million. Contingent liabilities contracted but not fulfilled at the end of the balance sheet date are amounted to EUR 28.2 million.

On 26 January 2018 U.S. Department of Treasury Office of Foreign Assets Control (hereinafter – OFAC) published a statement on persons subjected to sanctions of USA, according to this statement PJSC Power Machines is under abovementioned sanctions. As a result the end of the project could be extended, because both contracting parties has no possibilities to make mutual payments. On 9 March 2018 Latvenergo AS was submitted the application to OFAC with a request for a licence to continue the contract



obligations with Power Machines to complete the reconstruction of the Pļavinas HPP's and Ķeguma HPP's hydroelectric units. Due to negative decision made by OFAC there is possibility of mutual future claims, but the outcome cannot be determined at the moment.

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 29 March 2018, an agreement was concluded between Latvenergo AS and Enerģijas publiskais tirgotājs AS on prolongation of borrowing from Latvenergo AS in amount till EUR 150 million by one year till 31 March 2019.

In March 2018 International credit rating agency Moody's has affirmed the credit rating of Latvenergo AS – Baa2, stable. The rating has been unchangeably stable for several years, confirming consistency within operations and financial soundness of the company.

In accordance with the Shareholder's decision of 24 November 2017, change in share capital of Latvenergo AS is registered on 20 March 2018. Share capital of Latvenergo AS is reduced by EUR 454,413 thousand and is related to the order by the Cabinet of Ministers on 21 November 2017 on the decrease of the intensity of support by 75% of the future state commitments to Latvenergo AS regarding its cogeneration power plants Riga TEC-1 and Riga TEC-2 (CHPPs) in exchange to a one-off compensation in the amount of EUR 454,413 thousand (Note 23). The compensation is financed by the funds generated through capital release of Latvenergo AS.

Further on 26 March 2018 the Parent Company settled its liability towards Ministry of Economics for the capital release by netting of the balance with the respective grant receivable from the state in accordance with the trilateral agreement. In accordance with the provisions of the same agreement, the Parent Company netted balances with public trader on the same date. As a result of this process, mandatory procurement public service obligation fee (MP PSO fee) has been reduced – as of 1 January 2018, the fee is 25.79 EUR/MWh, by 1 EUR/MWh compared to the former 26.79 EUR/MWh. Further MP PSO fee reduction is currently one of the issues under consideration by the government of Latvia.

There have been no other significant events subsequent to the end of the reporting year that might have a material effect on the Financial Statements for the year ended 31 December 2017.

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

Liāna Ķeldere

Accounting director of Latvenergo AS

17 April 2018



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INDEPENDENT AUDITORS' REPORT

To the Shareholder of Latvenergo AS

Opinion

We have audited the accompanying consolidated financial statements of Latvenergo AS and its subsidiaries (the Group) and the accompanying financial statements of Latvenergo AS (the Parent Company) set out on pages 11 to 65 of the accompanying Annual Report, which comprise the statements of financial position as at 31 December 2017, and the statements of profit or loss, statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements of the Group and the Parent Company give a true and fair view of the financial position of the Group and the Parent Company as at 31 December 2017, and of their financial performance and cash flows for the year then ended in accordance with the 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 Financial Statements* section of our report. We are independent of the Group and the Parent Company 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 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 financial statements of the Group and the Parent Company of the current period. These matters were addressed in the context of our audit of the financial statements of the Group and the Parent Company 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 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 financial statements of the Group and the Parent Company. 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 financial statements of the Group and the Parent Company.

Key audit matter	How we addressed the key audit matter
<i>Revenue recognition from contracts with customers (the Group and the Parent Company)</i>	
<p>The Group and the Parent Company in 2017 have recognized in the statement of profit or loss revenue from contracts with customers amounting to 879 344 thousand EUR and 482 658 thousand EUR, respectively, as disclosed in Note 6.</p> <p>During the financial year the Group and the Parent Company have early adopted IFRS 15: Revenue from contracts with customers. The early adoption of this accounting standard has not materially affected how the Group and the Parent Company recognises revenue, as disclosed in Note 2.29. However, there are significant judgements made by management in determining the appropriate basis of revenue recognition including recognition of revenue from connection service fees to the distribution system, as outlined in Note 4. d).</p> <p>Accurate revenue recognition is inherently more complex in the energy sector when compared to some other industries due to the large number of the customers, including both residential and corporate customers, and various pricing arrangements included in the range of products and services provided to different groups.</p>	<p>In relation to revenue recognition we performed the following procedures, among others:</p> <ul style="list-style-type: none"> • we gained an understanding of the revenue recognition and measurement for electricity supply, electricity services and distribution system services revenue streams; • 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 and Parent Company's customers and matching of cash receipts to the customers' accounts; • we obtained external customer confirmations for selected largest customers regarding heat sales stream amounts recognized by the Group and the Company; • 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 and Parent Company's customers, electricity supply volumes, changes in electricity prices and also comparing the results of our analysis against the prior reporting period and

Key audit matter	How we addressed the key audit matter
<p>Given the variety of contractual terms with the 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.</p> <p>Revenue recognition was significant to our audit due to the materiality of revenue to the financial statements, potential impact from IFRS 15 early adoption and the variety of products and price components included in revenue.</p>	<ul style="list-style-type: none"> • we tested a sample of revenue transactions near the financial year-end for their recognition in the appropriate accounting period. <p>In relation to IFRS 15 early adoption our procedures included the following:</p> <ul style="list-style-type: none"> • we have obtained and reviewed IFRS 15 impact assessment prepared by the management; • we reviewed IFRS 15 implementation by comparing it with the requirements in IFRS 15 and related guidance. We have involved our IFRS specialists to assist us with the assessment of the judgements made by the management; • we checked the calculation of the restated comparative figures; • we have tested contracts on a sample basis and reviewed management's IFRS 15 analysis to assess whether performance obligations in the sales contracts have been appropriately identified and whether revenue related to the different performance obligations is recognized in accordance with IFRS 15 requirements. <p>We also assessed the adequacy of the revenue related disclosures contained in Note 2.29., Note 5. and Note 6. In addition, we evaluated the sufficiency of disclosures made regarding significant judgements made by the management in relation to revenue recognition (Note 4. d)).</p>
Revaluation of Daugava hydropower plants (HPPs) (the Group and the Parent Company)	
<p>Property, plant and equipment (PPE), as disclosed in Note 2.6., is carried at historical cost or revalued amounts less accumulated depreciation and accumulated impairment loss. As per accounting policy outlined in Note 2.8. certain groups of PPE are revalued regularly but not less frequently than every five years.</p>	<p>We involved our valuation specialists to assess the revaluation model, assumptions and methods used by the management in the revaluation. We discussed the revaluation model with the management and the external appraiser. We also tested the data used in the revaluation models on sample basis to the source data.</p> <p>We evaluated the recognition and measurement of the results of the revaluation as presented in the financial statements Note 14 c) and compared the accounting treatment applied to the</p>

Key audit matter	How we addressed the key audit matter
<p>During the financial year HPPs recognized by the Parent Company were revalued by applying the income approach model (Note 14. c)). The management used an external appraisal to carry out the revaluation of this PPE group with the revaluation date of 1 April 2017.</p> <p>In the Group's and Parent Company's financial statements, as a result of upward revaluation of HPPs as at the revaluation date a gross revaluation reserve of 22 167 thousand EUR (excluding the effect of deferred income tax) was recognized in equity and the result of downward revaluation of 2 260 thousand EUR was charged to the statements of profit or loss in the year 2017.</p> <p>Revaluation of this PPE group 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.</p> <p>This matter is one of the most significance to the audit given the size and complexity of the revaluation and the importance of the disclosures relating to the assumptions used in the revaluation.</p>	<p>requirements of IFRS. For a sample of revalued PPE items, we tested the accounting treatment on the individual transaction level in the Group's accounting system.</p> <p>Finally, we also evaluated the disclosures relating to the revaluation model, revaluation outcome and the assumptions used as disclosed in Note 4. a) III) and in Note 14. c).</p>
<i>Impairment assessment of property, plant and equipment (the Group and the Parent Company)</i>	
<p>As at 31 December 2017, the Group and the Parent Company have recognized PPE amounting to 3 308 985 thousand EUR and 1 231 454 thousand EUR, respectively, as reported in the statements of the financial position and disclosed in Note 14 a).</p> <p>The Group performed impairment tests based on the value in use estimation for distribution system assets, transmission system assets. In addition, the Parent Company performed impairment tests for certain HPPs (combined impairment test for Riga, Plavinu and Keguma HPPs) and assets of Riga Combined Heat and Power Plant. Each of the above in the judgement of the management represents a separate cash generating unit (CGU).</p>	<p>For all four CGU impairment tests we involved our valuation specialists to assist us with the assessment of the impairment test models, discount rates applied in each model and other significant management assumptions as described.</p> <p>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.</p>

Key audit matter	How we addressed the key audit matter
<p>An additional impairment of charge of 116 799 thousand EUR was recorded in the statements of profit or loss of the Group and the Parent Company for Riga Combined Heat and Power Plant CGU in the year 2017, while for other CGU's no impairment charge has been recognized as a result of the impairment tests (Note 14. d)).</p> <p>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, assumptions related to capital investment plans, as well as terminal value calculation.</p> <p>HPPs impairment test is based on significant assumptions in relation to the selection of discount rate, electricity price and operating expenses forecasts, as well as terminal value calculation.</p> <p>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.</p> <p>Impairment test was significant to our audit as it involves significant management judgements applied in the cash flow forecasts.</p>	<p>Finally, we evaluated the adequacy of the disclosures in relation to the impairment tests and the outcome of these tests as disclosed in Note 4. a) II) and in Note 14. d).</p>
Government grant in relation to Riga Combined Heat and Power Plant (the Group and the Parent Company)	
<p>In October 2017 the Cabinet of Ministers of the Republic of Latvia issued a ruling, which granted an option for qualifying electricity producers receiving guaranteed payments for installed electric capacity to apply for a one-off compensation from the state. The purpose of the compensation is to provide an option to receive a government grant in exchange for a decrease in the intensity of the state support in amount equal to 75% of the discounted future guaranteed payments, while the remaining 25% would be paid by the state to the qualifying producer as per the previous regulation.</p>	<p>We discussed the transaction with the management and gained an understanding of its rationale and legal basis. Our audit procedures also included, among others, a detailed review of the related legislation and the Cabinet of Ministers rulings. We also evaluated the contents of the relevant agreements, documents and data provided to us by the Parent Company's management.</p>

Key audit matter	How we addressed the key audit matter
<p>The Parent Company is the owner of two qualifying plants under the Riga Combined Heat and Power Plant and is eligible to receive the guaranteed payments for installed electric capacity until October 2028. It applied and was granted the compensation for these plants by the state in November 2017. Total government grant receivable in accordance with the Cabinet of Ministers ruling amounts to 454 413 thousand EUR, as disclosed in Note 23. The ruling states that the compensation is granted in two parts as:</p> <ol style="list-style-type: none"> 1) an unconditional grant, giving immediate financial support in 2017, and amounting to 140 000 thousand EUR. The respective amount is recognized in the Group's and Parent Company's statements of profit or loss as income in 2017 (Note 7); 2) a conditional grant, which is granted in return for future compliance with the conditions attached to the operating activities of Riga Combined Heat and Power Plant until October 2028, amounting to 314 413 thousand EUR. This amount as at 31 December 2017 is recognized in the Group's and Parent Company's statement of financial position as deferred income (Note 23) and in future years is to be allocated to income on a straight-line basis till October 2028. <p>In accordance with the above Cabinet of Ministers ruling and related legislation, the government grant shall be settled by the Ministry of Economics, which is also representing the state as the sole shareholder of the Parent Company.</p> <p>In order to settle the government grant, the Parent Company, its subsidiary Enerģijas publiskais tirgotājs AS (who is an agent in this transaction) and Ministry of Economics entered a trilateral agreement in November 2017. In accordance with the provisions of the agreement and related Parent Company's shareholder resolution the government grant will be settled with a share capital reduction of the Parent Company equal to the government grant amount. As a result, subsequent to financial year-end the Parent Company has decreased its share capital in the amount of 454 413 thousand EUR. The Parent Company further settled its liability towards the Ministry of Economics for the share capital reduction via a netting of the balance with the respective grant receivable from the shareholder in accordance with the trilateral agreement (Note 27).</p> <p>The above transactions are unusual and material to the Group's and Parent Company's financial statements, therefore were significant to our audit.</p>	<p>We evaluated the accounting treatment as described and compared to the amounts stipulated in the related rulings and agreements. We further evaluated the requirements set out in IAS 20: Accounting for Government Grants and Disclosure of Government Assistance, compared IAS 20 requirements with the amounts recorded in the accounting system and disclosures made in the financial statements.</p> <p>Our procedures also included a review of events after the financial year. We evaluated the disclosures made in Note 27 by obtaining the relevant documents related to the share capital decrease and mutual netting of balances, as described.</p> <p>Finally, we also assessed the sufficiency of the related disclosures included in Note 7, Note 23 and Note 27, as well as the related accounting policy included in Note 2.20.</p>

Reporting on other information

Management is responsible for the other information. The other information comprises:

- the Management Report, as set out on pages 5 to 10 of the accompanying Annual Report;
- the Statement of Corporate Governance, as set out in a separate statement provided by the Parent Company's management and available on the Parent Company's website <http://www.latvenergo.lv> section *Investors*,
- the Non-financial Statement, as included in the Management Report set out on page 8 of the accompanying Annual Report.

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

Our opinion on the 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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 the Parent Company and their 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, the Statement of Corporate Governance and the Non-Financial Statement. 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 the Annual Reports and Consolidated Annual Reports of the Republic of Latvia.

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

- the information given in the Management Report for the financial year for which the financial statements are prepared is consistent with the 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 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 Statement of Corporate Governance includes the information required in Article 56² paragraph three of the Financial Instruments Market Law.

In our opinion, the Statement of Corporate Governance includes the information required Article 56² paragraph three of the Financial Instruments Market Law.

Furthermore, in accordance with the Law on Audit Services of the Republic of Latvia with respect to the Non-financial Statement our responsibility is to report whether the Company has prepared the Non-financial Statement and whether the Non-financial Statement is included in the Management Report or prepared as a separate element of the Annual Report or is included in the consolidated Non-financial Statement of the Company's parent company.

We hereby report that the Group has prepared a Consolidated Non-financial Statement, and it is included in the Management Report.

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

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

In preparing the financial statements, management is responsible for assessing the Group's and the Parent Company'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 and the Parent Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 and the Parent Company'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 and the Parent Company'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 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 and the Parent Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the 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 financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' 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.

Other reporting responsibilities and confirmations required by the legislation of the Republic of Latvia and European Union when providing audit services to public interest entities

We were first appointed as auditors of the Group and the Parent Company on 1 June 2011 by Latvenergo AS shareholder. Our appointment has been renewed annually by shareholder resolution representing a total period of uninterrupted engagement appointment of 6 years.



We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Parent Company;
- as stipulated in paragraph 37⁶ of the Law on Audit Services of the Republic of Latvia we have not provided to the Group and the Parent Company the prohibited non-audit services (NASs) referred to in EU Regulation (EU) No 537/2014. We also remained independent of the audited entity in conducting the audit.

The responsible certified auditor on the audit resulting in this independent auditors' report is Diāna Krišjāne.

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License No. 17

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

Riga, 17 April 2018