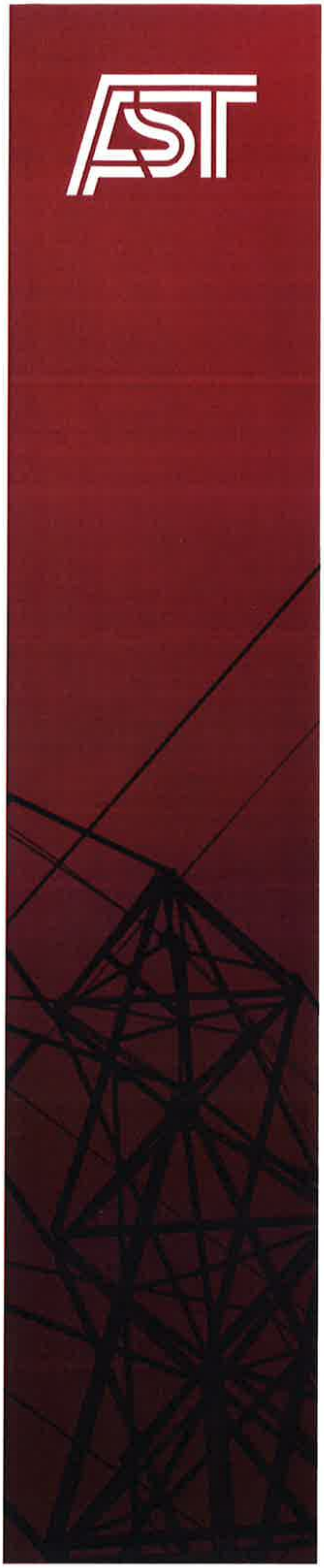

Financial Statements 2016

Prepared in accordance with the International Financial Reporting Standards adopted in the European Union

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Information on the Company

Name of the Company	*AS Augstsprieguma tīkls*
Legal status of the Company	Joint stock company
Number, place, and date of registration	000357556 Riga, 28 December 2001 Re-registered in the Commercial Register on 13 November 2004 under the uniform registration number 40003575567
Principal activity	Electricity supply, NACE code 35.12
Address	*Dārzciema iela 86* Riga, LV-1073 Latvia
Shareholder	From 2 January 2012: Represented by the Ministry of Finance of the Republic of Latvia (100%) *Smilšu* iela 1, Riga, LV-1050, Latvia
Names and positions of Board members (from 1 May 2016)	Varis Boks – Chairman of the Board Arnis Staltmanis – Member of the Board Imants Zviedris – Member of the Board Gatis Junghāns – Member of the Board Mārcis Kauliņš – Member of the Board
Names and positions of Board members (until April 2016)	Varis Boks – Chairman of the Board Arnis Staltmanis– Member of the Board (from 8 April 2016) Imants Zviedris– Member of the Board Inese Bambāne – Member of the Board Gatis Junghāns– Member of the Board (from 25 April 2016)
Names and positions of Board members (until 31 March 2016)	Varis Boks – Chairman of the Board Arnis Staltmanis – Member of the Board Imants Zviedris – Member of the Board Inese Bambāne – Member of the Board Jānis Osītis – Member of the Board
Names and positions of Council members	Vilnis Krēsliņš – Chairman of the Council Jurijs Spiridonovs – Deputy Chairman of the Council Olga Bogdanova – Member of the Council
Reporting year	1 January – 31 December 2016
Previous reporting year	1 January – 31 December 2015
Name and address of the certified audit company and certified auditor in charge	PricewaterhouseCoopers SIA Certified audit company licence No. 5 Uniform registration number 40003142793 *Kr. Valdemāra iela* 21-21, Riga, LV-1010 Latvia Certified auditor in charge: Ilandra Lejiņa Certificate No. 168

Management report

Type and description of operations

AS Augstsprieguma tīkls (hereinafter – *the Company*) is an independent transmission system operator (hereinafter also – *TSO*) in the Republic of Latvia, engaged in providing electric power transmission network services and ensuring the balancing and stability within the transmission network.

The electric power transmission network consists of interconnected networks and equipment, including cross-border connections with voltages of and above 110kV, which are used to transmit electric power from the producers of electric power to the relevant distribution network or end-users.

Under the issued license No E12001 and under Section 1, Paragraph one of the *Electricity Market Law*, the Company is the only transmission system operator in Latvia with a license effective across the territory of the Republic of Latvia.

Under the model providing for segregation of the electric power transmission network operator implemented in Latvia, the Company leases the assets necessary to provide electric power transmission network services from its shareholder AS *Latvijas elektriskie tīkli.*

The Company has developed, implemented and has been maintaining an integrated enterprise management system in accordance with the requirements laid down in standards ISO 9001:2008 (Quality), ISO 14001:2004 (Environment); OHSAS 18001:2007 (Work safety), ISO 50001:2011 (Energy management).

The implemented Integrated management system ensures an effective operation of AS *Augstsprieguma tīkls*, complying with the internationally adopted operational mechanisms with regard to the quality, environmental protection, work safety and occupational health management, ensuring an accurate compliance with the requirements of regulatory enactments, contributing to the identification and fulfilment of customer and stakeholder expectations, looking at the developments in the Company from the perspective of business processes.

In this way it is ensured that the activities of a number of structural units of AS *Augstsprieguma tīkls* are managed using uniform mechanisms, measured using uniform criteria, reviewed, adjusted, if necessary, and upgraded, ensuring continuous development.

The Company's strategic development has a focused on sustainable development. The Company participates in the "Sustainability index", an event annually organized by the Institute of Corporate Sustainability and Responsibility. In 2016, the Company obtained the Silver award therein as well as was acknowledged as the Sustainability champion, because during the year, the Company demonstrated the fastest growth across all index criteria among over 80 participants of the index.

The Company has developed a quality, work safety and occupational health policy, defining therein, based on the *Energy Law, the Electricity Market Law* and *the Network Code,* the Company's core values detailed below:

- Responsibility – the Company is responsible: 1) for the safety of electric power supply, for reservation of capacities for electric power generation and cross-border connections as well as for power flow management, taking into consideration exchanging of power with other connected transmission networks; 2) for prevention of possible congestions and overloads in the transmission network, as well as for the operational stability and compatibility of the interconnected system with overseas power networks; 3) for the planning and construction of new transmission infrastructure objects and for the commissioning thereof; 4) for the operation, maintenance, and security of the electric power transmission network, for the management and development of the system within the licensed territory as well as for the connection thereof to other systems, and for the system's sustainable capacity to ensure power transmission in quantities to meet the demand; 5) for the operational management and control over the power generating equipment connected to the transmission network; 6) for supplying of the distribution network operators with electric power in compliance with the standard quality requirements and in the required volumes;

- Fairness – the Company guarantees non-discriminatory terms of use of the electric power transmission network to all users and applicants of the transmission network in accordance with the principles of fairness, openness, and equality, as well as guarantees the availability of information to the users and applicants of the electric power transmission network about the conditions to be met in order to access and connect to the electric power transmission network;
- Quality – the Company represents that the availability of the service is provided by the technology that is constantly evolving. Quality is ensured through an efficient management and monitoring of the electric power transmission network, the acquisition of data on the state of the power network through using remote control and monitoring means, through continuous improvement of customer satisfaction as well as through a systematic raising of the professional qualifications of employees;
- Transparency – the Company prepares a report on the balance between the transmission network supply and consumption as well as a report on the assessment of the security of the national electric power supply and the availability of the required production capacity, including in the assessment forecasts for electric power and capacity demands for, as a minimum, the forthcoming decade, an assessment of the balance between the supply and consumption in the relevant reporting period and forecasts for, as a minimum, the forthcoming decade, information on the adequacy of the transmission network to the relevant demand, the quality of maintenance thereof, the 10-year development plan of the transmission network, as well as any information regarding the measures taken in the scenario of reaching the maximum demand as well as in the scenario when one or more suppliers are not available;
- Work safety and occupational health – the Company takes legal, business, social, technical and organizational measures aimed at creating a safe and health-friendly work environment, as well as measures to prevent accidents at work and occupational illnesses;
- Personnel – the goals set by the Company are achieved by the employees thereof. The Company takes care about each employee's professionalism, competence, and motivation in achieving their goals as well as ensures continuous improvement of employee qualifications – the Company provides the necessary resources in implementing the principle of a lifelong learning at the Company.

Under the *Law On Regulators of Public Utilities*, the regulations of public utilities is carried out by the Public Utilities Commission (hereinafter – *the PUC*) under the management of the Council thereof. The PUC's tasks include the representation of consumer interests, the approving of the tariff calculation methodology, the setting of tariffs, the licensing of the provision of public services, promoting competition in regulated industries, the monitoring of the transmission system operator for compliance with the certification requirements, and the approving of the 10-year development plan of the transmission network.

Every year, the PUC evaluates the Company's compliance with the certification requirements, including the measures taken by it to ensure the independence requirements arising from the *Electricity Market Law*.

Under the PUC's Council decision No. 97 *On Compliance of the Electric Power Transmission System Operator with the Certification Requirements* of 9 June 2016, the Company is compliant with the certification requirements and the measures taken by it have been sufficient to ensure the independence thereof.

Financial performance

During the reporting year, the Company's revenue amounted to EUR 116,523,589, including the revenue from electric power transmission services of EUR 73,764,263, accounting for 63% of the Company's total revenue. The Company's profit for the reporting period is EUR 352,366, consisting of the profit from provision of electric power transmission services, as well as of the dividends received of EUR 175,327 from its investment in AS *Nord Pool*. When evaluating the financial indicators and operational performance of the Company, it should be taken into consideration that under Section 5 of the *Energy Law*, electric power transmission is a regulated industry, and the PUC determines the profit allowed for the Company through approving the tariffs for electric power transmission network services.

Based on the 2016 service tariffs for electric power transmission network services, which were approved under the PUC's decision No. 92 *On Service Tariffs of the Electric Power Transmission Network of the AS Augstsprieguma tīkls* (hereinafter – *the PUC's Decision No. 92*) of 18 June 2015, the after-tax profit allowed for the Company for 2016 was EUR 172.4k .

At the same time, under Paragraph 4 of the PUC's Decision No. 92, in 2016, the Company was allowed to use congestion management revenue to earn profits consistently with the requirements of the Methodology for calculating the tariffs of the electric power transmissions network services (hereinafter – *the Methodology*).

Having regard to the above, the Company's profitability for the reporting period was consistent with that provided for under the Methodology.

Under Paragraph 7 of the Methodology, where the Company's profit for the reporting period is higher than the allowed profit, the costs included in the calculation of the tariffs for electric power transmission network services would need to be reduced by the amount of excess profits.

Having regard to the above as well as to the fact that the Company is a natural monopoly, its profitability indicators are not comparable to those of the industry. Based on the TSO segregation model implemented in Latvia, i.e., the formation of an independent transmission system operator, the Company's profitability and other financial indicators are not comparable with the TSOs of other neighbouring countries and other EU member states, which, in most cases, are the owners of transmission assets. The Company's financial indicators for the reporting period are consistent with the financial targets set in the Medium-Term Operational Strategy for 2016 – 2019.

During the reporting period, the Company transmitted 5,822 GWh of electric power to users in Latvia, which is by 19 GWh more than in 2015.

At 31 December 2016, the share capital of *AS Augstsprieguma tīkls* was EUR 5,691,487, which has been fully paid up in cash. All shares of the Company are owned by the State.

During the reporting period, the duties laid down in the Transmission system operator licence have been fulfilled through the following transmission networks (the data as at 31 December 2016):

Highest voltage (kV)	Number of substations (units)	Number of transformers and autotransformers (units)	Installed power (MVA)	Overhead power lines and cables ETL (km)
330 kV	16	25	3 825.0	1 346.43
110 kV	121	245	5 124.8	3 891.38
Total	**137**	**270**	**8 949.8**	**5 237.81**

The procedure for setting and calculating salaries is regulated in the Company's internal regulations consistently with the requirements of the Latvian law. Information on the changes in the number of employees is provided in Annex 6. During the reporting year, the Company had 525 employees. Compared to 2015, the average number of employees has increased by 12 employees. The increase in the number of employees is due to the additional activities relating to the integration to the EU internal power market.

The objective of the Environmental policy of *AS Augstsprieguma tīkls* is to continuously improve the impact on environment by AS *Augstsprieguma tīkls* by preventing or minimising any harmful effect on the environment, through a rational use of natural resources and through implementing the best available techniques in all aspects of the operation of AS *Augstsprieguma tīkls*.

In 2016, attention was increasingly paid to energy efficiency matters. To improve the Company's energy management, the energy management system has been designed and implemented; it was certified under the ISO 50001:2011 requirements on 13 May 2016, thereby expanding the Integrated management system implemented by *AS Augstsprieguma tīkls*.

The objective of the Company's Energy management policy is to continuously improve the Company's energy performance by minimising technical and technological losses, thereby improving energy consumption indicators related to operating the Company's objects, and improving the strategy for the purchase and usage of the Company's motor vehicles.

Managing financial risks

The Company is primarily engaged in carrying out the duties of the transmission system operator, carrying out the operational management of the transmission network, thereby ensuring a secure and reliable electric power transmission.

The managing of the Company's financial risks is implemented with a view to ensuring the continuity of the technological process. The Company's financial risk is managed in accordance with the Financial risk management policy, which has been approved by the Board and accepted by the Shareholders' meeting.

The Company's business activity is exposed to financial risks, such as sales, cost and cash flow risks.

Managing of the Company's financial resources has a focus on ensuring the financing of the business activity and financial stability, through carrying out a conservative financial risk management.

The Company's turnover risks are managed consistently with the strategic and operational risk prevention measures provided for in the Financial risk management policy, ensuring a continuous monitoring of the service tariffs for consistency with the costs relating to the provision of the services.

The Company carries out prudent liquidity risk management, ensuring that it has access to adequate financial resources to meet its obligations when they fall due. During the reporting year, the Company did not use borrowed cash resources to maintain its liquidity.

The financial resources that potentially expose the Company to a certain degree of risk concentration are primarily cash and trade receivables. Although the Company has a significant risk concentration with respect to a single counterparty or a group of similar counterparties, this risk is considered limited because the Company's key counterparty is a State-owned commercial company, i.e. joint stock company *Latvenergo* as well as the capital companies of the group thereof. Trade receivables are carried at their recoverable value.

As for cooperation with banks and financial institutions, such counterparties are accepted, which conform to the minimum credit rating (the investment grade level) set by an international credit rating agency or the parent bank.

The Company's management do not expect any liquidity problems and are of the view that the Company will be able to settle its obligations owed to creditors when they fall due. The Company's management believe that the Company will have sufficient cash resources to ensure that its liquidity is not compromised.

Future development

The Company has been having its main focus on sustainable growth with a view to improving the services provided to the participants of the Latvian as well as Baltic electricity markets.

The Company's strategic goal is to provide a secure operating mode of the Latvian power network, through a timely planning the development of the transmission network infrastructure and through improving the efficiency of the processes.

In setting long-term strategic goals, the Company followed the objectives set in Latvia's Sustainable Development Strategy (until 2030), the National Development Plan 2014-2020, and the Energetic Development Guidelines for 2016-2020. One of the priority objectives set forth in the abovementioned strategic planning documents is the ensuring of the national energy independence through increasing energy self-sufficiency and through integrating into the EU energy networks.

By approving the Medium-Term Operational Strategy for 2016-2019, the Company has established the following categories of strategic objectives:

A. Strengthening the energy security of the Republic of Latvia through integrating into the EU electricity market, ensuring the development of the Latvian transmission network consistently with the electric power transmission network development plan for the 10-year period approved by the PUC;

B. Ensuring a ensure secure functioning mode of the Latvian electric power network and providing top-quality electricity supply to customers;

C. Ensuring a sustainable and well thought-out business activity, through making an efficient use of energy, monitoring environmental risks, and preventing or minimising pollution resulting from the Company's activity;

D. Positioning the Company as a socially responsible enterprise, through satisfying the needs of its customers in a timely, responsive, technically and economically reasonable manner, and according to the law.

Developing the electric power transmission network

The Company has developed the electricity system transmission plan for 2017 - 2026, which has been approved under the PUC decision No. 121 *On the Electric Power Network Transmission Plan* of 18 August 2016 (hereinafter – *the Development plan*). The prepared Development plan provides for the development of the transmission network and the required financial investments in the transmission infrastructure for the forthcoming ten, providing for investments of EUR 522 million between 2017 and 2026.

Capital expenditures in the transmission network are planned through the projects related to the meeting the requirements set forth for the security and development of the energy network and those laid down in the licence.

Major development measures to be taken in the forthcoming decade:

- The third stage of the 330 kV EPL (power transmission line) connection *Kurzemes loks*: 330 kV overhead line *Venstpils – Tume - Imanta*

Within this project, the 330 kV overhead lines *Venstpils - Tume* and *Tume - Imanta* will be constructed. The project is required in order to complete the 330 kV Kurzemes power cycle, thereby improving the power supply security in the western region of Latvia and providing the infrastructure for connecting new generating power connections, as well as for preparing the electric power transmission network for the likely increase in transit flows. Within the scope of the project, it is planned to increase the existing 330 kV substation *Imanta* (1 connection) and to build a new 330 kV distribution device by installing a 125 MVA autotransformer and 330 kV shunt reactor for compensating reactive power in substation *Tume* (5 connections). Within the scope of the project, 110 kV distribution devices in substations *Dundaga, Talsi, Valdemārpils, Kandava, Priedaine* are planned to be reconstructed, as well as increasing of the throughput capacity for substations *Tukums, Dzintari, Ķemeri* and *Sloka* 110 kV distributions devices is envisaged.

- Latvian - Estonian 3rd interconnection

At present, the busiest section in the Baltic electric power transmission network is the Latvian – Estonian interstate connection. The third Latvian – Estonian interconnection will decrease the existing transmission network overload in the cross-section between Estonia and Latvia and will help increase the available Latvian – Estonian interstate interconnection throughput capacity for the electricity market, and will create an opportunity for connecting new power generating connections that use renewable energy resources in production. The total planned length of the line in Latvia is 180 km.

- Construction of the new electric power transmission line Riga's TEC2 – Riga HES

This enhancement of the network will ensure to the Latvian – Estonian 3rd interconnection a full-fledged functionality in case of repairs and disconnections occurring in the Riga region high voltage electric power transmission lines; it will also increase the production plant capacity of the reconstructed Riga TEC2 plant. The project envisages the construction of a new 330 kV overhead / cable line (the indicative line length is 13 km) with the throughput capacity up to 1000MVA, the extension of the substation Riga's TEC2 330kV switchgear (2 connections), and installation of the 330 kV shunt reactor for compensating the reactive power, as well as reconstruction of the substation Riga HES by performing double-busbar service, using the existing equipment and solutions to the extent possible.

- Increasing of the throughput capacity of the 330kV transmission line - *Tartu (EE) - Valmiera* (LV) between Latvia and Estonia.

The 330 kV power transmission line *Tartu (EE) - Valmiera (LV)* was built in the 70-ies of the last century (commissioned in 1971). The length of the line in the territory of Latvia is 48,42 km.

To ensure the line throughput capacity of up to 1000MVA, as well as to eliminate the throughput capacity differences between the winter and summer seasons, which interferes with an optimal and effective functioning of the electricity market, the project provides for replacing this line completely with a new, increased throughput capacity line

The implementation of the project is planned to start immediately after completion of the Latvian - Estonian 3rd interconnection.

- Increasing of the throughput capacity of the 330kV of transmission line *Tsirgulina (EE) - Valmiera (LV)* between Latvia and Estonia

The 330 kV power transmission line *Tsirgulina(EE) - Valmiera (LV)* was built in the 50-ies of the last century (commissioned in 1960). The length of the line in the territory of Latvia is 48,47 km.

To ensure the line throughput capacity of up to 1000MVA, as well as to eliminate the throughput capacity differences between the winter and summer seasons, which interferes with an optimal and effective functioning of the electricity market, the project provides for replacing this line completely with a new, increased throughput capacity line.

The implementation of the project will be started immediately after completion of the project *Increasing the 330 kV transmission line Tartu (EE) - Valmiera (LV) throughput capacity.*

All of the above-mentioned projects are included in the second list of the European projects of common interest (PCI). The latter two projects are planned to be accomplished under the European Union co-financing programme, Connecting Europe Facility (CEF). For the remaining project - *The construction of the new transmission line Riga TEC2 - Riga HES* EU co-financing has been received in 2017.

Meanwhile, the EU financing for the projects *Construction of the Kurzemes loks* (3rd stage) and Latvian-Estonian 3rd electricity interconnection was received from the CEF programme in November 2014.

- Electric power transmission network sustainability projects

The Latvian electric power transmission network Development plan developed for the next decade provides for a number of measures aimed to improve the transmission infrastructure – the renovation of the existing 330 kV and 110 kV substations, refurbishment of the transmission lines and transformers.

- Accessing of the electric power transmission network by third parties

Taking into consideration the principles of the functioning of the Latvian electricity market, *AS Augstsprieguma tīkls* will continue to provide, according to the principles of integrity, openness, and equality, with non-discriminatory access to the transmission network to the producers of electric power as well as to the users of the transmission network through constructing new connections as well as through reconstructing the existing connections.

Development of the electricity market

Under the *Electricity Market Law* of the Republic of Latvia, the transmission system operator has a duty to take care of the development of the electricity market.

In implementing the policy of the European Union on the common European Union internal energy market, *AS Augstsprieguma tīkls* has been actively involved in the activities aimed at integrating the European Union internal electricity market, which are carried out within the European Union as well as in the Baltic region. A summary of the most important activities and projects involving *AS Augstsprieguma tīkls* is set out below.

- The project aiming to develop the Baltic electric power network balancing market

With a view to developing cooperation between the transmission system operators of the three Baltic States for electricity balancing and finding an opportunity to work more closely with the

Nordic transmission system operators in this area, the Baltic transmission system operators have agreed to create a single Baltic balancing market until 2018, which is expected to be established and integrated with the Nordic balancing market. To achieve this, within the scope of ENTSO-E, the Baltic balancing project working group has been established to work at developing a common concept of the Baltic balancing market which includes substantial elements, such as a common Baltic regulation services market, a common imbalance settlement model, a common imbalance netting model, common cooperation with the Nordic balancing market; these markets and processes would be supported by a common IT system.

During the reporting period, within the Baltic balancing project, work at the development of a common imbalance settlement model was completed; the model was put to public consultation in the Baltic electricity markets. The work will be carried on by developing the Baltic regulation services market model and integrating thereof into the development of the pan-Baltic balancing model.

A prerequisite for the functioning of the common Baltic electricity balancing market and for ensuring of the balancing processes of Baltic Transmission System Operators under common terms is a common Baltic electricity balancing system. *AS Augstsprieguma tīkls* has been nominated as process coordinator for IT system development and implementation processes. It has made the first step in the direction of developing of such a system, i.e., aimed to develop such IT system design and IT architecture solution, which is consistent with the power balancing process business model jointly developed by the Baltic transmission system operators.

- The project *XBID* of the European Cross Border Intraday electricity trading initiative

A conceptual agreement has been reached in the European Union that in order to comply with the requirements laid down in EU network codes/guidelines, a common integrated intraday cross-border market will be developed. In order to achieve this, Transmission System Operators (TSOs) jointly with the EU Power Exchanges have launched a common project, XBID. *AS Augstsprieguma tīkls* has become an accessing member of this project and thus has started the work to be able to join this trading platform as soon as it starts functioning at the end of 2017, thus ensuring the opportunity for the Latvian electricity market participants to trade electricity across the European Union within a current day.

During the reporting period, *AS Augstsprieguma tīkls* together with other Baltic transmission system operators launched the implementation of the *XBID* Baltic local project. The work will be carried on to prepare the necessary technical documentation and process description to ensure the integration of the Latvian and Baltic electricity markets within the go-live phase of the launching of XBID.

- Establishing of the Baltic Regional Security Coordinator

During the ENTSO-E Assembly held on 30 September 2014, within the scope of the European Transmission System Operators Association (hereinafter also ENTSO-E), the European Transmission system operators approved the Core strategy for the coordination of transmission system operators. On 10 December 2015, the representatives of the European transmission system operators signed a Multilateral Agreement on Participation in Regional Security Coordination Initiatives. Having regard to the above, in 2016, the Baltic TSOs started to work at establishing Regional Security Coordinator; at the end of 2016, the Agreement on Regional Security Coordinator was signed. The said Agreement does not provide for establishing of a new legal organization. The functions will be carried out by a panel composed of the specialists designated by the Baltic transmission operators; it will be chaired by Head of the Security Coordinator elected by the Baltic TSOs. The carrying out of the functions of the Security Coordinator will be launched in the beginning of 2017, and a full-fledged implementation of the Security Coordinator is expected to be completed at the end of 2017.

- Testing of the isolated functioning of the Baltic electric energy system

On 14 January 2015, the Ministers of the Baltic States responsible for the energy sector adopted the decision to further develop Baltic States synchronisation project at the European level, by signing the Declaration on Energy Security of Supply of the Baltic States, where one of the focal points is to support the synchronisation of the Baltic States with the continental Europe as well as desynchronization with the Russian energy system. On 21 October 2015, during the meeting of the TSO leaders of the Baltic States, the decision was taken to launch a project aimed to test the isolated functioning of the Baltic States electric energy system as well as to enter into a cooperation agreement for the implementation of this project On 25 April 2016, the Baltic TSOs signed the Agreement for the Study and Implementation of Isolated Operation of the Baltic Power System. On 15 July 2016, the European Commission announced by publishing a notice of the granting of co-financing in the amount of 50% for carrying out a study of an isolated operation of the Baltic electricity systems. In 2016, an independent consultant was engaged for carrying out the study of the isolated operation of the Baltic electricity systems.

Events after the balance sheet date

In the period from the last date of the reporting year until the signing of this report there have been no other significant events that would significantly affect the performance for the year.

Profit distribution proposals

Consistently with the requirements of Section 28 of the *Law On Governance of Capital Shares of a Public Person and Capital Companies*, and Section 19 of the *Law on the Medium-Term Budget Framework for 2016, 2017 and 2018*, the management of the Company proposes to distribute EUR 299,511 in dividends and transfer the remaining profit of EUR 52,855 to the Company's reserves.

The 2016 profit distribution is subject to the resolution of the Meeting of Shareholders of *AS Augstsprieguma tīkls.*

Varis Boks
Chairman of the Board

Arnis Staltmanis
Member of the Board

Imants Zviedris
Member of the Board

Gatis Junghāns
Member of the Board

Mārcis Kauliņš
Member of the Board

Māra Grava
Head of Finance and Accounting Department

Riga, 19 May 2017

Statement of the Board's responsibility

These financial statements on pages 14 to 53 pages have been prepared on the basis of the Company's accounting records and source documents, and they give a fair view of the Company's financial position at 31 December 2016, its performance and cash flows for 2016.

These financial statements have been prepared in accordance with the International Financial Reporting Standards (hereinafter - *IFRS*) adopted by the European Union, based on the going concern principle.

This is the first year of adoption of the IFRS in preparing the financial statements. In preparing these financial statements, the Management have made prudent and reasonable decisions and estimates.

Varis Boks Chairman of the Board	**Arnis Staltmanis** Member of the Board	**Imants Zviedris** Member of the Board
Gatis Junghāns Member of the Board	**Mārcis Kauliņš** Member of the Board	**Māra Grava** Head of Finance and Accounting Department

Riga, 19 May 2017

Income statement for 2016

	Notes	2016 EUR	2015 EUR
Revenue	4	116 523 589	118 120 470
Other operating income	5	36 329	257 398
Consumed raw materials, materials and the cost of repairs	6	(17 990 531)	(21 464 947)
Personnel expenses	7	(11 958 831)	(12 021 011)
Depreciation and amortisation	11	(939 740)	(813 908)
Other operating expenses	8	(85 716 410)	(84 057 032)
Dividend income		175 327	-
Finance income	9(a)	102 969	99 314
Finance expenses	9(b)	(208)	(1 446)
(Loss) / profit before tax		**497 494**	**118 838**
Corporate income tax	10	(16 206)	(115 703)
Increase / (decrease) of the deferred tax asset	10	(128 922)	335 480
Profit for the year		**352 366**	**338 615**

Notes on pages 21 to 53 form an integral part of these financial statements.

Varis Boks
Chairman of the Board

Arnis Staltmanis
Member of the Board

Imants Zviedris
Member of the Board

Gatis Junghāns
Member of the Board

Mārcis Kauliņš
Member of the Board

Māra Grava
Head of Finance and Accounting Department

Riga, 19 May 2017

Statement of comprehensive income for 2016

	Notes	2016 EUR	2015 EUR
Profit for the period		352 366	338 615
Other income:		-	-
Items that will not be reclassified to the income statement		-	-
Actuarial gain/ loss		(1 773)	(166 010)
Other income/ (loss) for the reporting period		**(1 773)**	**(166 010)**
Comprehensive income for the reporting year attributable to the shareholders of the Company		**350 593**	**172 605**

Notes on pages 21 to 53 form an integral part of these financial statements.

Varis Boks
Chairman of the Board

Arnis Staltmanis
Member of the Board

Imants Zviedris
Member of the Board

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Member of the Board

Mārcis Kauliņš
Member of the Board

Māra Grava
Head of Finance and Accounting Department

Riga, 19 May 2017

Statement of Financial Position at 31 December 2016

	Notes	31.12.2016 EUR	31.12.2015 EUR	01.01.2015 EUR
ASSETS				
Non-current assets				
Intangible assets	11	286 995	109 721	90 216
Fixed assets	11	3 457 329	2 542 637	1 886 775
Other non-current financial assets	12	6 902 887	1 902 887	1 902 887
Deferred tax asset	10	152 951	281 873	-
Total non-current assets		**10 800 162**	**4 837 118**	**3 879 878**
Currents assets				
Inventories	13	483 301	475 304	353 824
Trade accounts receivable, net	*14*	1 029 349	2 184 297	3 482 051
Corporate income tax		114 174	197 208	819 295
Other receivables	*15*	31 221 210	65 552 625	30 732 522
Prepayments		53 148	39 453	11 123
Accrued income	16	14 644 996	11 167 813	9 103 771
Cash	**17**	**56 233 067**	**22 733 889**	**29 109 563**
Total current assets		**103 795 451**	**102 350 589**	**73 612 149**
TOTAL ASSETS		**114 697 124**	**107 187 707**	**77 492 027**

Notes on pages 21 to 53 form an integral part of these financial statements.

Varis Boks
Chairman of the Board

Arnis Staltmanis
Member of the Board

Imants Zviedris
Member of the Board

Gatis Junghāns
Member of the Board

Mārcis Kauliņš
Member of the Board

Māra Grava
Head of Finance and Accounting Department

Riga, 19 May 2017

Statement of Financial Position at 31 December 2016 (continued)

	Notes	31.12.2016 EUR	31.12.2015 EUR	01.01.2015 EUR
EQUITY AND LIABILITIES				
Equity				
Share capital	18	5 691 487	5 691 487	5 691 487
Reserves		2 616 922	2 435 495	2 501 674
Profit for the year		352 366	338 615	998 309
Total equity		**8 660 845**	**8 465 597**	**9 191 470**
Non-current liabilities				
Provisions for post-employment benefits and anniversaries	19	2 406 639	2 282 249	263 395
Provisions for deferred tax		-	-	53 607
Deferred income	19	84 067 316	75 650 297	51 500 463
Total non-current liabilities		**86 473 955**	**77 932 546**	**51 817 465**
Current liabilities				
Deferred income		3 275 299	302 670	-
Trade payables		3 600 323	8 815 202	3 007 074
Taxes and national social security contributions	21	1 611 493	896 850	73 438
Other liabilities	19	5 973 981	4229 667	2 721 944
Accrued liabilities	20	5 101 228	6 545 175	10 680 636
Total current liabilities		**19 562 324**	**20 789 564**	**16 483 092**
TOTAL EQUITY AND LIABILITIES		**114 697 124**	**107 187 707**	**77 492 027**

Notes on pages 21 to 53 form an integral part of these financial statements.

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Riga, 19 May 2017

Statement of Changes in Equity for 2016

	Notes	Share capital	Retained earnings / (accumulated losses)	Reserves	Total
		EUR	EUR	EUR	EUR
31 DECEMBER 2014	**17**	**5 691 487**	**998 309**	**2 501 674**	**9 191 470**
Dividends paid out for 2015		-	(898 478)	-	(898 478)
Transfer to reserves		-	(99 831)	99 831	-
Profit for the year		-	338 615	-	338 615
Other gains/losses for the year		-	-	(166 010)	-
31 DECEMBER 2015	**17**	**5 691 487**	**338 615**	**2 435 495**	**8 465 597**
Dividends paid out for 2015		-	(155 345)	-	(155 345)
Transfer to reserves		-	(183 270)	183 270	-
Profit for the year		-	352 366	-	352 366
Other gains/losses for the year		-	-	(1 773)	(1 773)
31 DECEMBER 2016	**17**	**5 691 487**	**352 366**	**2 616 992**	**8 660 845**

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Statement of Cash Flows for 2016

	2016 EUR	2015 EUR
I CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	497 494	118 838
Adjustments for:		
a) depreciation and amortisation	940 907	814 166
c) changes in provisions	122 617	2 018 854
d) Income from investments	(102 969)	-
e) interest income	-	(99 314)
f) interest expense	208	1 446
Cash flow from operating activities before adjustments for changes in the working capital	**1 458 257**	**2 687 980**
Adjustments for:		
a) Increase of trade receivables	(3 179 842)	(621 340)
b) Increase of inventories	(7 997)	(121 480)
c) Increase of trade and other payables	7 173 111	28 580 969
Gross cash flows from operating activities	**35 577 185**	**(4 473 871)**
Interest expense	(208)	(1 446)
Interest income	102 969	99 314
Corporate income tax paid	66 828	38 035
NET CASH FLOWS FROM OPERATING ACTIVITIES	**35 613 326**	**(4 336 522)**

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Riga, 19 May 2017

Statement of Cash Flows for 2016 (continued)

	2016 EUR	2015 EUR
II CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of intangible assets and fixed assets	(2 032 873)	(1 500 214)
Term deposits	30 000 000	(35 000 000)
Dividends received	57 610	58 316
Received EU financing	16 668	302 670
NET CASH FLOWS FROM INVESTING ACTIVITIES	**28 041 405**	**(36 139 228)**
III CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(155 345)	(898 478)
NET CASH FLOWS FROM FINANCING ACTIVITIES	**(155 345)**	**(898 478)**
Net increase / (decrease) in cash and cash equivalents	**33 499 178**	**(6 375 674)**
Cash and cash equivalents at the beginning of the reporting year	22 733 889	29 109 563
Cash and cash equivalents at the end of the reporting year	**56 233 067**	**22 733 889**

Notes on pages 21 to 53 form an integral part of these financial statements.

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Head of Finance and Accounting Department

Riga, 19 May 2017

Notes to the Financial Statements

1. INFORMATION ON THE COMPANY

AS *Augstsprieguma tīkls* is a transmission system operator which, according to the license No. E12001 issued by the Public Utilities Regulation Commission, provides transmission network services and secures power distribution of the Latvian power network, as well as fulfils the following mission: provides transmission services at the published transmission service tariffs and continuously ensures the availability of transmission network services. AS *Augstsprieguma tīkls* is engaged in the operational management of the transmission system and ensures secure and stable transmission of electricity.

At 31 December 2016, AS *Augstsprieguma tīkls* was wholly owned by the Republic of Latvia, represented by the Ministry of Finance. The Company's registered address of the Company is Darzciema iela 86, Riga, LV-1073, Latvia.

On 19 May 2017, these financial statements were approved by the Company's Management Board: Varis Boks (Chairman of the Board), Arnis Staltmanis (Member of the Board), Imants Zviedris (Member of the Board) and Gatis Junghāns (Member of the Board), Mārcis Kauliņš (Member of the Board). The financial statements are approved by the shareholders' meeting convened by the Board of AS *Augstsprieguma tīkls* after receiving the auditor's opinion.

The Company's auditor is the certified audit company *PricewaterhouseCoopers SIA*, and the certified auditor in charge is Ilandra Lejiņa.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

In this section of the Notes, the principal accounting policies applied in preparation of these Financial Statements are described. These policies have been consistently applied presenting the date for all the periods presented in the statements.

These financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union, applying the going concern principle. Considering the adoption procedure used by the European Union, the standards and interpretations not approved for use in the European Union have been presented in this Annex, because, if adopted, the said standards and interpretations may affect the Company's financial statements in the future periods.

These are the Company's first financial statements prepared in accordance with the IFRS. For the periods up to 31 December 2015, the Company's financial statements had been prepared in accordance with the *Law on Annual Reports* of the Republic of Latvia (hereinafter – the *LAR*).

In preparing these financial statements, IFRS 1 *First-time Adoption of International Financial Reporting Standards* has been used, as detailed in Note 3.

The financial statements have been prepared on the historical cost basis. The statement of cash flow has been prepared under the indirect method. All amounts in these financial statements are denominated in euros (EUR).

Financial statements comply with indicator comparability requirement; where the presentation of information in the financial statements is changed during the year, the comparatives are reclassified and are comparable.

These financial statements cover the period from 1 January 2016 to 31 December 2016.

In order to prepare financial statements in accordance with the IFRS, the Company's management uses certain estimates and assumptions that affect the balances of the items in stand-alone statements as well as the amount contingent liabilities. Future events may affect the assumptions on which these estimates were based. Any changes in estimates will be presented in the financial statements at the time of determining them. Although these estimates are based on the management's best knowledge of the current events and activities, the actual performance may differ. The key accounting estimates and assumptions are described in Annex 3.

The following new and revised IFRS and interpretations have come into force in 2016, and they do not have a significant impact on these financial statements:

- Amendments to IFRS 11 *Joint Arrangements* for acquisitions of an interest in a joint operation (apply to annual reporting periods beginning on or after 1 January 2016);
- Amendments to IAS 16 *Property, Plant and Equipment* and to IAS 38 *Intangible Assets* – clarification of the acceptable methods of depreciation and amortisation (apply to annual reporting periods beginning on or after 1 January 2016);
- Amendments to IAS 16 *Property, Plant and Equipment* and IAS 41 *Agriculture* regarding fruit bearing plants (apply to annual reporting periods beginning on or after 1 January 2016);
- Amendments to IAS 27 *Separate Financial Statements* regarding using of the equity method in an entity's separate financial statements (apply to annual reporting periods beginning on or after 1 January 2016);
- Amendments to IAS 1 *Presentation of Financial Statements* regarding the disclosure initiative (apply to annual reporting periods beginning on or after 1 January 2016);
- Amendments to IFRS 10 Consolidated Financial Statements", IFRS 12 *Disclosure of Interests in Other Entities* and IAS 28 *Investments in associates* regarding the application of the investment company consolidation exception (apply to annual reporting periods beginning on or after 1 January 2016);
- Annual IFRS improvements 2014 (apply to annual reporting periods beginning on or after 1 January 2016). These amendments include changes in 4 standards:
  - IFRS 5 *Non-Current Assets Held for Sale and Discontinued Operations*;
  - IFRS 7 *Financial Instruments: Disclosures" with resulting changes in IFRS 1*;
  - IAS 19 *Employee Benefits*;
  - IAS 34 *Interim Financial Reporting.*
- IAS 19 *Employee Benefits* relative to defined benefit plans (adopted for use in the EU and apply to annual reporting periods beginning on or after 1 February 2015);
- Annual IFRS improvements 2012 (apply to annual reporting periods beginning on or after 1 July 2014, adopted for use in the EU and apply to annual reporting periods beginning on or after 1 February 2015). These amendments include changes in 6 standards:
  - IFRS 2 *Share-based payment*;
  - IFRS 3 *Business combinations*;
  - IFRS 8 *Operating segments*;
  - IAS 16 *Property, plant and equipment* and IAS 38 *Intangible Assets*;
  - IAS 24 *Related Party Disclosures.*

Several new standards and interpretations have been published, and they apply to reporting periods on or after 1 January 2017, or have not been adopted for use in the EU:

- IFRS 9 *Financial Instruments* (apply to annual reporting periods beginning on 1 January 2018);
- IFRS 15 *Revenue from Contracts with Customers* (apply to annual reporting periods beginning on 1 January 2018);
- Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* regarding sale or asset transfer transactions between investors and associates or joint ventures (the date of entry into force has not been specified yet, not adopted in the EU yet);
- Amendments to IFRS 16 *Leases* (apply to annual reporting periods beginning on or after 1 January 2019, not adopted in the EU yet);
- Amendments to IAS 12 *Income Taxes* – amendments regarding the recognition of deferred tax assets for unrealised losses (apply to annual reporting periods beginning 1 January 2017, not adopted in the EU);
- Amendments to IAS 7 *Statement of Cash Flows* regarding the Disclosure initiative (apply to annual reporting periods beginning on or after 1 January 2017, not adopted in the EU yet);
- IFRS 15 *Revenue from Contracts with Customers* (apply to annual reporting periods beginning on or after 1 January 2018, not adopted in the EU yet);
- IFRS 2 *Share-based Payment* (apply to annual periods beginning on or after 1 January 2018, not adopted in the EU yet);
- IFRS 4 *Insurance Contracts* – the application of IFRS 9 *Financial Instruments* regarding interactions to IFRS 4 *Insurance Contracts* (apply to annual reporting periods beginning on or after 1 January 2018, not adoptedin the EU yet);
- Annual IFRS improvements 2016. These amendments include changes in 3 standards:
    - IFRS 12 *Disclosure of Interests in Other Entities* (apply to annual reporting periods beginning on or after 1 January 2018, not adopted in the EU yet);
    - IFRS 1 *First-time Adoption of International Financial Reporting Standards* (apply to annual reporting periods beginning on or after 1 January 2018, not adopted in the EU yet);
    - IAS 28 *Investments in Associates and Joint Ventures* (apply to annual reporting periods beginning on or after 1 January 2018, not adopted in the EU yet).
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration* (apply to annual reporting periods beginning on or after 1 January 2018, not adopted in the EU yet);
- Amendments to IAS 40 *Investment Property* regarding reclasification (apply to annual reporting periods beginning on or after 1 January 2018, not adopted in the EU yet).

The Company's management evaluates the impact of these standards on the Company's financial statements.

2.1. Financial instruments

The Company's financial instruments consist of financial assets (trade receivables, other receivables, and cash and cash equivalents) and financial liabilities (borrowings, trade payables, and other liabilities).

Financial assets

Financial assets consist of investments in the capital of other companies, receivables, cash and cash equivalents, and issued loans. The classification depends on the purpose of acquisition of the financial asset. The Company determines the classification of financial assets at their initial recognition and reviews the classification thereof at each reporting date.

A financial asset is derecognised when the Company's contractual obligations on the cash flows generated by the financial asset ends or if the Company transfers the financial asset to another party, or transfers the key risks and rewards accruing to the asset. The purchase and sale of financial assets within the scope of operating activities is accounted for on the date of the trade, i.e., the date, when the Company decides to buy or sell the asset.

All of the Company's financial assets are non-derivative financial assets that are not traded in an active market. They are included under current assets, except the assets with a repayment term longer than 12 months from the end of the reporting period. These, in turn, are classified as non-current assets.

Loans and trade receivables

Loans and trade receivables are non-derivative financial assets with fixed or determinable payment schedule, which are not quoted in an active market and which are not held for trade. Loans and trade receivables include trade receivables and other receivables. Short-term trade receivables are not discounted.

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

Provisions for impairments are created when there is an objective evidence that the Company may not be able to recover the full value of the receivables when they initially fall due.

Provisions for impairment for doubtful debts are calculated during the reporting year, however, not less than once a quarter, based on the aging analysis of the receivables and based on the estimates of the Company's management, which are reviewed not less than once a year.

Term deposits

Term deposits with banks with the original maturity of over 3 months are included under receivables.

Cash and cash equivalents

Cash and cash equivalents consist of cash held in the Company's bank accounts, demand deposits with banks, other short-term deposits with an original maturity of up to 3 months.

Where a line of credit has been granted to the Company's current accounts with banks, the credit limit (an overdraft) has been used resulting in a negative balance on Company's bank account at the end of the reporting period, then the used credit limit will be included under the Company's payables in full amount as a borrowing from credit institutions.

Financial liabilities

Financial liabilities include borrowings, trade payables, and other liabilities.

Liabilities

Liabilities are initially recognized at their fair value. In subsequent periods, payables are measured at amortized cost using the effective interest rate method. Liabilities are classified as current liabilities if they mature in one year or less. If the maturity is longer than one year, then the liabilities are presented as non-current liabilities.

Borrowings

Borrowings are initially recognized at their fair value, less borrowing related costs. In subsequent periods, borrowings are measured at amortized cost. The difference between the amount of cash received and the redemption value is gradually included in the profit and loss account over the term of the borrowing using the effective interest rate method. Borrowings are presented as current liabilities, unless the Company has an indisputable right to defer the performance of this obligation for at least 12 months after the balance sheet date.

2.2. Transactions in foreign currencies

(a) Functional and presentation currency

Items included in the Company's financial statements are measured using the currency of the primary economic environment in which the Company operates (the functional currency]. The items of these financial Statements have been denominated in euro (EUR), which is the Company's functional and presentation currency.

(b) Transactions and balances

All transactions denominated in foreign currencies are translated into euros at the exchange rates set by the European Central Bank and ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into euros using the exchange rate set by the European Central Bank on the last day of the reporting year. The resulting gain or loss is charged off to profit and loss of the relevant period.

2.3. Intangible and fixed assets

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

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

Subsequent costs are included in the value of assets or recognized as a separate asset only when there is a high probability that the future economic benefits related to the item will flow to the Company, and the costs of the item can be measured reliably. Such costs are written-off during residual useful life of the asset.

The costs of the current repairs and maintenance of fixed assets are charged to profit and loss in the period in which they are incurred.

Any gain or loss from disposals of fixed assets is calculated as the difference between the fixed asset's carrying value and the sale proceeds from the asset, and is charged to profit and loss in the period in which they are incurred.

If the carrying value of an intangible asset or a fixed asset is higher than its recoverable value, the carrying value of the relevant intangible asset or fixed asset is written down immediately to its recoverable value. The recoverable amount is the higher of the fair value less selling costs or value in use of the relevant intangible asset or fixed asset.

2.4. Operating lease (the Company as the lessee)

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Lease payments and any prepayments for the lease (net of any financial incentives received from the lessor) are charged to profit and loss on a straight- line basis over the period of the lease.

2.5. Inventories

Inventories are carried at the lower of cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of the Company's business, less variable selling expenses. The cost is determined using the weighted average method,

The purchase cost of inventories consists of the purchase price, import charges, other taxes and duties, freight and related costs as well as other costs directly related to the delivering of the materials and goods. Determining the value of inventories, any trade discounts, reductions and similar allowances are deducted

The quantities of inventories at the end of the reporting period are verified by performing a stocktake.

2.6. Deferred income

Income that has been received before the balance sheet date but is related to the next 12 months (current) or the period after 12 months (non-current) is presented as deferred income in the statement of financial position within current or non-current liabilities.

Deferred income from congestion management revenue, after the utilization thereof in financing of a particular long-term investment project are amortized, gradually recognizing this income in the current period income statement, in accordance with the established basis of amortization/depreciation of non-current investments. Upon disposals, a gain at its residual value is recognised.

2.7. Pensions, post-employment and anniversary benefits

(a) Pension obligations

The Company makes monthly contributions to a closed-end defined-contribution pension plan on behalf of its employees. The plan is managed by a non-profit joint stock company *Pirmais Slēgtais Pensiju Fonds*, where the Company has an investment. Making of contributions into a defined-contribution pension plan does not expose the Company to incurring any legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees benefits relating to the services rendered by the employee in the current and prior periods. The contributions amount to 5% of the salary of each member of the pension plan. The Company recognizes contributions to the plan at the time of their payment, when the employee has rendered services in exchange for those contributions.

(b) Provisions for post-employment benefit and one-off anniversary benefit obligations

In addition to the aforementioned pension plan, the Company provides certain post-employment benefits to employees whose employment meets certain criteria. The amount of benefit obligations are calculated taking into account the current level of salary and the number of employees eligible to receive the benefits, the historical employment termination rates as well as actuarial assumptions.

The liability recognized in the statement of financial position in respect of the post-employment benefit plan is carried at its present value at the particular balance sheet date, less historical costs.

The post-employment benefit obligations are recalculated by an independent actuary annually, using the expected unit credit method.

The present value of the benefit obligations is determined by discounting the estimated future cash outflows using interest rates applicable to government securities.

The Company uses the expected unit evaluation method to measure the present value of its defined-benefit obligations and related current and future costs.

Under this method, it is considered that each period of service gives rise to an additional unit of benefit entitlement, and the sum of all such units build up the Company's total post-employment obligations.

The Company also uses unbiased and mutually agreed actuarial assumptions about demographic variables (such as labour turnover and death rates) and financial variables (such as the expected increases in salaries andcertain changes in the amount of the benefits).

Actuarial gains and losses arising from adjustments and changes in actuarial assumptions are charged to equity (the Statement of comprehensive income) in the period when they arose.

2.8. Corporate income tax

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

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

Tax reliefs for new technological equipment are disregarded when calculating corporate income tax.

In cases where the deferred tax asset should be presented in the balance sheet, it is recognized in the statement of financial position when it is probable that the Company will have sufficient taxable income for offsetting the temporary differences.

2.9. Provisions

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

Provisions are presented in the statement of financial position at the best estimate of the expenditure that would be required to settle the present obligation at the end of reporting period. Provisions are used only for such expenditures, for which provisions had been were initially recognized, and the provisions are reversed if the likely outflow of resources is no longer probable.

Provisions are measured at the present value of such expenditures, which are expected to be required for settling the existing obligations, using for discounting the pre-tax interest rate that reflects the current value of the money and the risks inherent to the specific obligations.

Provisions for unused annual leaves are created to accurately reflect the Company's liabilities owed to the employees thereof in connection with their unused annual leaves if any. The amount of provisions for unused annual leaves are calculatedusing the accounting software HORIZON once a month.

2.10. Revenue recognition

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

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

(a) Electric power transmission network services

The Company's core activity is rendering electric power transmission network services. Revenue is recognized based on the tariffs approved by the Public Utilities Commission and the readings of commercial meters for electricity.

(b) Managing congestions and overloads

Under Section 13, Paragraph four and Section 13^1, Paragraph six of the Electricity Market Law, AS Augstsprieguma tīkls manages congestions and overloads within the transmission network, as well as receives remuneration for auctioning of limited cross-sectional capacity, according to the mutual compensation mechanism transmission system operator and pursuant to the concluded contracts. The application of these revenues is governed by Article 16 of the European Parliament and European Council Regulation No 714/2009 *On conditions for access to the network for cross-border exchanges in electricity and repealing Regulation (EC) No 1228/2003* (hereinafter – the Regulation). Under the Regulation, revenues received for the managing of congestions, which are not used to prevent congestions and overloads in the transmission network are recognized in the statement of financial position as deferred income. After using of these revenues to finance a particular long-term investment project, deferred income is gradually amortized over the established amortization/depreciation period and recognized in the current reporting year statement of profit and loss. According to the principle of matching of income and expenses, revenues from managing congestions, which were used to prevent congestions and overloads in the transmission network, are presented in income statement according to the costs related to the prevention of overloads and congestions in the transmission network.

(c) Revenue from the compulsory procurement component

Under Paragraph 105 of the Cabinet Regulation No. 50 *Regulation on Electricity Trade and Use* of 21 January 2014, *AS Augstsprieguma tīkls* charges the compulsory procurement component (hereafter – *CPC*) to all electricity end-users or dealers if the end-user has authorized the dealer to settle payments with *AS Augstsprieguma tīkls* for network services and ancillary services. Revenue from CPC is determined by reference to the amount of transmitted electricity at the tariffs set by the Public Utilities Commission. Concurrently, *AS Augstsprieguma tīkls* has a duty to make CPC payments to *AS Enerģijas publiskais tirgotājs* for electricity transmitted to end-users.

Considering that the Company has no influence on the price-setting for the service, it has no rights to directly or indirectly set the prices, revenue from CPC is recognized based on the agency principle, i.e., recognizing revenue at net value in the income statement.

(d) Revenue from electricity/capacity sales

Under Section 11, Paragraph 2 of the *Electricity Market Law* of the Republic of Latvia, the transmission system operator may participate in the trading of electricity if such purchasing and selling of electricity is necessary for balancing the system, purchasing of ancillary services, covering of electricity transportation losses, for own use by the transmission system operator or if the system has deflected from the normal mode of operation or in a case of an emergency.

By participating in the trading of electricity, the transmission system operator acts in accordance with the procedures based on transparency, non-discriminatory and market principles except in cases when the system has deflected from the normal mode of operation or in cases of emergencies. If the system has deflected from the normal mode of operation or an emergency has occurred – the transmission system operator acts in accordance with the rules prescribed in the Network Code.

Revenue from electricity/capacity sales is are recognized based on invoices that are issued monthly for the electricity/capacity transmitted in the relevant month under mutually concluded agreements.

(e) Construction of new transmission network assets and the renewal of assets

Under Section 13, Paragraph 6 of the *Electricity Market Law*, while developing the transmission network, the Company is responsible for planning, constructing and commissioning of new transmission infrastructure objects. Whereas under Section 21.^{2}, Paragraph 2 of the *Electricity Market Law*, the owner of transmission network assets – *AS Latvijas Elektriskie Tīkli* – makes capital investments in transmission network assets. Within the scope of this service, the Company, with its own staff plans, organizes, documents, and controls the construction, rebuilding and renewal works of the assets of the recipient *AS Latvijas Elektriskie tīkli.* Managing of capital investment is ensured within the scope of the service. Revenue from the construction and renewal of transmission assets is recognized based on mutually agreed monthly acceptance-conveyance statements.

2.11. Cost recognition

Costs are recognized on an accrual basis. Calculating the costs for the reporting year, all expected costs and liabilities, which arise from the current reporting period or past reporting periods are taken into account, even when they become known in the period between the balance sheet date and the date of preparation of the financial statements and irrespective of the date of receipt of invoices, because the Company's business transactions are accounted for and recognized in the financial statements taking into account their economic substance not merely their legal form.

The cost of sales and other operating expenses presented in the income statement are disclosed and detailed in the notes to the financial statements.

2.12. Non-current and current liabilities

The Company's liabilities are initially recognized at fair value and are subsequently measured at amortized cost using the effective interest rate method. Trade payables are recognized in the financial statements on the basis of supporting documents and records in the accounting registers on invoices received from suppliers but outstanding at the end of the reporting year.

Accrued expenses incurred during the reporting year are presented under accrued liabilities, if the amount of these expenses or the due date is clearly known, however, invoices from the suppliers have not been received yet.

2.13. Related parties

The State, the members of the Company's Council and Board, their close family members as well as such companies, in which these persons have control or significant influence, are considered related parties.

2.14. Application of significant accounting estimates and assumptions

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

- Based on the statistical and analytical information and expert forecasts, the Company makes estimates and assumptions concerning the revenues and expenses related to its participation in the mechanism on compensation of losses from transit traffic flow developed by ENTSO-E. The Company's management believes that at 31 December 2016, the amount of accrued income is sufficient and reasonable, and no adjustments to the financial statements are required .
- The Company's management evaluate the carrying amounts of receivables and evaluates their recoverability, creating provisions for doubtful debts, if necessary. The Company's management have evaluated the receivables and consider that no significant additional provisions wer required at 31 December 2016. Based on the statistical and analytical information and expert forecasts, the Company makes estimates and assumptions concerning post-employment benefits and anniversary benefit obligations described in section 2.10.

3. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

3.1. Description of the effects of the first-time adoption of the IFRS on the financial statements

These are the first financial statements that are prepared in accordance with the IFRS adopted by the European Union.

The accounting and valuation principles set out in Note 2 have been applied in preparation of these financial statements for 2016, as well as in preparation of the comparatives for 2015, and in presentation of the opening balances at 1 January 2015 (the transition date to the IFRS).

When preparing the opening balance sheet in accordance with the IFRS, the Company adjusted the balances that were presented in the financial statements prepared in accordance with the *Law on Annual Reports*. The explanations of the adjustments made, their impact on the Company's financial statements and for the implementation of the IFRS 1 *First-Time Adoption of International Financial Reporting Standards* (IFRS 1) are provided in this Note and in the relevant explanatory tables.

Under IFRS 1, the Company may choose to use one or several exemptions when preparing the opening balances upon adopting the IFRS for the first time. As the Company uses leased assets for providing its services and as the Company's ownership of intangible assets and fixed assets amount is relatively insignificant, the Company has chosen not to carry out the revaluation of the fixed assets.

The compulsory exceptions to retrospective application of other IFRSs are as follows:

- Derecognition of financial assets and financial liabilities – this exception does not apply to the Company's activity;
- Hedge accounting – this exception does not apply to the Company's activity;
- Estimates in accordance with IFRSs at the date of transition are consistent with those made under the Law on Annual Accounts.

3.2. Reconciliation between the financial statements prepared in accordance with the *Law on Annual Reports* and the financial statements prepared in accordance with the IFRS.

IFRS 1 requires that the Company must present the adjustments made in the Statement of changes in equity, the statement of comprehensive income, the statement of financial position, and in statement of cash flows for the respective periods.

The adjustments made to comply with the requirements of IFRS 1, are presented in the tables below:

- There are no changes to the total amount of equity, for the adjustments related to the recognition of actuarial gains / losses refer to the statement of financial position as 31 December 2015, as well as in Note 2.10.
- Statement of the Financial Position – the adjustments relate to the reclassification of the term deposits, the original maturity of which is over 3 months, from cash to receivables (see Note 2.7), as well as the reclassification of advances for intangible assets from non-current investments to receivables.
- The Income Statement – the adjustment is related to the recognition of the compulsory procurement component revenue / expense based on the agency principle (see Note 2.14), by recognising the revenue in the profit or lossat net value, and the recognition of the actuarial gains / losses in accordance with the principles set out in Note 2.10.
- The Statement of Comprehensive income – the adjustment is related to the recognition of actuarial gains / losses in accordance with the principles set out in Note 2.10.
- The Statement of cash flows – the adjustments are related to the reclassification of the term deposits, the original maturity of which was over 3 months, from cash to receivables in accordance with the principles set out in Note 2.7; the reclassification of the EU funds received from cash flows from operating activities to cash flows from financing activities, as well as the recognition of actuarial gains / losses.

Adjustments to the Statement of Financial Position at 1 January 2015 adjustments

	LAR EUR	Adjustments	IFRS EUR
ASSETS			
Non-current assets			
Intangible assets	90 216		90 216
Fixed assets	1 886 775		1 886 775
Other non-current financial assets	1 902 887		1 902 887
Total non-current assets	**3 879 878**		**3 879 878**
Currents assets			
Inventories	353 824		353 824
Receivables			
Trade receivables, net	3 482 051		3 482 051
Corporate income tax	819 295		819 295
Other receivables	732 522	30 000 000	30 732 522
Deferred expenses	11 123		11 123
Accrued income	9 103 771		9 103 771
Cash and cash equivalents	**59 109 563**	**(30 000 000)**	**29 109 563**
Total current assets	**73 612 149**	**-**	**73 612 149**
TOTAL ASSETS	**77 492 027**	**-**	**77 492 027**
EQUITY AND LIABILITIES			
Equity			
Share capital	5 691 487		5 691 487
Reserves	2 501 674		2 501 674
Profit for the year	998 309	-	998 309
Total equity	**9 191 470**	**-**	**9 191 470**
Non-current liabilities			
Provisions for post-employment benefit and anniversary obligations	263 395	-	263 395
Provisions for deferred tax	53 607	-	53 607
Deferred income	51 500 463	-	51 500 463
Total non-current liabilities	**51 817 465**	**-**	**51 817 465**
Current liabilities			
Deferred income			
Trade payables	3 007 074	-	3 007 074
Taxes and mandatory national social insurance contributions	73 438	-	73 438
Advance payments received	2 541 787	-	2 541 787
Other liabilities	2 721 944	-	2 721 944
Accrued liabilities	10 680 636		10 680 636
Total current liabilities	**16 483 092**		**16 483 092**
TOTAL EQUITY AND LIABILITIES	**77 492 027**		**77 492 027**

Adjustments to the Statement of Financial Position at 31 December 2015

	LAR EUR	Adjustments	IFRS EUR
ASSETS			
Non-current assets			
Intangible assets	120 401	(10 680)	109 721
Fixed assets	2 542 637	-	2 542 637
Other non-current financial assets	1 902 887	-	1 902 887
Deferred tax asset	281 873	-	281 873
Total non-current assets	**4 847 798**	**(10 680)**	**4 837 118**
Currents assets			
Inventories	475 304	-	475 304
Receivables			
Trade accounts receivable, net	2 173 617	10 680	2 184 297
Corporate income tax	197 208	-	197 208
Other receivables	552 625	65 000 000	65 552 625
Deferred expenses	39 453	-	39 453
Accrued income	11 167 813	-	11 167 813
Total receivables	**14 130 716**	**65 010 680**	**79 141 396**
Cash and cash equivalents	**87 733 889**	**(65 000 000)**	**22 733 889**
Total current assets	**102 339 909**	**10 680**	**102 350 589**
TOTAL ASSETS	**107 187 707**	-	**107 187 707**
EQUITY AND LIABILITIES			
Equity			
Share capital	5 691 487	-	5 691 487
Reserves	2 601 505	(166 010)	2 435 495
Profit for the year	172 605	166 010	338 615
Total equity	**8 465 597**	-	**8 465 597**
Non-current liabilities			
Provisions for post-employment benefit and anniversary benefit obligations	2 282 249	-	2 282 249
Deferred income	75 650 297	-	75 650 297
Total non-current liabilities	**77 932 546**	-	**77 932 546**
Current liabilities			
Deferred income	302 670	-	302 670
Trade payables	8 815 202	-	8 815 202
Taxes and mandatory national social insurance contributions	896 850	-	896 850
Advance payments received	3 135 639	-	3 135 639
Other liabilities	1 094 028	-	1 094 028
Accrued liabilities	6 545 175	-	6 545 175
Total current liabilities	**20 789 564**	-	**20 789 564**
TOTAL EQUITY AND LIABILITIES	**107 187 707**	-	**107 187 707**

Adjustments to the Income Statement for 2015

	LAR EUR	Adjustments	IFRS EUR
Revenue	124 775 777	(6 655 307)	118 120 470
Other operating income	257 398	-	257 398
Raw materials used and repairs	(21 464 947)	-	(21 464 947)
Personnel expenses	(12 187 021)	166 010	(12 021 011)
Depreciation and amortization	(813 908)	-	(813 908)
Other operating expenses	(90 712 339)	6 655 307	(84 057 032)
Finance income	99 314	-	99 314
Finance expenses	(1 446)	-	(1 446)
(Loss) / profit before tax	**(47 172)**	**166 010**	**118 838**
Corporate income tax	(115 703)	-	(115 703)
Increase / (decrease) of the deferred tax asset	335 480	-	335 480
Profit for the year	**172 605**	**166 010**	**338 615**

Adjustment to the Statement of Other Comprehensive Income for 2015

	LAR EUR	Adjustments	IFRS EUR
Profit for the period	**172 605**	**166 010**	**338 615**
Other comprehensive income:	-	-	-
Items that will not be reclassified to Income Statement	-	-	--
Actuarial gain/ loss	-	(166 010)	(166 010)
Other income/ (loss) for the reporting year	-	-	-
Comprehensive income for the reporting year attributable to the Company's shareholders	**172 605**	-	**172 605**

Statement of Cash Flows for 2015

	LAR EUR	Adjustments	IFRS EUR
I CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax	**(47 172)**	**166 010**	**118 838**
Adjustments for:			
a) depreciation and amortization	814 166	-	814 166
c) changes in provisions	2 018 854	-	2 018 854
d) foreign exchange (gains) / losses	1 446	-	1 446
f) interest income	(99 314)	-	(99 314)
Cash flow from operating activities in working capital	**2 687 980**	-	**2 687 980**
Adjustments for:			
a) Increase of trade receivables	(318 670)	(302 670)	(621 340)
b) Increase of inventories	(121 480)	-	(121 480)
c) Increase of trade and other payables	28 580 969	-	28 580 969
Gross cash flows from operating activities	**30 828 799**	**(302 670)**	**(30 526 129)**
Interest income	99 314	-	99314
Corporate income tax paid	38 035	-	38 035
NET CASH FLOWS FROM OPERATING ACTIVITIES	**30 966 148**	**(302 670)**	**(30 662 032)**
II CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of intangible assets and fixed assets	(1 500 214)	-	(1 500 214)
Term deposits		(35 000 000)	(35 000 000)
Dividends received	58 316	-	58 316
Received EU financing		302 670	302 670
NET CASH FLOWS FROM INVESTING ACTIVITIES	**(1 441 898)**	**(34 697 330)-**	**(36 139 228)**
III CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid	(898 478)	-	(898 478)
NET CASH FLOWS FROM FINANCING ACTIVITIES	**(898 478)**		**(898 478)**
Net increase / (decrease) in cash and cash equivalents	**28 624 32**	**(35 000 000)**	**(6 375 674)**
Cash and cash equivalents at the beginning if the reporting year	59 109 563	(30 000 000)	29 109 563
Cash and cash equivalents at the end of the reporting year	**87 733 889**	**(65 000 000)**	**22 733 889**

4. REVENUE

	2016 EUR	2015 EUR
Electric power transmission services:		
Transmission network service	73 764 263	73 657 899
Construction and renewal of transmission assets*	25 212 493	18 384 615
Balancing electricity sales	7 564 740	7 467 303
Electricity transit service	3 256 768	4 163 585
Managing of congestions and overloads**	2 638 016	8 029 544
Elimination of electric capacity overload ***	1 320 223	3 597 192
Regulating electricity sales	1 256 543	1 070 299
Reactive electricity sales	605 212	607 090
Electricity capacity reserve maintaining service	27 976	108 869
Other services	1 142 355	1 034 074
TOTAL REVENUE	**116 788 589**	**118 120 470**

According to the *Energy Law, the Electricity Market Law* and *the Network Code, AS Augstsprieguma tīkls* is responsible for implementing the operational management of the transmission network and for ensuring secure and stable electric power transmission.

*Under the PUC's Council decision No. 18 *On Certification of the Electric Power Transmission Network Operator* of 30 January 2013, the Company has taken over the functions for maintaining and commercial development functions transmission network as of 1 January 2015 and ensures construction of new transmission network assets, as well as the rebuilding and renewal of the existing networks (see Note 7). Under Section 21.[2] of the *Electricity Market Law*, the owner of transmission network assets, i.e., AS *Latvijas Elektriskie Tīkli* finances capital expenditure in transmission network assets.

** According to the Company's accounting policies, congestion management revenue in the income statement is presented by reference to the costs associated with overloads and removing congestions in the transmission network. In addition, under Paragraph 4 of the PUC decision No 92, the congestion managing revenue necessary to ensure profitability accordingly to the Methodology was recognised in the Income statement for 2016.

5. OTHER OPERATING INCOME

	2016 EUR	2015 EUR
Received grants and compensation for losses	15 742	9 096
Income from disposal of current assets and fixed assets	9 721	186 945
Other revenue	10 866	61 357
TOTAL OTHER OPERATING INCOME	**36 329**	**2578**

6. CONSUMED RAW MATERIALS AND THE COST OF REPAIR

	2016 EUR	2015 EUR
Purchases of balancing electricity	6 679 200	6 927 729
Electric power transmission losses and technological consumption	5 687 313	8 647 637
Cost of material used and repair costs	2 236 120	2 534 081
Electricity transit losses	1 790 666	2 079 870
Purchases of regulating electricity	1 277 470	946 593
Electricity for self-consumption	319 762	329 037
TOTAL CONSUMED RAW MATERIALS AND REPAIR COSTS	**17 990 531**	**21 64 947**

7. PERSONNEL COSTS

	2016 EUR	2015 EUR
Remuneration for work	9 055 035	8 764 139
Mandatory national social insurance contributions and the benefits defined in the collective employment contract	2 505 629	2 854 447
Contributions to the pension plan	398 167	402 425
TOTAL PERSONNEL COSTS (INCLUDING COMPENSATION OF THE COMPANY'S MANAGEMENT)	**11 958 831**	**12 021 011**

Incl. the compensation of the Company's management

	2016 EUR	2015 EUR
Remuneration for work	346 233	230 021
Mandatory national social insurance contributions and the benefits defined in the collective employment contract	97 394	69 354
Contributions to pension plans	4 195	7 789
TOTAL COMPENSATION TO THE COMPANY'S MANAGEMENT	**447 822**	**307 164**

NUMBER OF EMPLOYEES

	2016	2015
Number of employees at the end of the reporting year	531	517
Average number of employees during the reporting year	525	513

8. OTHER OPERATING EXPENSES

	2016 EUR	2015 EUR
Fixed asset lease (transmission assets)	45 371 240	43 630 224
Construction and refurbishment of transmission network assets	25 212 493	18 384 615
Electric power reserve maintenance costs	4 634 641	3 768 981
Electric power overload elimination	3 263 239	10 889 736
Providing telecommunication services	2 811 003	2 760 080
Transport-related costs	1 204 966	1 122 197
Replacement power reserve		856 898
IT system maintenance costs	901 380	700 752
Miscellaneous operating expenses	2 126 798	1 943 549
TOTAL OTHER OPERATING EXPENSES	**85 525 760**	**84 057 032**

9. FINANCE INCOME/(EXPENSES), NET

	2016 EUR	2015 EUR
a) Finance income		
Interest income from credit institutions	102 969	99 314
Total finance income	**102 969**	**99 314**
b) Finance expenses		
Net expenses from foreign currency exchange rate fluctuations	208	1 446
Total finance expenses	**208**	**1 446**
FINANCE INCOME / (EXPENSES), NET	**102 761**	**97 868**

10. CORPORATE INCOME TAX AND DEFERRED TAX

	2016 EUR	2015 EUR
Corporate income tax	(16 206)	(115 703)
(Increase)/ decrease in the deferred tax asset	(128 922)	335 480
TOTAL CORPORATE INCOME TAX	**(145 128)**	**219 777**

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

	2016 EUR	2015 EUR
(Loss)/profit before corporate income tax	497 495	(47 127)
Corporate income tax by applying the 15% rate	74 624	(7 076)
Non- deductible expenses	35 262	30 934
Other	61 541	(1 187)
Dividends received	(26 299)	-
Overtaken liabilities from AS "Latvijas elektriskie tīkli"	-	(242 448)
TAX (CREDIT)/CHARGE	**145 128**	**(219 777)**

The Company offsets deferred tax assets and liabilities only when it has legal entitlement to offset the current reporting year tax assets against the current reporting year tax liabilities and when deferred income taxes relate to the same tax authority. The offset amounts are as follows:

	31.12.2016 EUR	31.12.2015 EUR
Deferred tax asset:		
Deferred tax asset recoverable in more than 1 year	(360 996)	(342 338)
Deferred tax asset recoverable within 1 year	(33 954)	(99 467)
TOTAL DEFERRED TAX ASSET	**(394 950)**	**(441 805)**
Deferred tax liability:		
Deferred tax liability payable in more than 1 year	161 672	31 986
Deferred tax liability payable within 1 year	80 327	127 946
TOTAL	**241 999**	**(281 873)**

Deferred tax movement table:

	2016 EUR	2015 EUR
At the beginning of the reporting year	**(281 873)**	**53 607**
Charged to profit and loss	128 922	(335 480)
At the end of the reporting year	**(152 951)**	**(281 873)**

	2016 EUR	2015 EUR
Deferred tax liability:		
Temporary difference on fixed asset depreciation	241 999	159 932
Deferred tax asset:		
Provisions for post-employment benefit	(313 186)	(295 844)
Temporary difference on provisions for unused vacations	-	(63 733)
Accrued bonuses	(30 845)	(31 226)
Accruals for anniversary benefits	(47 810)	(46 494)
Accruals for contributions to pension plans	(3 109)	(4 508)
TOTAL DEFERRED TAX	**(152 951)**	**(281 873)**

11. INTANGIBLE ASSETS, FIXED ASSETS

11.1. Intangible assets

	Computer software EUR	Total EUR
As at 31 December 2014		
Historical cost	204 970	204 970
Accumulated amortization	(114 754)	(114 754)
Net book value	**90 216**	**90 216**
2015		
Net book value at the beginning of the year	90 216	90 216
Additions	66220	66 220
Amortization charge	(46 715)	(46 715)
Net book value at the end of the year	**109 721**	**109 721**
As at 31 December 2015		
Historical cost	271 190	271 190
Amortization charge	(161 469)	(161 469)
Net book value	**109 721**	**109 721**
2016		
Net book value at the beginning of the year	109 721	109 721
Additions	241 894	241 894
Disposals	(486)	(486)
Amortization charge	(64 620)	(64 620)
Amortization on disposal	486	486
Net book value at the end of the year	**286 955**	**286 995**
As at 31 December 2016		
Historical cost	512 598	512 598
Amortization charge	(225 603)	(225 603)
Net book value	**286 995**	**2865**

11.2 Fixed asset movement table

	Technological equipment and machinery	Other fixed assets and inventory	Total
	EUR	EUR	EUR
As at 31 December 2014			
Historical cost	12 505	1 938 723	1 951 228
Accumulated depreciation	-	(64 453)	(64 453)
Net book value	**12 505**	**1 874 270**	**1 886 775**
2015			
Net book value at the beginning of the year	12 505	1 874 270	1 886 775
Additions	-	1 423 313	1 423 313
Write offs		(258)	(258)
Disposals	-	(405)	(405)
Depreciation charge	(4 380)	(762 813)	(767 193)
Depreciation on disposals	-	405	405
Net book value at the year end	**8 125**	**2 534 512**	**2 542 637**
As at 31 December 2015			
Historical cost	12 505	3 361 373	3 373 878
Accumulated depreciation	(4 380)	(826 861)	(831 241)
Net book value	**8 125**	**2 534 512**	**2 542 637**
2016			
Net book value at the beginning of the year	8 125	2 534 512	2 542 637
Additions	-	1 790 979	1790979
Disposed unamortized part	-	(1 167)	(1 167)
Disposals		(4 218)	(4 218)
Depreciation charge	(4 380)	(870 740)	(875 120)
Depreciation on disposals		4 218	4 218
Net book value at the year end	**3 745**	**3 453 584**	**3 457 329**
As at 31 December 2016			
Historical cost	12 505	5 146 967	5 159 472
Accumulated depreciation	(8 760)	(1 693 383)	(1 702 143)
Net book value	**3 745**	**3 453 584**	**3 457 329**

12. NON-CURRENT FINANCIAL ASSETS

	31.12.2016 EUR	31.12.2015 EUR
Term deposits	5 000 000	-
*AS Nord Pool**	1 901 465	1 901 465
*AS Pirmais slēgtais pensiju fonds***	1 422	1 422

Name of the company	Location	Type of business	Share
*AS Nord Pool**	Norway	Power exchange organization	2.0%
*AS Pirmais slēgtais pensiju fonds***	Latvia	Pension Plan management	1.9%

* The shares were acquired in accordance with the Cabinet order No. 370 *On Investment by AS Augstsprieguma tīkls participation in AS Nord Pool Spot* of 14 august 2013.

** The Company has a shareholding of 1.9% in *AS Pirmais slēgtais pensiju fonds*. The Company is a nominal shareholder, as all of the risks and rewards arising from the fund's activities are assumed or received by the Company's employees, i.e., the members of the pension plan. For this reason, the investment is valued at acquisition value.

13. INVENTORIES

	31.12.2016 EUR	31.12.2015 EUR
INVENTORIES		
Raw materials and spare parts	483 301	475 304
TOTAL INVENTORIES	**483 301**	**475 304**

14. TRADE RECEIVABLES, NET

	31.12.2016 EUR	31.12.2015 EUR
Receivables		
Electric power transmission service debts	999 256	2 127 538
Other trade receivables	39 440	58 275
Advance payments	-	10 680
Total receivables	**1 038 696**	**2 196 493**
Provisions for other trade receivables	(7 294)	(10 143)
Provisions for electric power transmission service receivables	(2 053)	(2 053)
Total provisions for bad and doubtful debts	**(9 347)**	**(12 196)**
Receivables, net		
Electric power transmission service receivables	997 203	2 125 485
Other trade receivables	32 146	48 132
Advance payments	-	10 680
TRADE RECEIVABLES, NET	**1 029 349**	**2 184 297**

Impairment of receivables:

	2016 EUR	2015 EUR
At the beginning of the year	12 196	20 112
Charged off to profit and loss	(2 849)	(7 916)
At the end of the year	**9 347**	**12 196**

15. OTHER RECEIVABLES

	31.12.2016 EUR	31.12.2015 EUR
Term deposits	30 000 000	65 000 000
Non-deductible input tax	1 178 275	544 095
Advances for connections (See Note 23.(c))	613	613
Other receivables	42 322	7 917
TOTAL OTHER RECEIVABLES	**31 221 210**	**65 52 625**

16. ACCRUED INCOME

	31.12.2016 EUR	31.12.2015 EUR
Accrued income from services rendered in December		
Transmission network service revenue	6 364 627	6 327 751
The transmission assets of new construction and renovation works	3 819 950	498 563
Mandatory procurement components of revenue	473 089	575 854
Balancing electricity sales revenue	466 528	606 464
Regulating electricity sales revenue	61 701	70 057
Building facility maintenance service revenue	40 625	39 505
Reactive electricity revenue	29 226	60 718
Provisions for the loss of earnings compensation transformers	15 922	14 257
For electricity transit service income	-	9 482
For balancing administration services income	3 201	3 557
For other services income	8 491	38 397
Total accruals for income from services rendered during reporting year	**11 283 360**	**8 244 605**

ACCRUED INCOME (continued)

	31.12.2016. EUR	31.12.2015. EUR
For electricity transit service income	2 743 430	1 615 912
Construction and refurbishment of transmission network assets	-	1 255 398
Electrical power overload elimination	572 381	-
Accrued dividends	117 717	
Short-term interest income	45 825	51 898
TOTAL ACCRUED INCOME	**14 762 713**	**11 67 813**

17. CASH AND CASH EQUIVALENTS

	31.12.2016. EUR	31.12.2015. EUR
CASH AT BANK	**56 233 067**	**22 733 889**

During the reporting year, the Company received daily interest income for the cash balance held in the bank account, calculated using the variable bank deposit rates.

18. EQUITY

As 31 December 2016, the subscribed share capital *AS Augstsprieguma tīkls* was EUR 5,691,487 (at 31 December 2015: EUR 5,691,87) and consisted of EUR 5 691 487 (31 December 2015: EUR 5,691,487) ordinary shares with a nominal value of EUR 1 each. All shares have been fully paid up.

The Company is required to calculate dividends payable from the profits for 2015 and 2016 as a certain percentage of the net profit in accordance with Section 3, Paragraph one of the *Law On the State and Local Government Capital Shares and Capital.*

The Company has made payments to the State budget for the use of the State capital from retained earnings:

In 2015 – EUR 898,478;

In 2016 – EUR 155,345.

The reserve consists of retained earnings brought forward, which, under the decision of the shareholder, have been transferred to other reserves for the Company's development purposes.

19. NON-CURRENT LIABILITIES

	2016 EUR	2015 EUR
Provisions for post-employment benefit and anniversary benefit obligations:		
At the beginning of the reporting year	**2 282 249**	**263 395**
Liabilities taken over from AS "Latvijas elektriskie tīkli"	-	1 254 680
Annual labour costs	191 175	365 228
Interest expense	31 330	24 793
Benefits disbursed	(112 018)	(61 129)
Revaluations resulting from changes in actuarial assumptions – replaced in equity	1 773	166 010
Changes in one-off anniversary benefits	8 778	269 768
Change in employment termination obligations	3 352	(496)
At the end of the reporting year	**2 406 639**	**2 282 249**
Deferred income:		
Long-term part of congestion management income*	84 067 316	75 650 297
Total non-current liabilities	**86 473 955**	**77 932 546**

* Under Section 13, Paragraph four and Section 13[1], Paragraph six of the *Electricity Market Law, AS Augstsprieguma tīkls* manages congestions and overloads within the transmission network, as well as receives remuneration for auctioning of limited cross-sectional capacity, according to the mutual compensation mechanism transmission system operator and pursuant to the concluded contracts. The use of these revenues is governed by Article 16 of the European Parliament and European Council Regulation No 714/2009 *On conditions for access to the network for cross-border exchanges in electricity and repealing Regulation (EC) No 1228/2003* (hereinafter – *the Regulation*). Under the Regulation, revenues received for the managing of congestions, which are not used to prevent congestions and overloads in the transmission network are recognized in the statement of financial position as deferred income.

20. CURRENT DEFERRED REVENUE

	31.12.2016 EUR	31.12.2015 EUR
Received EU co-financing	16 668	302 670
Revenues from congestion management	3 258 631	-
Total current deferred revenue	**3 275 299**	**302 670**

21. ADVANCE PAYMENTS AND OTHER LIABILITIES

	2016 EUR	2015 EUR
Connection fee advances received *	3 627 390	3 135 639
Payables to employees	490 040	448 978
Other creditors	1 856 551	645 050
TOTAL ADVANCE PAYMENTS AND OTHER LIABILITIES	**5 973 981**	**4 229 667**

**AS Augstsprieguma tīkls* provides system participants with necessary connection to the transmission network or increasing of the permitted load in the current connections, in accordance with the system participants' connection regulations issued by the PUC on connection fees, which are defined by the transmission system operator in accordance with the connection fee calculation methodology issued by the PUC.

22. ACCRUED LIABILITIES

	2016 EUR	2015 EUR
Accrued liabilities for the services received during the reporting period		
Transmission asset rent	2 793 859	2 608 947
Mandatory procurement component	473 089	575 854
Electric power reserve maintenance	361 584	295 368
Purchases of balancing electricity	253 866	252 586
Telecommunications charges	234 442	231 244
IT services	67 834	54 120
Power transmission channel cleaning services	42 849	94 896
The use of synchronous compensators	40 681	13 760
Purchases of regulating electricity	38 513	16 856
Transmission electricity loss and technological consumption	25 000	22 848
Transmission support repairs	11 284	176 944
Transportation service costs		43 353
Provisions for other services	224 320	85 866
Total accrued liabilities for the services received during the reporting period	**4 567 321**	**4 472 642**
Provisions		
Provisions for unused annual leaves	307 545	424 884
Accrued premium costs for prior year performance	205 632	208 177
Accrued benefit costs and pension plan contributions	20 730	30 055
Provisions for transmission losses and technological consumption costs*	-	1 409 417
Total provisions	**533 907**	**2 072 533**
TOTAL ACCRUED LIABILITIES	**5 101 228**	**6 545 175**

*The provisions have been created in accordance with Paragraph 7.1 of the Methodology for calculating the tariffs for electric power transmission network services, the Public Utilities

Commission's Council decision No. 59 *On Recalculation of the Draft Tariffs of AS Augstsprieguma tīkls electric power transmission network services* of 12 March 2015.

23. TAXES AND MANDATORY SOCIAL INSURANCE CONTRIBUTIONS

	31.12.2015	Calculated	Paid	31.12.2016
	EUR	EUR	EUR	EUR
Corporate income tax	197 208	(16 206)	(66 828)	114 174
Value added tax	(433 600)	(8 606 176)	7 920 808	(1 118 968)
Mandatory national social insurance contributions	(297 796)	(3 223 225)	3 195 976	(325 045)
Personal income tax	(164 851)	(1 743 101)	1 741 097	(166 855)
Risk duty	(187)	(2 272)	2 267	(192)
Electricity tax	(415)	(3 283)	3 265	(433)
TOTAL TAXES	**(699 641)**	**(13 594 262)**	**12 796 585**	**(1 497 319)**
Tax liabilities	(896 850)			(1 611 493)
Overpaid taxes	197 208			114 174

24. OPERATING LEASE CONTRACTS

Under the concluded lease contracts, the Company had following non-cancellable lease commitments at the end of the reporting year:

	31.12.2016	31.12.2015
	EUR	EUR
Real estate lease payment obligations		
Due within one year	87 050	87 050
TOTAL	**87 050**	**87 050**
The transmission network asset lease		
Due within one year	41 211 453	46 471 239
Due between one and five years	178 806 944	174 781 480
TOTAL	**220 018 397**	**222 252 719**

Under the contract on the lease of the transmission network assets of 30 December 2014, the transmission network assets are leased from *AS Latvijas elektriskie tīkli*. The non-current portion of the operating lease commitments for 2017 - 2021 has been calculated based on the financial management plan for 2017-2026 of *AS Latvijas elektriskie tīkli.*

25. FAIR VALUE CONSIDERATIONS

IFRS 13 establishes the hierarchy of valuation techniques based on whether observable market data is used by the valuation technique or whether market data are not observable. Observable market data are derived from independent sources. If market data are not observable, the valuation technique reflects the Company's assumptions about the market situation.

This hierarchy requires that observable market data should be used, as long as they are available. When carrying out revaluation, the Company takes into account relevant observable market prices, if possible.

The objective of determining fair value, even if the market is not active, is to determine the transaction price at which market participants would willingly sell the asset or assume an obligation at a particular valuation date under the current market conditions.

Several methods are used to determine the fair value of a financial instrument: quoted prices or valuation techniques that includes observable market data and are based on internal models. Based on the fair value hierarchy, all valuation techniques are divided into Level 1, Level 2 and Level 3.

The fair value hierarchy level of a financial instrument should be set at the lowest level if the essential part of the value is made up of lower level data.

The classification of a financial instrument in the fair value hierarchy takes place in two stages:

1. Classify each level of data to determine the fair value hierarchy;

2. Classify the financial instrument itself, based on the lowest level, if the essential part of their value is made up of lower level data.

Quoted market prices– Level 1

Under the Level 1 valuation technique, unadjusted quoted prices for identical assets and liabilities used in active market when the quotes are easily available and the price represents the actual market situation for transactions under the good faith competition circumstances.

The valuation technique when using market data Level 2

In the models used in the valuation technique at Level 2, all essential data, directly or indirectly, are observable for the assets or liabilities. The model uses market data other than quoted prices included in Level 1, but which can be observed directly (i.e., price) or indirectly (i.e., derived from the price).

The valuation technique when market data that is not based on observable market data is used is called Level 3

The valuation technique, when using market data that is not based on observable market data (non-observable market data), is classified in Level 3. Non-observable market data are data that is not readily available in active market, due to the complexity of the illiquid market or financial instrument. Level 3 data is mostly based on observable market data of a similar nature, historical observations, or analytical approaches.

Assets and liabilities for which fair value is presented

The carrying amount of liquid and current (maturing within three months) financial instruments, such as cash and cash equivalents, current deposits, current trade accounts payable and accounts receivable, approximates their fair value.

Balance sheet item	Book value	Level 1	Level 2	Level 3
			Fair value	
Cash and cash equivalents	EUR 56 233 067	-	56 233 067	-
Term deposits	EUR 5 000 000	-	5 000 000	-
Trade accounts receivable	EUR 1 029 349	-	-	1 029 349
Other financial assets	EUR 30 042 322	-	30 000 000	42 322
Trade payables	EUR 3 600 323	-	-	3 600 323
Other financial liabilities	EUR 1 865 551	-	-	1 865 551

26. FINANCIAL RISK MANAGEMENT

(a) Turnover risk

The changes in external environment that can cause an unexpected effect on the Company's net turnover volumes, thus affecting the Company's ability to settle its current and non-current financial liabilities (solvency) are identified as turnover risks. The Company's operating activities are subject to turnover risks, such as service tariff and service volume. Taking in to the account, that according to Section 9 of the *Law on Regulators of Public Utilities*, the Public Utilities Regulation Commission contributes to the development of public service providers, under Section 20 of the same, the public service tariffs are set at such a level to cover economically justified costs of the public service providers, and while maintaining the profitability of the public services. The effect of turnover risk on the Company's short-term liquidity is assessed as low. Turnover risks are managed under the management-defined strategic and operational risk management policy as well as risk prevention measures, ensuring a constant monitoring of the correspondence of the service tariffs to the costs related to the service rendering.

(b) Cash flow/balance sheet risks

The financial assets that potentially expose the Company to a certain degree of risk concentration are primarily cash and trade receivables. Although the Company has significant risk concentration to a single counterparty or a similar counterparty group, this risk is assessed as limited, given the fact that the most important counterparty is a State-owned commercial company, i.e., joint stock company "Latvenergo", as well as the related capital companies thereof. Trade receivables are carried at their recoverable value.

The Company's cash flow/balance sheet risks are managed through the strategic and operational risk prevention measures laid down in the financial risk management policy's, carrying out, every month, but not less than once a quarter, the account receivable aging analysis. At 31 December 2016, unpaid invoices totalled EUR 89,510, representing 0.08% of the net turnover, EUR 77,893 were paid in January 2017.

The financial risks arising from Company's cash and deposits with banks are managed consistently with the Company's Financial risk management policy. Under this policy, concerning cooperation with banks and financial institutions, such counterparties are accepted, which conform to the minimum credit rating (i.e., at least at the investment grade level) set by an international credit rating agency or by the parent bank.

The credit ratings assigned by Moody's according to its credit rating standards to the banks with which the Company cooperates and balances on deposit accounts and term deposits were as follows:

Balance sheet item	Credit rating	31.12.2016 EUR	31.12.2015 EUR	01.01.2015 EUR
Cash, including:				
Cash held in current accounts, company cards	Aa3	36 233 067	22 733 889	29 109 563
Cash in transit	Aa3	20 000 000	-	-
Total cash		**56 233 067**	**22 733 889**	**29 109 563**
Cash under receivables, including:				
Current receivables				
Deposits with maturity of 3 to 12 months, including:				
	Aa3	30 000 000	35 000 000	15 000 000
	Aa2	-	30 000 000	15 000 000
Non-current receivables				
Deposits with maturity of above 12 months, including:				
	Aa2	5 000 000	-	-
Total deposits with maturity of above 3 months		**35 000 000**	**65 000 000**	**30 000 000**

*Under the Company's accounting policy for deposits with an original maturity of over 3 months are included under accounts receivable.

(c) Liquidity risk

The Company pursues a prudent liquidity risk management, ensuring that it has access to adequate financial resources to meet its obligations when they fall due. The Company's management expects that it will not have liquidity problems and that the Company will be able to make payments to creditors within the due dates.

The Company's management believes that the Company will have sufficient cash resources for its liquidity not to be compromised.

During the financial year, the Company did not use any borrowed funds for liquidity purposes.

(d) Credit risk

The Company does not use borrowings to finance its operations. Financial assets that potentially expose the Company to a certain level of risk concentration are mainly cash and trade receivables. Under the Company's Accounting Policies, provisions for doubtful debts are calculated at least quarterly, based on the aging analysis of the receivables. The overdue maturity of trade receivables and the related percentage:

Overdue for	45-90 days	50%
Overdue for	91-180 days	75%
Overdue for more than	181 days	100%

The Company is exposed to credit risk, as shown in the table below:

	31.12.2016 EUR	31.12.2015 EUR	01.01.2015 EUR
Cash and cash equivalents	56 233 067	22 733 889	29 109 563
Trade and other payables (gross),excluding advances and prepayments	1 038 969	2 185 813	3 502 163
Total	**1 038 969**	**2 185 813**	**3 502 163**

In addition, the following information is disclosed regarding credit risk:

	31.12.2016 EUR	31.12.2015 EUR	01.01.2015 EUR
Financial assets that are not overdue and for which there is no provision for impairment			
Receivables that are not overdue, including:			
	915 619	1 734 028	3 236 627
The aging analysis of the overdue financial assets but with no created provision for impairment *			
Up to 3 months	113 567	453 432	241 900
From 3 to 12 months	2 500	6 031	14 097
From 1 to 5 years	-	-	-
More than 5 years	-	-	-
including the financial assets for which a partial provision for impairment has been created	*2 064*	*4 518*	*10 573*
Total financial assets for which no provisions for impairment have been created			
Financial assets for which an impairment provision has been created (in full)	7 283	7 678	9 539
Total	**1 038 969**	**2 185 813**	**3 502 163**

27. CONTINGENT TAX OBLIGATIONS

The tax authorities may perform an audit of the accounting records at any time within three years of the end of the tax year and calculate additional tax liabilities and fines. The Company's management are not aware of any such circumstances, which might create any possible significant liabilities in the future.

28. CAPITAL EXPENDITURE COMMITMENTS

Under Section 13, Paragraph 6 of the *Electricity Market Law*, while developing the transmission network, the Company as the transmission system operator is responsible for the planning, constructing and commissioning of new transmission infrastructure objects. Taking into account the above, the Company carries out capital expenditure projects in the assets of the transmission network in accordance with the plan for transmission network development approved by the PUC for a period of ten years.

According to the model providing for the segregation of the electric power transmission network operator implemented in Latvia, the owner of the transmission network assets is *AS Latvijas elektriskie tīkli.*

Under Section 21², Paragraph three of the *Law on the Electricity Market*, and under the agreement on the lease of assets entered into between the Company and *AS Latvijas elektriskie tīkli* on 30 December 2014, the owner of the electric power transmission network assets, has a duty to provide financing for the capital investment by the Company aimed to develop the transmission network. Thus, the Company, carrying out capital investment projects, is not exposed to credit risk, there is no capital investment commitment.

In addition to financing provided by AS "Latvijas elektriskie tīkli", EU co-financing is attracted in capital investment projects, including:

- Grant agreement entered into with INEA (Innovation and Networks Executive Agency) for the co-financing of the project *330 kV EPL connection Kurzemes loks* Stage 3: 330 kV overhead line *Ventspils -Tume-Imanta* in May 2015: 45% of the eligible costs (EUR 55,089,000), the project is due to be completed by the end of 2019;
- In May 2015, an agreement was signed with the INEA on receiving the EU co-financing for the project *Estonia-Latvia's Third Interconnection*: 65% of the eligible costs (EUR 63,380,070), the project is due to be completed by the end of 2020.

29. REMUNERATION OF THE CERTIFIED AUDIT COMPANY

	2016 EUR	2015 EUR
Audit of financial statements	7 400	8 400
Consulting service*	9 000	-
REMUNERATION OF THE CERTIFIED AUDIT COMPANY TOTAL	**16 400**	**8 400**

IT security evaluation services, as well as the auditor's opinion preparation, subject to the Regulation on the certification of a transmission system operator, to confirm that the transmission system operator conforms to the requirements laid down in Section 11.¹, Paragraph two, Clause 2 of the *Electricity Market Law*.

30. SUBSEQUENT EVENTS

There have been no such events after the last date of the reporting year, which would have a significant impact on the Company's financial statements for 2016, except for those referred to in the Management report.

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pwc

Translation from Latvian original*

INDEPENDENT AUDITOR'S REPORT

To the Shareholder of AS Augstsprieguma tīkls

Report on the Audit of the Financial Statements

Our Opinion

In our opinion, the accompanying financial statements set out on pages 14 to 53 of the accompanying annual report give a true and fair view of the financial position of AS Augstsprieguma tīkls (Company) as at December 31, 2016, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

What we have audited

The financial statements comprise:

- statement of financial position as at December 31, 2016,
- the statement of comprehensive income for the year then ended,
- the statement of changes in equity for the year then ended,
- the statement of cash flows for the year then ended, and
- the notes to the financial statements which include a summary of significant accounting policies.

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

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the ethical requirements and auditor's independence rules 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 these requirements and the IESBA Code.

Reporting on Other Information

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

- the Management Report, as set out on pages 4 to 12 of the accompanying Annual Report,
- the Statement on Board's Responsibility, as set out on page 13 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 included in the Annual Report, 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 entity and its environment obtained in the course of our audit, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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 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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the 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 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 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 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.

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.

Other Reporting Responsibilities in Accordance with the Legislation of the Republic of Latvia

In addition, in accordance with the Law on Audit Services with respect to the Management Report, our responsibility is to consider whether the Management Report is prepared in accordance with the requirements of the Law on Annual Reports and Consolidated Annual Reports.

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

- 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.

PricewaterhouseCoopers SIA
Certified audit company
Licence No. 5

Ilandra Lejiņa
Certified auditor in charge
Certificate No.168

Member of the Board

Riga, Latvia
27 May 2017

* This version of our report is a translation from the original, which was prepared in Latvian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.