AUGSTSPRIEGUMA TĪKLS
FINANCIAL STATEMENTS 2017

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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*
Company legal status	Joint stock company
Registration number, place, and date	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	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 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 2017 to 31 December 2017
Previous reporting year	1 January 2016 to 31 December 2016
Name and address of the certified audit company and certified auditor in charge	PricewaterhouseCoopers SIA Certified audit company licence No. 5 Unified registration number: 40003142793 Krišjāņa Valdemāra iela 21-21, Riga, LV-1010, Latvia Sworn auditor in charge: Ilandra Lejiņa, Certificate No. 168

MANAGEMENT REPORT

NATURE AND DESCRIPTION OF OPERATIONS

Joint stock company *AS Augstsprieguma tīkls* (hereinafter – “the Company”) is the only independent transmission system operator (hereinafter also – “TSO”) in the Republic of Latvia, engaged in providing a continuous and top-quality electric power transmission service, ensuring a sustainable and effective management and development of energy supply assets, and contributing to the integration in the internal market of the European Union

OUR MISSION IS TO ENSURE CONTINUOUS, SAFE, SUSTAINABLE AND EFFECTIVE ELECTRICITY TRANSMISSION IN LATVIA.

THE COMPANY HAS THREE DIRECTIONS OF ACTIVITY:

- Provision of electricity transmission system services
- Provision and development of the electricity market
- Management and development of the electricity transmission system and its integration it into the European energy system

According to the electricity transmission system operator unbundling model implemented in Latvia, the Company is leasing the transmission system assets necessary to provide the transmission system services from the asset owner *AS Latvijas elektriskie tīkli.*

QUALITY MANAGEMENT SYSTEM AND VALUES

The Company has developed, implemented and maintains the company's management system according to the requirements set out in standards ISO 9001:2008 (quality), ISO 14001:2004 (environment); OHSAS 18001:2007 (health and safety), ISO 50001:2011 (energy management).

The implemented integrated management system ensures an efficient functioning of *AS Augstsprieguma tīkls*, in line with the internationally adopted operational mechanisms in respect of the quality, energy management, environmental protection and occupational health management, ensuring a proper fulfillment of the requirements of laws and regulations, fostering the identifying and meeting of the needs of customers and stakeholders, observing the developments within the company through the perspective of the company's business processes.

THE COMPANY HAS DEVELOPED A QUALITY POLICY, WHICH IN LINE WITH THE ENERGY LAW, ELECTRICITY MARKET LAW AND THE NETWORK CODE DEFINES THE FOLLOWING CORE VALUES:

TRUST

Fairly
Treating anyone and all in an unbiased, ethical and transparent manner

DEVELOPMENT

Smartly
Efficient. Future-oriented. Long-term thinking

SAFETY

Responsibly
Acting thoughtfully. Demonstrating high-level of responsibility towards work, people and nature

TEAM

Collectively
We join our forces to achieve more. A strong team that encourages and challenges

DESCRIPTION OF THE OPERATING ENVIRONMENT

Electricity transmission

In accordance with the law *On Public Utilities Regulators* public services are regulated by the Public Utilities Commission (hereinafter also – "PUC"), under the management of its Council. The PUC tasks include representing the interests of users, approving the methodology for calculation of the electricity management system service rates (hereinafter also – "tariffs"), setting tariffs, licensing the provision of public services, promoting competition in regulated industries, monitoring the transmission system operator for its compliance with the certification requirements, approving the 10-year plan of the transmission system.

During the reporting period, the obligations set out in the licence of the Transmission system operator were carried out using the following transmission networks:

Voltage level (kV)	Number of substations (pcs.)	The number of autotransformers and transformers (pcs.)	Installed capacity (MVA)	Overhead and cable ETL (km)
330 kV	16	25	3,825	1,346.43
110 kV	122	248	5,196	3,893.54
Total	**138**	**273**	**9,021**	**5,239.97**

The Company provides electricity transmission system services to 19 customers whose electrical installations are directly connected to the electricity transmission network, including:

- 5 thermal power stations (including four gas and one biomass power stations);
- 3 hydro power stations;
- 1 wind park;
- 4 transmission system connected consumers;
- 6 distribution network companies.

IN 2017, 5,807 GWh OF ELECTRICITY WAS TRANSMITTED TO USERS IN LATVIA.

MAINTAINING AND DEVELOPING THE ELECTRICITY MARKET

In Latvia, the legal basis of the operation of the electricity market is the *Electricity Market Law* under which the transmission system operator must promote the operation of the internal electricity market, as well as cross-border trade, including supporting the development of electricity exchanges. In addition, the development of Latvian electricity market is promoted by the European Commission Market Regulation, i.e., the Commission Regulation 2015/1222 of 24 July 2015 establishing a guideline on capacity allocation and congestion management, the Commission Regulation (EU) 2016/1719 of 26 September 2016 establishing a guideline on forward capacity allocation, and the Commission Regulation (EU) 2017/2195 of 23 November 2017 establishing guidelines on electricity balancing.

Latvia is part of the European Union's (EU) single internal electricity market, operating in accordance with the principles of the EU policy and legislation. The integration of the Latvian electricity market in the EU market started in 2009, when the Baltic Energy Market Interconnection Plan (BEMIP) was approved.

At wholesale level, Latvian electricity market has been directly integrated with the Baltic countries as well as Nordic countries, however, the retail market is organised at national level.

Given the volatility of electricity prices, the electricity market participants can limit the risk of price fluctuations, using financial instruments.

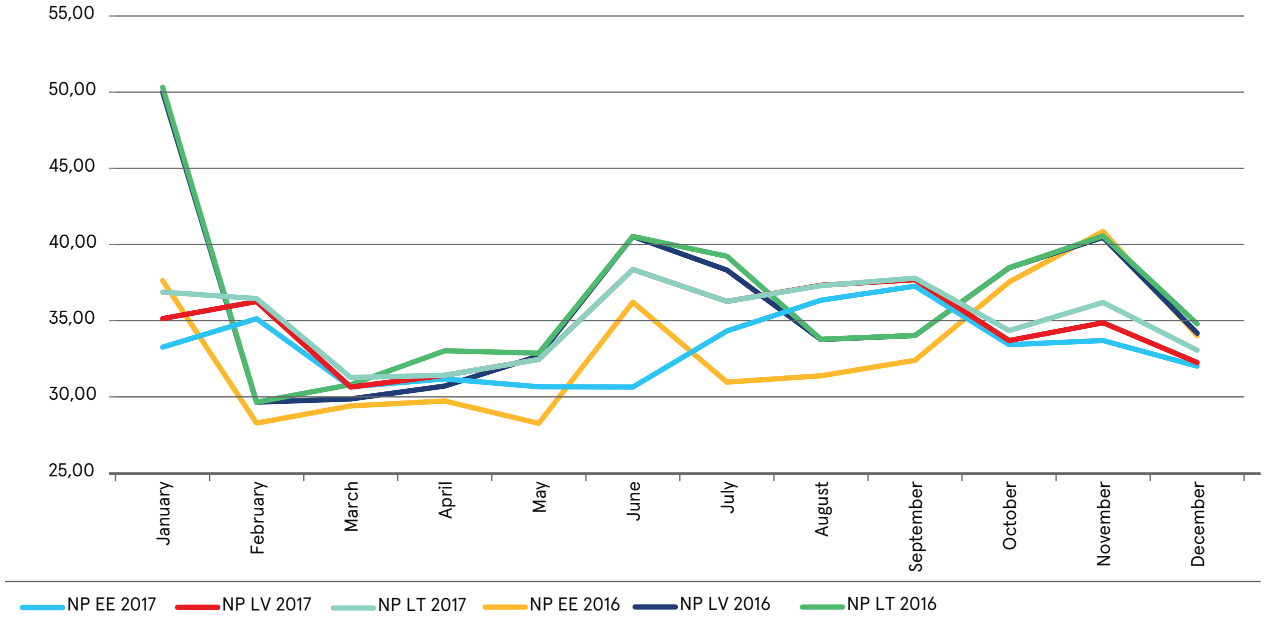
In Latvia, two instruments for hedging electricity trade risks are available (the financial market):

- NASDAQ energy products – hedging against price differences between commercial zones (EPAD);
- The Financial Transmission Rights option on the Estonian-Latvian border, ensured by the Company in cooperation with Estonian transmission system operator AS Elering. In 2017, 12 monthly, four quarterly and one annual auction were arranged successfully. There were twelve participants in the auctions. In 2018, the Company carries on holding Latvian-Estonian border long-term transmission rights auctions. In addition, a solution is being worked out to ensure that starting from 2019, holding of auctions would be started at a common European auction platform.

Not only are all completed trade transactions (in wholesale as well as retail markets) related to the commercial interests of market participants, but they also play an important role in balancing the system.

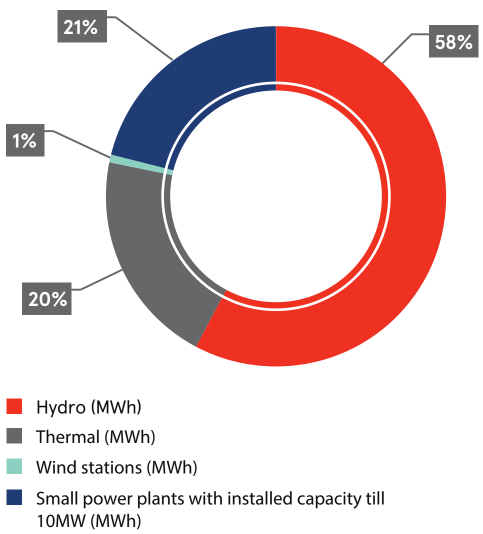
IN 2017, THE AVERAGE NP ELECTRICITY EXCHANGE PRICE ON LATVIAN TRADE AREA WAS EUR 34.68 PER MWh. COMPARED TO 2016, THE PRICE FELL BY 3.9 %.

MONTHLY AVERAGE ELECTRICITY PRICES IN BALTIC STATES (2016, 2017)



Source: AST

ANNUAL ELECTRICITY PRODUCTION IN LATVIA (2017)

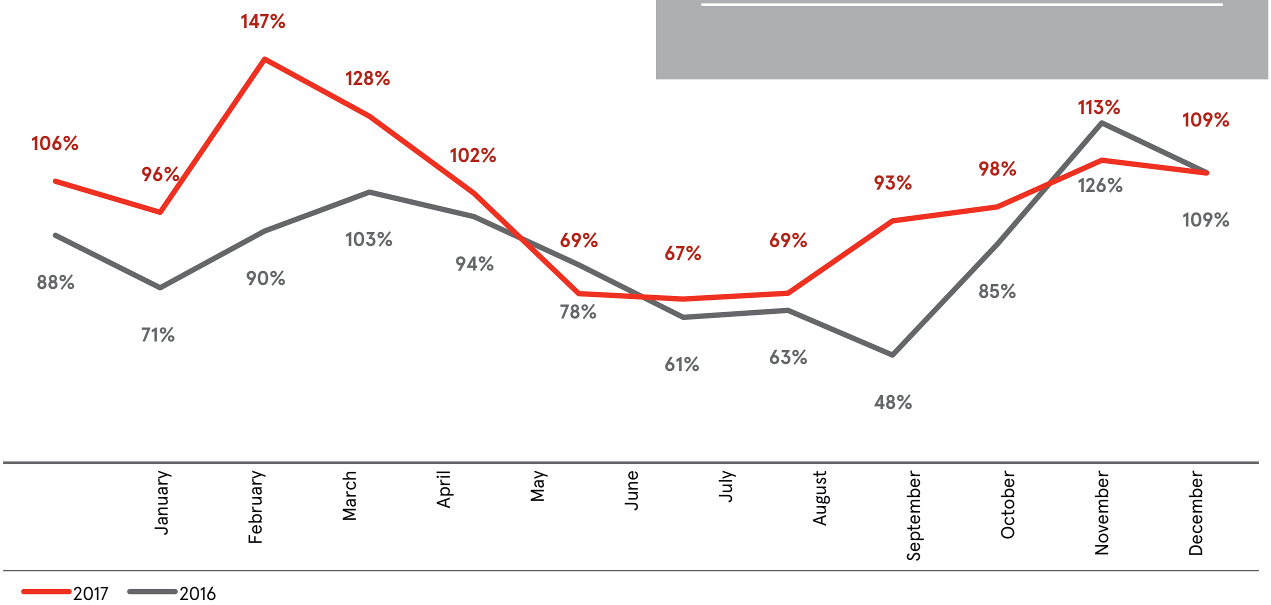


Source: AST

IN 2017, ELECTRICITY PRODUCED IN LATVIA AMOUNTED TO 7,746,336 MWh, UP BY 18% AGAINST 2016.

LATVIAN ELECTRICITY CONSUMPTION COVERING WITH LOCAL GENERATION (%) IN 2016 AND 2017

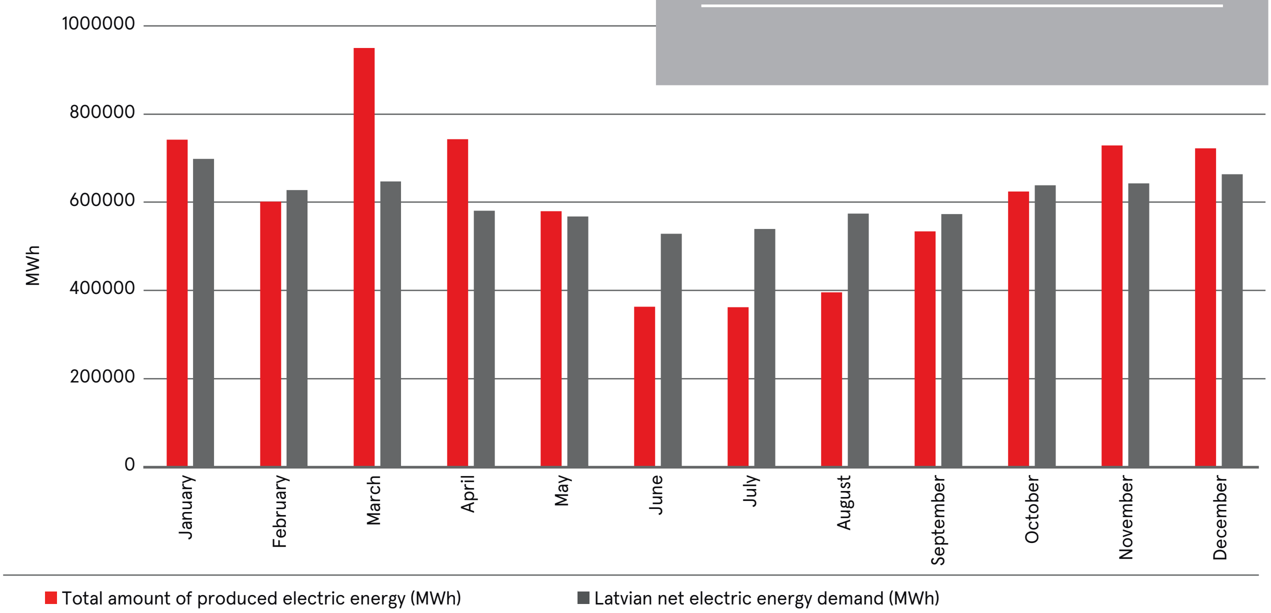
IN 2017, ELECTRICITY CONSUMPTION IN LATVIA WAS COVERED 101% FROM THE LOCAL ELECTRICITY GENERATION SOURCES, AN INCREASE BY 15.11 PERCENTAGE POINTS AGAINST 2016.



Source: AST

ANNUAL ELECTRICITY GENERATION AND CONSUMPTION IN LATVIA AND SALDO - 64 166 MWh (SURPLUS)

IN 2017, ELECTRICITY CONSUMPTION IN LATVIA AMOUNTED TO 7,282,170 MWh, UP BY 0.24% AGAINST 2016.



Source: AST

Imports from third countries to the Baltics are possible only through the Nord Pool (NP) Lithuanian trade area – LBI. In 2017, the volume of electricity imported from third countries amounted to 416,301 MWh, down by 64% against 2016, when it was 1,146,711 MWh.

In 2017, the average daily loading on the Estonian-Latvia interconnection was 54%, whereas compared to the previous year, it fell by 13 percentage points.

FINANCIAL PERFORMANCE

In the reporting year, the Company's revenue amounted to EUR 158,861,710, including the revenue from electric power transmission services of EUR 72,450,638, accounting for 46% of the Company's total revenue. The Company's profit for the reporting period is EUR 309,244.

In assessing the Company's financial performance indicators and operating performance, 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. In 2017, the Company's profitability was in line with the tariff methodology for electricity transmission system services.

In the light of the above, as well as given that the Company is a natural monopoly, its profitability figures are not comparable with those of the industry. Given the TSO unbundling model (setting up an independent transmission system operator) implemented in Latvia, the Company's profitability as well as other financial indicators are not comparable with those of the TSO of the neighbouring countries or Europe, which in most cases are the owners of the transmission assets.

FINANCIAL AND OPERATING PERFORMANCE INDICATORS

	2017	2016
Financial performance indicators		
Revenue, in thous. EUR	158,862	116,789
EBITDA, in thous. EUR	1,843	1,159
Profit, in thous. EUR	309	352
Total assets, in thous. EUR	188,722	114,697
Equity, in thous. EUR	8,499	8,661
Financial ratios		
Total liquidity ratio	1.2	5.3
EBITDA profitability	1.2%	1.0%
Return on equity (ROE)	3.6%	4.1%
Operational performance indicators		
Electricity transmitted to users in Latvia, GWh	5,807	5,822
Average number of employees	539	525

In the reporting period, the Company's liquidity ratio was affected by the loan issued by the Treasury for the acquisition of the shares of *AS Conexus Baltic Grid.*

The procedure for determining and calculating work remuneration is set out in the Company's internal regulations pursuant to Latvian statutory requirements.

MANAGING FINANCIAL RISKS

The Company is primarily engaged in carrying out the duties of a transmission system operator, ensuring a coordinated operation of the transmission system, producers of electricity, and electricity users (including distribution system operators) whose electric installations have been connected to the transmission system, thus the Company's financial risks are managed with a purpose to ensure the continuity of the technological process. The Company's financial risks are managed in line with the Financial risk management policy approved by the Board and accepted by the Meeting of Shareholders.

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

The Company's financial resources management is focused on economic and financial stability through a conservative financial risk management.

The Company's turnover risks are managed in line 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 pursues prudent liquidity risk management, ensuring that it has access to adequate financial resources to meet its obligations when they fall due.

The financial resources that potentially expose the Company to a certain degree of risk concentration are primarily cash and buyer and customer debt. Although the Company has a significant risk concentration in 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. Buyer and customer debtare presented 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.

SUSTAINABILITY AND ENVIRONMENT

The Company's strategic direction has a focus on sustainable development. The Company participates in the Sustainability Index organised annually by the Corporate Sustainability and Responsibility Institute. In 2017, the Company was awarded the Silver rating.

The purpose of the Environmental policy of *AS Augstsprieguma tīkls* is to continuously improve the environmental performance of *AS Augstsprieguma tīkls*, eliminating or reducing the hazardous impact on the environment through rational usage of natural resources and implementing the best available techniques in all areas of activity of *AS Augstsprieguma tīkls*.

In March 2017, the Environmental report for 2014-2016 was approved. The Company has been carrying out a systematic risk assessment, environmental programmes are aimed at eliminating significant risks. The environmental events registry is maintained. The key environmental pollution indicators are periodically monitored in accordance with the environmental monitoring plan. The overall level of risk in the field of the environment is low.

Increasingly attention is paid to energy efficiency matters. In 2016, in order to improve the Company's energy management, an energy management system was developed (and certified on 13 May 2016) meeting the requirements of the standard ISO 50001:2011, thus expanding the integrated management system implemented by *AS Augstsprieguma tīkls*. During the reporting period, the energy management report for 2017 was reviewed and approved on 9 April 2018.

The purpose of the Company's Energy Management Policy is to continuously improve the Company's energy performance, by reducing technical and technological losses, improving the operational energy consumption indicators of the Company's objects and improving the Company's road transport acquisition and usage strategy.

FUTURE DEVELOPMENT

The Company's has a key focus on sustainable growth with a view to improving the services provided to the participants of Latvian and Baltic electricity markets.

The Company's strategic objective is to ensure a safe operational mode of Latvian electricity system, by carrying out a timely planning of the development of the transmission system infrastructure and increasing process efficiency.

In setting its long-term strategic goals, the Company followed Latvia's Sustainable Development Strategy up to 2030, the National Development Plan for 2014-2020, as well as the objectives of the Energetics Development Guidelines for 2016-2020. One of the priorities set out in the above strategic planning documents is ensuring the national energy independence through increasing fostering of own energy resources and integrating into the EU energy networks.

According to the approved Medium-Term Business Strategy for 2016-2019, the Company has established the following groups of objectives:

A. Strengthening the energy security of Latvia through integration into the EU electricity market, ensuring the development of Latvian transmission system in accordance with the 10-year electricity transmission system development plan approved by the PUC;

B. Ensuring a safe operational mode of Latvian electricity system and top quality supply of electricity to the customers;

C. Ensuring a sustainable and thoughtful business operation by ensuring an efficient use of energy, monitoring of environmental risks, preventing or reducing pollution from the Company's operations;

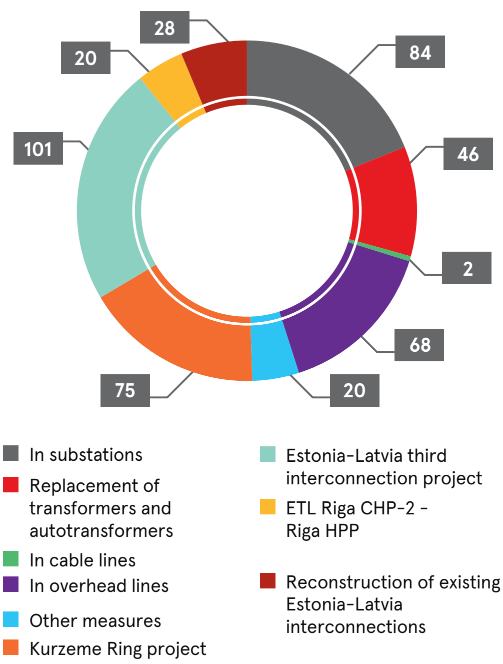
D. Proving the social responsibility of the Company by meeting the customer needs in a timely, responsive, technically and economically justified manner, and in accordance with the law.

Development of the electricity transmission network

The Company has developed the electricity transmission system development plan for 2018 - 2027, which has been approved under the PUC decision No. 102 “On the Electric Power Network Transmission Plan” of 6 September 2017 (hereinafter – “Development plan”).

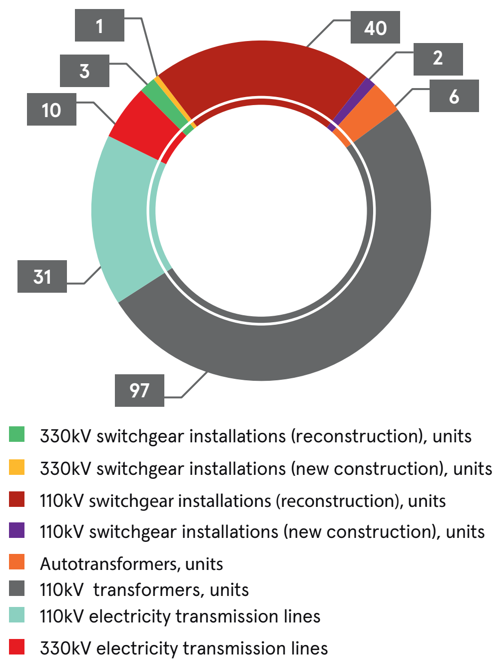
THE PREPARED DEVELOPMENT PLAN DETERMINES THE DEVELOPMENT OF THE TRANSMISSION NETWORK AND THE REQUIRED FINANCIAL INVESTMENTS IN THE TRANSMISSION INFRASTRUCTURE FOR THE FORTHCOMING TEN YEARS, PROVIDING FOR INVESTMENTS OF EUR 444 MILLION BETWEEN 2018 AND 2027.

INVESTMENTS BUDGETED UNDER THE DEVELOPMENT PLAN, MLN. EUR



Source: AST

NEW CONSTRUCTION AND RENOVATION WORKS WITHIN THE SCOPE OF THE DEVELOPMENT PLAN, IN UNITS.



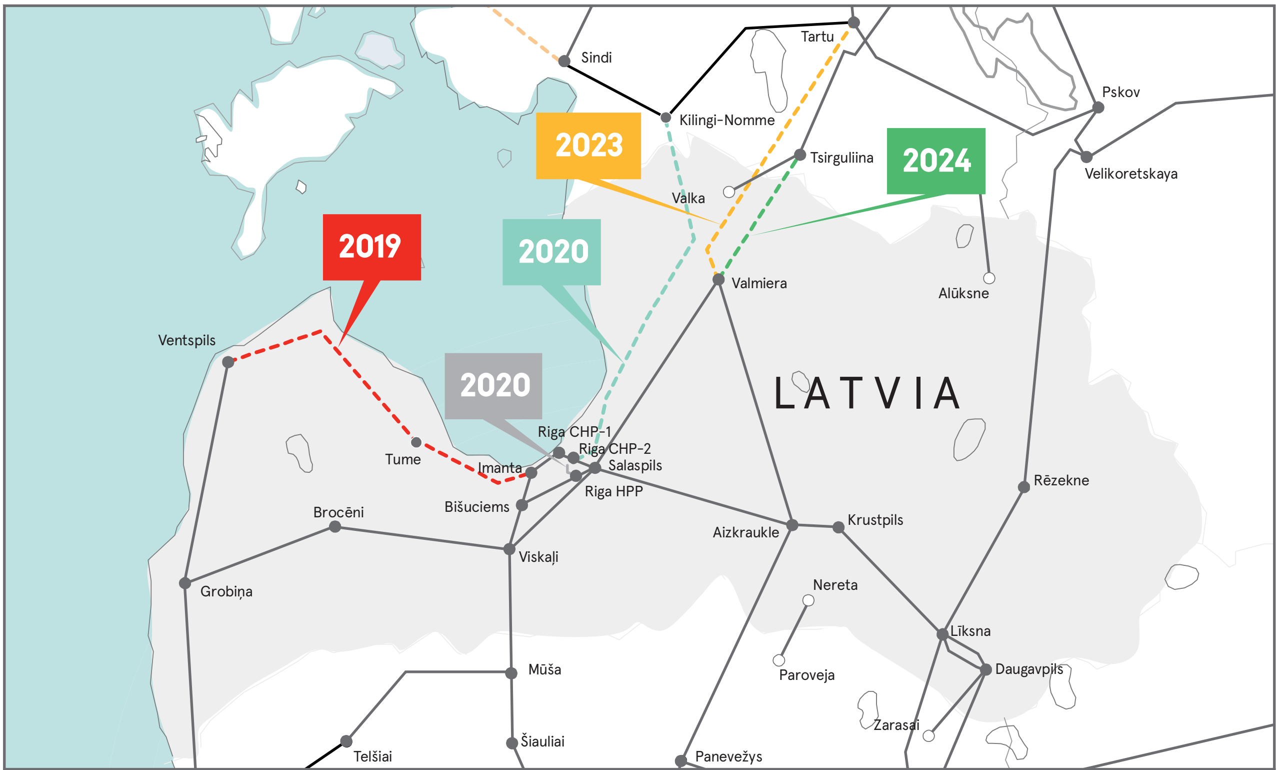
Source: AST

Given the results of the assessment of the transmission equipment, the determined critical age limits of the equipment and the necessary renewal rates, the Development plan provides for rebuilding of four switchgear installations per annum on average, replacing one autotransformer within two years on average, replacing ten transformers per annum on average, gradually increasing the level of capital investments in electricity transmission lines.

As a result of implementing the Development plan, the number of equipment older than the critical age limits will be decreased in the long-term.

Major development activities in the forthcoming decade:
The electricity transmission network is developed according to Latvian electricity transmission system development plan and the 10-year European transmission system development plan. The European Ten Year Development Plan includes such Latvian development projects, which are strategically important not only nationally, but also at Baltic Sea region in general, and inclusion in the European Development Plan is one of the preconditions for the projects to be eligible for European co-financing later.

PLANNED DEVELOPMENT PROJECTS INCLUDED IN THE EUROPEAN TEN YEAR DEVELOPMENT PLAN.



	Kurzeme Ring	Interconnection between Estonia and Latvia	Riga CHP-2-Riga HPP	Valmiera (LV) - Tartu (EE)	Valmiera (En)-Tsirgulina (EE)
Planned year of implementation	2019	2020	2020	2023	2024
The total costs approved, including:	127.4 MEUR	102.4 MEUR	19.98 MEUR	23	22
EU co-financing	55.1 MEUR	63.4 MEUR	9.99 MEUR	budgeted up to 50 % to 70 %	budgeted up to 50 % to 70 %
Revenue from the congestion fee	6.9 MEUR	38.4 MEUR	9.89 MEUR	budgeted up to 49 % of the portion financed by Latvia	budgeted up to 49 % of the portion financed by Latvia
Total length	214.3 km	180 km	13 km	49 km	49 km

- The third stage of the 330 kV EPL (electricity transmission line) connection *Kurzeme Ring*: 330 kV overhead line Venstpils – Tume - Imanta

Within this project, the 330 kV overhead electricity transmission lines Venstpils - Tume and Tume - Imanta will be reconstructed. The project is required in order to complete the 330 kV *Kurzemes Ring*, thereby improving the security of power supply in the western region of Latvia and providing the infrastructure for connecting new power generation sources, as well as for preparing the electricity transmission network for the likely increase in transit flows. Within the scope of the project, expansion of the existing 330 kV substation *Imanta* and building of a new 330 kV switchgear in substation *Tume* is envisaged. The reconstruction of 110 kV switchgear installations in substations *Dundaga, Talsi, Valdemārpils, Kandava, Priedaine* is envisaged, as well.

○ 3rd interconnection between Latvia and Estonia

At present, the busiest section in the Baltic electricity transmission network (grid) is the interstate connection between Latvia and Estonia. The 3rd interconnection between Latvia and Estonia will eliminate the transmission network overload in the cross-section between Estonia and Latvia and will help to increase the available Latvian – Estonian interconnection transmission capacity for the electricity market. It will also create an opportunity for connecting new power generation sources that use renewable energy resources in production. The total planned length of the line in the territory of Latvia is 180 km.

○ Construction of a new electricity transmission line Riga CHP-2– Riga HPP

This reinforcement of the grid will ensure a full functionality of the 3rd interconnection between Estonia and Latvia in the event of repairs and disconnections occurring in the Riga region high voltage electricity transmission lines; it will also increase the generation output capacity of the reconstructed Riga CHP-2 plant. The project envisages the construction of a new 330 kV overhead / cable line (the indicative line length is 13 km) with the transmission capacity up to 1000 MVA, the extension of the Riga's CHP-2 330 kV substation switchgear (2 connection ports), and installation of the 330 kV shunt reactor for compensating the reactive power, as well as reconstruction of the substation of Riga HPP by installing double-busbar scheme, using the existing equipment and solutions to the extent possible.

○ Increasing of the transmission capacity of the 330 kV electricity transmission line - Tartu (EE) - Valmiera (LV) between Latvia and Estonia

The 330 kV electricity 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 transmission capacity of the line up to 1000 MVA, as well as to eliminate the differences between the winter and summer transmission capacities, which interferes with an optimal and effective functioning of the electricity market, the project provides for replacing this line altogether with a new, increased capacity line.

The implementation of the project would be started immediately after completion of the 3rd interconnection between Latvia and Estonia.

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

The 330 kV electricity 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 transmission capacity of the line up to 1000 MVA, as well as to eliminate the differences between the winter and summer transmission capacities, which interferes with an optimal and effective functioning of the electricity market, the project provides for replacing this line altogether with a new, increased capacity line.

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

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 other projects such as the construction of the transmission line Riga CHP-2 - Riga HPP EU co-financing was received in 2017, whereas for the construction of the third stage of the Kurzeme Ring project and the third interconnection between Latvia and Estonia, the EU co-financing from the European infrastructure connection instrument programme was received in November 2014.

Electricity transmission network sustainability projects

The Latvian electricity transmission network development plan 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.

Access to the electricity 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 system management and the electricity market

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 RESPECT, **THE COMMON BALTIC BALANCING MARKET HAS BEEN DEVELOPED** FROM 1 JANUARY 2018 TO BE INTEGRATED WITH THE NORDIC BALANCING MARKET.

The overall purpose of the Baltic balancing market aim is to enhance a safe operation of the power supply system, encouraging the availability of balancing resources and reducing the costs of balancing the energy system. This will promote competition between market participants at regional level, which in turn will enhance the cost efficiency and improve consumer welfare.

- The project aiming to develop the Baltic market framework for integrating demand response in the balancing market

In March 2017, a joint project carried out by Baltic and Finnish transmission system operators was launched, within the scope of which, in cooperation with the Nordic transmission system operators research is carried out on the possible market models that allow to efficiently provide demand response and harmonized integration of a new market player (an independent aggregator) in the balancing market.

- Taking part in the financial support program *Horizon 2020* project *EU-SysFlex*

In 2017 *AS Augstsprieguma tīkls* participated in the consortium of the project *Pan - European system with an efficient coordinated use of flexibilities for the integration of a large share of RES (EU-SysFelx)* in preparing an application for the financing support programme *Horizon 2020*. The objective of the project is related to the structural changes of electricity generation, as a result of which the intermittent energy production increases considerably. The objective of the Project is to identify potential energy needs and develop the required market and legislative framework to ensure the safe and efficient operation of the electricity system when the largest share of it consists of the intermittent energy. The project application for receiving financial support was approved. In the reporting period, the project was started. The project activities are expected to last up until the end of 2021.

The project aimed at developing a common European intraday electricity trading platform – XBID

In the reporting period, complying with the Commission Regulation 2015/1222 of 24 July 2015 establishing a guideline on capacity allocation and congestion management, the work aimed at developing the EU intraday common platform (XBID) was carried out. The objective of XBID is to increase the overall efficiency of the current day trading efficiency, and that provides for integrating into a single framework all EU Member States for integrating the current day market. Latvia is among the 10 countries (Austria, Belgium, Denmark,- Estonia, Finland, France, Germany, Latvia, Lithuania, Netherlands, Norway, Portugal, Spain and Sweden) where local implementation projects are carried out. In 2019, the majority of the remaining European countries will take part in the "second wave" of starting the XBID activities.

In the reporting period, work was carried out to ensure, together with the other transmission system operators and nominated electricity market operators (Nord Pool) in the Baltic region for joining the EU common intraday market platform (XBID).

The nominated electricity market operators and the transmission system operators have set 12 June 2018 as a target date for launching the implementation of the XBID system and 10 local implementation solutions with the first sales results on 13 June. The date of launching the operation of XBID in June is still dependent on completing the testing of the local implementation projects, testing of the participants and entering into current day operation agreement, considering the clarifications of the national regulatory authorities.

THE BALTIC TSP REGIONAL SECURITY COORDINATOR WAS ESTABLISHED IN 2017.

Establishing the Baltic Regional Security Coordinator

Under the European Commission's draft Regulation prepared by the EC Electricity Cross-Border Committee establishing the electricity transmission system functioning guidelines as well as under the agreement on coordinated activities aimed at establishing Regional coordinators entered into force by the European Transmission System Operators Association ENTSO-E in December 2015, the Baltic TSP Regional security coordinator was established in 2017.

Synchronisation of the Baltic countries with the continental Europe

On 14 January 2015, the ministers for the energy sector of the Baltic countries met in Riga and passed a political decision regarding the progress and development of the Baltic country synchronization project with the continental Europe, signing the Declaration on the security of energy supplies of the Baltic countries, where one of the clauses provides for supporting the synchronisation of the Baltic countries with the Continental Europe and desynchronization from the energy systems of Russia and Belarus.

At the meeting of TSO executives of Baltic countries held on 21 October 2015, the decision was made for launching the testing of the isolated operation of the electricity systems of Baltic countries and for entering into the cooperation agreement for the implementation of this project.

On 15 July 2016 the European Commission announced the granting of co-financing of 50% for studying an isolated operation of the Baltic electricity systems. In the reporting period, the study of the isolated operation of the systems was completed.

IN 2017, RESEARCH ON CARRYING OUT THE TESTING OF AN ISOLATED OPERATION OF THE BALTIC ENERGY SYSTEMS WAS DEVELOPED.

Transmission and storage of natural gas

Under the decision of Cabinet of Ministers from 5 December and 19 December 2017, in 2017, the Company acquired 34.36 % of the shares of Latvian natural gas transmission and storage system operator *AS Conexus Baltic Grid*. The Company has begun the work on the development of the strategic goals of *AS Conexus Baltic Grid* that are subordinate to the intention to continue to move towards establishing the natural gas market of the Baltic countries, Poland and Finland until 2020. Acquiring of the shares in *AS Conex Baltic Grid* will not impact the electricity transmission system service tariffs.

IN 2017, THE COMPANY ACQUIRED 34.36 % OF THE SHARES OF LATVIAN NATURAL GAS TRANSMISSION AND STORAGE SYSTEM OPERATOR AS CONEXUS BALTIC GRID.

EVENTS AFTER THE BALANCE SHEET DATE

Considering that from 1 January 2018, *PAS Gazprom* holding 34.10 % of shares in *AS Conexus Baltic Grid*, has no voting and management rights, from 1 January 2018, the Company has the decisive influence in *AS Conexus Baltic Grid*. According to the financial statements of *AS Conexus Baltic Grid* for 2017, the profit of *AS Conexus Baltic* for 2017 was EUR 17,021 thous. The meeting of shareholders of *AS Conexus Baltic Grid* held on 27 April 2018 adopted the decision to pay dividends for the 2017 reporting year, i.e., EUR 0.35 per share. Considering the number of shares in *AS Conexus Baltic Grid* held by the Company, it will receive EUR 4,785 thous. in dividends.

In accordance with Section 60 of the law *On State Budget* for 2018, in 2018, financing will be assigned for increasing the share capital of *AS Augstprieguma tīkls* under the decisions of the Cabinet of Ministers and the Saeima (Parliament).

To separate a commercial stock exchange function from the regulated market integration functions, the reorganization plan of *AS Nord Pool* was developed, the decision for the implementation of which was passed at the meeting of shareholders of *AS Nord Pool* on 19 April 2018. As part of the said reorganisation plan, establishing of a group is intended, in which *AS Nord Pool Holding* would be the main capital company with two dependent capital companies, ensuring the carrying out of the electricity exchange functions (*AS Nord Pool*) as well as market coupling functions (*AS European Market Coupling Operator*). Within the scope of the reorganisation, the current share of the shareholders' representation and voting rights has been preserved. In the light of the above, under the Cabinet decision No. 171 of 19 April 2018, *AS Augstprieguma tīkls* has been authorised to terminated shareholding in *AS Nord Pool* and acquire shareholding of 2% (two per cent) in *AS Nord Pool Holding*.

On 19 April 2018, the meeting of shareholders of *AS Nord Pool* agreed to pay in dividends of NOK 2,166 per share, which according to the currency exchange rate at 23 April 2018, published by the European Central Bank corresponded to EUR 225 per share. Considering the amount of the shares held by the Company in *AS Nord Pool* (306 shares), the Company will receive EUR 78 thous. in dividends.

After the end of the reporting period there have been no other significant circumstances or events that might affect the Company's future development.

PROPOSALS FOR PROFIT DISTRIBUTION

The management of the Company, according to the provisions laid down in Section 28 of the Law On Governance of Capital Shares of a Public Person and Capital Companies, subject to the provisions laid down in Section 24 of the law on Medium Term Budget for the Years 2018, 2019 and 2020, proposed a dividend distribution of EUR 247,395 and crediting of EUR 61,849 of the profit to the Company's reserves.

The meeting of shareholders of *AS Augstprieguma tīkls* will decide on profit distribution for 2017.

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Mārcis Kauliņš
Member of the Board

Māra Grava
Head of the Finance and Accounts Department

Riga, 17 May 2018

STATEMENT OF THE BOARD'S RESPONSIBILITY

STATEMENT OF THE BOARD'S RESPONSIBILITY

The Company's Board is responsible for preparing the financial statements.

These financial statements 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 2017, its operating performance and cash flows for 2017.

The Board represents that in the preparation of these financial statements on pages 27 to 63 relevant accounting policies have been used and consistently applied, and the Board has provides reasonable and prudent conclusions and opinions. The Board also represents that the relevant International Financial Statements Standards approved by the European Union have been complied with in preparation of the financial statements. These financial statements have been prepared on the going concern basis.

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FINANCIAL STATEMENTS

INCOME STATEMENT FOR 2017

		2017 EUR	2016 EUR
Revenue	3	158,861,710	116,788,589
Other operating income	4	337,843	36,329
Consumed raw materials, materials and the cost of repairs	5	(21,173,030)	(17,990,531)
Personnel expenses	6	(13,764,039)	(11,958,831)
Depreciation and amortisation	10	(1,295,309)	(939,740)
Other operating expenses	7	(122,419,518)	(85,716,410)
Income from investing		-	175,327
Finance income	8(a)	37,787	102,969
Finance expenses	8(b)	(23,990)	(208)
Profit before taxes		**561,454**	**497,494**
Corporate income tax	9	(99,259)	(16,206)
Deferred income tax asset reduction	9	(152,951)	(128,922)
Profit for the reporting year		**309,244**	**352,366**

The notes on pages 35 to 63 form an integral part of these financial statements.

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STATEMENT OF COMPREHENSIVE INCOME FOR 2017

	Notes	2017 EUR	2016 EUR
Profit for the reporting year		309,244	352,366
Other income: *Items that will not be reclassified to the income statement:*			
Actuarial loss		(171,533)	(1,773)
Other losses of the reporting year		**(171,533)**	**(1,773)**
Comprehensive income for the reporting year attributable to the shareholders of the Company		**137,711**	**350,593**

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STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2017

	Notes	At 31.12.2017. EUR	At 31.12.2016. EUR
ASSETS			
Long-term investments			
Intangible assets	10	384,084	286,995
Fixed assets	10	3,817,102	3,457,329
Other long-term financial investments	11	59,297,269	1,902,887
Term deposits	26	10,000,000	5,000,000
Deferred tax asset	9	-	152,951
Total long-term investments		**73,498,455**	**10,800,162**
Current assets			
Inventories	12	477,819	483,301
Receivables			
Trade receivables, net	13	479,129	1,029,349
Corporate income tax		-	114,174
Term deposits	14	25,000,000	30,000,000
Financial deposit with restricted access rights	14	57,394,382	-
Other receivables	14	3,410,096	1,221,210
Prepayments		139,102	53,148
Accrued income	15	20,209,502	14,762,713
Total receivables		**106,632,211**	**47,180,594**
Cash	**16**	**8,113,170**	**56,233,067**
Total current assets		**115,223,200**	**103,896,962**
TOTAL ASSETS		**188,721,655**	**114,697,124**

The notes on pages 35 to 63 form an integral part of these financial statements.

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STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2017 (CONTINUED)

	Notes	At 31.12.2017. EUR	At 31.12.2016. EUR
EQUITY AND LIABILITIES			
Equity			
Share capital	17	5,744,342	5,691,487
Reserves		2,445,459	2,616,992
Profit for the reporting year		309,244	352,366
Total equity		**8,499,045**	**8,660,845**
Non-current liabilities			
Provisions for post-employment benefits	18	2,598,729	2,406,639
Deferred income	18	85,532,066	84,067,316
Total non-current liabilities		**88,130,795**	**86,473,955**
Current liabilities			
Borrowings	19	57,394,382	-
Deferred income	20	5,527,809	3,275,299
Trade payables		9,038,161	3,600,323
Taxes and national social insurance mandatory contributions	23	3,028,617	1,611,493
Advances received from customers	21	4,469,744	3,627,390
Other liabilities	21	3,627,991	2,346,591
Accrued liabilities	22	9,005,111	5,101,228
Total non-current liabilities		**92,091,815**	**19,562,324**
TOTAL LIABILITIES		**188,721,655**	**114,697,124**

The notes on pages 35 to 63 form an integral part of these financial statements.

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STATEMENT OF CHANGES IN EQUITY FOR 2017

	Notes	Share capital EUR	Retained earnings EUR	Reserves EUR	Total EUR
At 31. 12. 2015	**17**	**5,691,487**	**338,615**	**2,435,495**	**8,465,597**
Dividends paid for 2015		–	(155,345)	–	(155,345)
Transferred to reserves		-	(183,270)	183,270	-
Actuarial loss		–	–	(1,773)	(1,773)
Profit for the reporting year		–	352,367	–	352,367
At 31. 12. 2016	**17**	**5,691,487**	**352,366**	**2,616,992**	**8,660,845**
Dividends paid for 2016		–	(299,511)	–	(299,511)
Increase in share capital		52,855	(52,855)	–	–
Actuarial loss		–	–	(171,533)	(171,533)
Profit for the reporting year		–	309,244	–	309,244
At 31. 12. 2017	**17**	**5,744,342**	**309,244**	**2,445,459**	**8,499,045**

The notes on pages 35 to 63 form an integral part of these financial statements.

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STATEMENT OF CASH FLOWS FOR 2017

	Notes	At 2017 EUR	At 2016 EUR
I CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxes		561,454	497,494
Adjustments			
a) depreciation, amortization	10	1,295,309	940,907
b) changes in provisions		20,557	122,617
c) interest income	8(a)	(37,787)	(102,969)
d) interest and exchange rate fluctuation costs	8(b)	23,990	208
Profit before working capital and short-term liabilities balance change effects adjustments		**1,863,523**	**1,458,257**
Adjustments			
a) an increase in trade receivables, other receivables and accrued revenue		(37,311,828)	(3,179,842)
b) a decrease (increase) in inventories		5,482	(7,997)
c) an increase in trade payables and other payables, accrued liabilities		16,599,859	7,173,111
Gross cash flows from operating activities		**(18,842,964)**	**5,443,529**
Foreign exchange loss		(709)	(208)
Interest income		37,787	102,969
Recovered corporate income tax		56,148	66,828
NET CASH FLOWS FROM OPERATING ACTIVITIES		**(18,749,738)**	**5,613,118**

The notes on pages 35 to 63 form an integral part of these financial statements.

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Riga, 17 May 2018

STATEMENT OF CASH FLOWS FOR 2017 (CONTINUED)

	Notes	At 2017 EUR	At 2016 EUR
II CASH FLOWS FROM OPERATING ACTIVITIES			
Other long-term financial investments		(57,394,382)	-
The term deposits placed		(30,000,000)	30,000,000
Acquisition of intangible assets and fixed assets		(1,752,171)	(2,032,873)
Dividends received		-	57,610
Received EU financing		2,704,804	16,668
NET CASH FLOWS FROM INVESTING ACTIVITIES		**(86,441,749)**	**28,041,405**
(III) CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		57,394,382	-
Interest paid		(23,281)	-
Dividends paid		(299,511)	(155,345)
NET CASH FLOWS FROM FINANCING ACTIVITIES		**57,071,590**	**(155,345)**
NET INCREASE IN CASH AND CASH EQUIVALENTS		**(48,119,897)**	**33,499,178**
Cash and cash equivalents at the beginning of the reporting year		56,233,067	22,733,889
Cash and cash equivalents at the end of the reporting year		**8,113,170**	**56,233,067**

The notes on pages 35 to 63 form an integral part of these financial statements.

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Riga, 17 May 2018

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION ABOUT 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 continual transmission of electricity.

At 31 December 2017, *AS Augstsprieguma tīkls* was wholly owned by the Republic of Latvia, represented by the Ministry of Finance. The Company's registered address is Darzciema iela 86, Riga, LV-1073, Latvia.

On 17 May 2017, these financial statements were approved by the Company's Board composed of: Varis Boks (Chairman of the Board), Imants Zviedris (Member of the Board), Mārcis Kauliņš (Member of the Board), and Gatis Junghāns (Member of the Board).

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

ŠIn this section of the Notes, the key accounting principles used in preparing these financial statements are disclosed. These general principles have been consistently applied presenting the data for all the periods presented in the financial 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 Note, because, if adopted, the said standards and interpretations may affect the Company's financial statements in the future periods.

The financial statements have been prepared on a 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 2017 to 31 December 2017.

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 following new and amended IFRS and interpretations became effective in 2017, but have no significant impact on the operations of the Bank and these financial statements:

- Amendments to IAS 12 "Income taxes" – recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017).
- Amendments to IAS 7 "Statement of Cash Flows" – Disclosure initiative (effective for annual periods beginning on or after 1 January 2017).

A number of new standards and interpretations have been published that become effective for the accounting periods beginning on 1 January 2018 or later periods or have not been endorsed by the EU yet:

- IFRS 9 "Financial instruments" (effective for annual periods beginning on or after 1 January 2018).

The main features of the new standard are the following:

- Financial assets are classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If an equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. The model has a "three stage" approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedging instruments because the standard currently does not address the accounting for macro risk hedging instruments.

- IFRS 15 "Revenue from Contracts with Customers" (effective for annual periods beginning on or after 1 January 2018).

The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed.

- IFRS 16 "Leases" (effective for annual periods beginning on or after 1 January 2019).

The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, lessors would continue to classify leases as operating or finance leases, different accounting depending on the classification will be maintained.

- Amendments to IFRS 15 "Revenue from Contracts with Customers" (effective for annual periods beginning on or after 1 January 2018).
- Amendments to IFRS 2 "Share-Based Payment" (effective for annual periods beginning on or after 1 January 2018, not yet endorsed in the EU).
- Amendments to IFRS 4 "Insurance Contracts" – Applying IFRS 9 "Financial statements" with IFRS 4 "Insurance contracts" (effective for annual periods beginning on or after 1 January 2018).
- IFRIC 22 Foreign Currency Transactions and Advance Consideration (effective for annual periods beginning on or after 1 January 2018, not yet indorse in the EU);
- IFRS 17 Insurance Contract (effective for annual period beginning on or after 1 January 2021, not yet endorsed in the EU).
- IFRIC 23 Uncertainty over Income Tax Treatments (effective for annual period beginning on or after 1 January 2021, not yet endorsed in the EU).
- Amendments to IAS 40 Investment Property - Transfers of Investment Property (effective for annual period beginning on or after 1 January 2018, not yet endorsed in the EU). .
- Amendments to IFRS 9 Financial Instruments Prepayment Features with Negative Compensation (effective for annual period beginning on or after 1 January 2019, not yet endorsed in the EU).
- Amendments to IAS 28 Investments in Associates and Joint Ventures - Long-term Interests in Associates and Joint Ventures (effective for annual period beginning on or after 1 January 2019, not yet endorsed in the EU).
- Annual improvements to IFRS 2016. The amendments include changes that affect three standards:
  - IFRS 12 "Disclosure of Interests in Other Entities" (effective for annual periods beginning on or after 1 January 2017, not yet endorsed in the EU);
  - IFRS 1 "First-time Adoption of International Financial Reporting Standards" (effective for annual periods beginning on or after 1 January 2018, not yet endorsed in the EU);
  - IAS 28 "Investments in Associates and Joint Ventures" (effective for annual periods beginning on or after 1 January 2018, not yet endorsed in the EU).
- Annual improvements to IFRS's 2017 (effective for annual periods beginning on or after 1 January 2019, not yet endorsed in the EU). These amendments include changes in four standards:
  - IFRS 3 - "Business Combinations;
  - IFRS 11 - "Joint Arrangements";
  - IAS 12 - "Income taxes"
  - IAS 23 - "Borrowing costs".

The Company's management elected not to adopt these standards and interpretations in advance of their effective dates. The Company's management is of the view that adoption of new standards, revisions and interpretations will have no material impact on the Company's financial statements in the year of their first application.

2.1. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of financial assets (investments in other companies, 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 receivables

Loans and 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 originally 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 carried 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 are initially measured at their fair value. In subsequent periods, payables are measured at amortized cost using the effective interest rate method. Financial liabilities are derecognised when they are paid or when the contractual liabilities have been discharged, or their term has expired.

Liabilities

Payables are initially measured at their fair value. In subsequent periods, payables are measured at amortized cost using the effective interest rate method. Accounts payable are classified as current liabilities if payment period is one year or less. 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 ASSETS 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. LONG-TERM FINANCIAL INVESTMENTS

Other long-term investments are investments in the capital of other companies. Other financial investments are measured at their acquisition cost, less provision for impairment losses, if any.

2.5. OPERATING LEASE (THE COMPANY AS THE LESSEE)

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. 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.

2.6. 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 carrying out a stocktake.

2.7. 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.

2.8. PENSIONS, POST-EMPLOYMENT 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*, in which the Company has invested. Making 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 % (6 % as of 1 January 2018) 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) Post-employment 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.

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 the unbiased and mutually harmonised actuarial assumptions about demographic variables, the factors (such as employee turnover and mortality) and financial factors (for example, the expected increase in remuneration of work and specific changes in the amounts of benefits).

Actuarial gains and losses arising from adjustments and changes in actuarial assumptions are included in the income statement in the joint in the period in which they are incurred.

2.9. CORPORATE INCOME TAX

Corporate income tax expense for the reporting year has been included in the financial statements in line with the management's calculations pursuant to the laws of the Republic of Latvia. The Company recognises, measures and carries the deferred tax in the financial statements in accordance with the International Accounting Standard 12 "Income tax".

Up to 31 December 2016, deferred tax was calculated under the liability method for all temporary differences between the values of assets and liabilities presented in the financial statements and their values for tax calculation purposes. Temporary differences mainly arose due to different fixed asset depreciation rates and provisions for post-employment obligations.

On 28 July 2017, the new Corporate Income Tax Law was passed under which from 1 January 2018 the profit arising after 2017 is subject to tax upon its distribution.

In the new corporate income tax law, no longer contains the provisions that cause temporary differences between the values of assets and liabilities for financial accounting purposes and for tax purposes. According to the transitional provisions of the law, taxpayer will be able to use the accumulated tax losses that were not used up to 31 December 2017 within the next five tax years, reducing the tax payable for the distributed profit not more than 50% each year, as well as use the provisions created until 31 December 2017 to reduce the taxable profit by the amount of which the taxable income had been increased in the relevant taxation periods, by the amount of the reduction thereof.

Such amounts, if any, do not result in deferred tax assets at 31 December 2017 and thereafter, because in a situation where different tax rate exist for the distributed and undistributed profit, deferred tax is calculated at the tax rate applicable to retained earnings, i.e. 0%.

In the light of the above, at 31 December 2017 the existence of a deferred tax asset or liabilities is no longer justified, and at 31 December 2016, the Company's deferred tax asset was reduced to zero, the reduction of this asset is written off to the profit and loss statement for 2017.

Starting from the 2018 tax year, corporate income will be calculated on the distributed profit (20/80) of the net amount payable to the shareholder). Corporate tax on distributed profits will be recognised when the Company's shareholder will make a decision on the distribution of profits.

2.10. 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 calculated using the accounting software HORIZON once a month.

2.11. 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 key types of revenue are as follows:

(a) Electricity transmission system 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 – "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. Having used 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. Under the principle of matching 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 purchase 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 purchase 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 cannot influence the pricing of the service, it may not set the prices directly or indirectly, revenue from CPC is recognised at the agency principle, i.e., recognizing revenue in the profit or loss at net value.

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

(e) Construction and reconstruction of transmission 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 reconstruction of transmission assets is recognized based on mutually agreed monthly acceptance-conveyance statements.

2.12. 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 rather than only 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.

2.13. 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.

2.14. 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.

2.15. 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 revenue and expenses related to its participation in the mechanism on compensation of losses from transit traffic flow developed by ENTSO-E (the ITC mechanism). The ITC mechanism is a mechanism operated by 35 European transmission network system operators for covering the costs of transit losses with two funds: a Framework fund and the common European Union TSO transit flow volume fund (WWT - *with and without transit*), which changes according to the situation in the electricity market. The key factor affecting the estimate is the electricity transit flows affecting the WWT fund amount in all European electricity transmission grids as well as the transit loss price in the ITC membership member states. The forecast is made in each of the member states based on 6 loss measurements a month and the price of the loss. Sales are forecast according to the principle of prudence.

In December 2017, the accrued revenue amounted to EUR 2,026,955, including EUR 1,826,955 in accordance with the reconciliations statements accepted by the Company, for which no invoices had been raised on 31 December 2017, and EUR 200,000 have been estimated, taking into account the losses caused by transit flows. Below the assessment of the sensitivity of the revenue estimate at December 2017 is provided..

	Transit loss price		**WWT amount**	
	A decrease of 10%	An increase of 10%	A decrease of 10%	An increase of 10%
The provision of transit revenue changes	66,128	(66,128)	9,651	(9,651)

- Based on the statistical and analytical information as well as on specialist forecasts, the Company makes estimates and assumptions in regard to the post-employment benefit obligations, as described in the Note 2.8.

  In the reporting year, the discount factor applied to discount post-employment benefit obligations was 1.439% (in 2016: 1.604%). . The discount factor was determined pursuant to international financial reporting standards, according to which, the discount factor must be determined taking into the market yields of the bonds of top quality companies at the balance sheet date, and the discount factor must reflect the time value of money rather than actuarial or investment risk.

  Subject to the terms of the Collective bargaining agreement that provide for the annual indexation of the employees pay to account for the inflation, calculating the provisions of post-employment benefits in 2019, a salary increase of 2.8% is planned for employees in 2019, whereas in 2020 – by 2.4%, and thereafter – 2.3%.

SENSITIVITY ANALYSIS FOR THE TOTAL POST-EMPLOYMENT BENEFIT AT 31 DECEMBER 2017, EUR

	Increase	**Decrease**
Discount factor (+/-1%)	259,737 10%	(214,232) (8%)
Monthly salary increase (+/-1%)	253,690 10%	(213,861) (8%)
Employee turnover rate (+/-1%)	276,334 11%	(229,935) (9%)

3. REVENUE

	2017 EUR	2016 EUR
Electric power transmission services:		
Transmission network service	72,450,638	73,764,263
Transmission asset rebuilding and renovation works*	62,732,893	25,212,493
Balancing electricity sales	9,651,965	7,564,740
Managing of overload on borders**	4,824,708	2,638,016
Elimination of electric capacity overload**	3,957,408	1,320,223
Electricity transit service	2,706,981	3,256,768
Regulating electricity sales	928,980	1,256,543
Reactive electricity sales	424,245	605,212
Electricity sales in the ELBAS market	51,544	103,405
Electricity capacity reserve maintaining service	6,302	27,976
Other services	1,126,046	1,038,950
TOTAL REVENUE	**158,861,710**	**116,788,589**

Under the provisions of 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 developing of the 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, for which decision is taken by AS Augstsprieguma tīkls.

**According to the Company's accounting policy, revenue from congestion management is presented in the income statement by reference to the costs associated with overloads and removing congestions in the transmission network. In addition, under the PUC decision No. 30 of 6 April 2017, revenue from congestion revenue necessary to ensure that the Company's profitability meets the requirements set out in the methodology.

4. OTHER OPERATING INCOME

	2017 EUR	2016 EUR
Current asset and fixed asset sales	133,537	9,721
Fines received	118,851	10,866
Compensation received compensation	50,455	15,742
EU funding	35,000	–
TOTAL OTHER OPERATING INCOME	**337,843**	**36,329**

5. RAW MATERIALS AND MATERIALS CONSUMED AND REPAIR COSTS

	2017 EUR	2016 EUR
Purchases of balancing electricity	9,131,295	6,679,200
Electric power transmission losses and technological consumption	6,500,381	5,687,313
Cost of materials used and repairs	2,469,065	2,236,120
Electricity transit losses	1,782,781	1,790,666
Purchases of regulating electricity	982,604	1,277,470
Electricity for self-consumption	306,904	319,762
RAW MATERIALS AND MATERIALS CONSUMED AND REPAIR COSTS, TOTAL	**21,173,030**	**17,990,531**

6. PERSONNEL COSTS

	2017 EUR	2016 EUR
Remuneration for work	10,600,033	9,055,035
Mandatory national social insurance contributions and the benefits defined in the collective employment contract	2,700,893	2,505,629
Contributions to pension plan	463,113	398,167
TOTAL PERSONNEL COSTS (INCLUDING COMPENSATION OF THE COMPANY'S MANAGEMENT)	**13,764,039**	**11,958,831**

Incl. the compensation of the Company's board and council

	2017 EUR	2016 EUR
Remuneration for work	447,218	346,233
Mandatory national social insurance contributions and the benefits defined in the Collective bargaining agreement	95,656	97,394
Contributions to pension plan	-	4,195
TOTAL REMUNERATION FOR THE COMPANY'S MANAGEMENT	**542,874**	**447,822**

Number of employees

	2017 EUR	2016 EUR
Number of employees at the end of the reporting year	544	531
Average number of employees during the reporting year	539	525

7. OTHER OPERATING EXPENSES

	2017 EUR	2016 EUR
Construction and refurbishment of transmission network assets	62,714,993	25,212,493
Fixed assets (transmission assets) lease	43,911,141	45,371,240
Electrical power reserve maintaining costs	4,268,388	4,634,641
Electric power overload elimination	4,305,813	3,263,239
Providing telecommunication services	2,675,835	2,811,003
IT system maintaining costs	1,160,400	901,380
Transport costs	986,923	1,204,966
Facility management costs	266,241	233,465
Nature and health protection costs	116,704	147,887
Miscellaneous operating costs	2,013,080	1,936,096
TOTAL OTHER OPERATING COSTS	**122,419,518**	**85,716,410**

8. FINANCIAL INCOME/(EXPENSES), NET

	2017 EUR	2016 EUR
a) Financial income		
Interest income from credit institutions	37,787	102,969
Income from investing	–	175,327
Total financial income	**37,787**	**278,296**
b) Financial costs		
Interest costs	(23,281)	–
FX rate fluctuations	(709)	(208)
Total financial costs	**(23,990)**	**(208)**
FINANCIAL INCOME/(COSTS), NET	**13,797**	**278,088**

9. CORPORATE INCOME TAX AND DEFERRED TAX

	2017 EUR	2016 EUR
Corporate income tax	(99,259)	(16,206)
Changes in the deferred tax	(152,951)	(128,922)
TOTAL CORPORATE INCOME TAX	**(252,210)**	**(145,128)**

9. CORPORATE INCOME TAX AND DEFERRED TAX (CONTINUED)

After the new Corporate Income Tax Law becomes effective on 1 January 2018, there will no longer be temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base. Thus, as described in the notes to the financial statements "Significant accounting principles", section "Corporate income tax", in 2017, the Company derecognised from the balance sheet the deferred tax asset previously recognised, including the reduction in these balance sheet items in the profit and loss.

Corporate income tax differs from the theoretical amount that would arise were the Company's profits before taxes subject to the statutory rate of 15%:

	2017 EUR	2016 EUR
Profit before corporate income tax	561,454	497,494
Corporate income tax, at the statutory 15% rate	84,218	74,624
Non-deductible expenses	36,122	35,262
Other	(21,081)	61,541
Dividends received	-	(26,299)
Deferred tax asset reduction	152,951	-
TAX EXPENSES	**252,210**	**145,128**

The Company offsets deferred tax assets and liabilities only when it has a legal right 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 respective amounts of these liabilities/assets are as follows:

	2017 EUR	2016 EUR
Deferred tax assets:		
The deferred tax asset recoverable in more than one year	-	(360,996)
The deferred tax asset recoverable within one year	-	(33,954)
TOTAL DEFERRED TAX ASSETS	**-**	**(394,950)**
Deferred tax liabilities:		
Deferred tax liability recoverable in more than one year	-	161,672
Deferred tax liability recoverable within one year	-	80,327
TOTAL	**-**	**241,999**

Deferred tax movement:

	2017 EUR	2016 EUR
At the beginning of the reporting year	**(152,951)**	**(281,873)**
Included in the profit and loss statement	152,951	128, 922
At the end of the reporting year	**-**	**(152,951)**

9. CORPORATE INCOME TAX AND DEFERRED TAX (CONTINUED)

	2017 EUR	2016 EUR
Deferred tax liabilities:		
Fixed assets depreciation temporary difference	-	241,999
Deferred tax assets:		
Provisions for post-employment benefits	-	(313,186)
Accrued bonuses	-	(30,845)
Provisions for the benefits under the Collective agreement	-	(47,810)
Provisions for contributions to the pension plan	-	(3,109)
TOTAL DEFERRED TAX	**-**	**(152,951)**

10. INTANGIBLE ASSETS, FIXED ASSETS

10.1. INTANGIBLE ASSETS

	Software EUR	Total EUR
2016		
Net book value at the beginning of the year	109,721	120,401
Acquired	241,894	241,894
Disposals	(486)	(486)
Amortisation charge	(64,620)	(64,620)
Accumulated amortization written off	486	486
Net book value at 31.12.2016.	**286 995**	**286 995**
At 31 December 2016		
Historical cost	512,598	512,598
Accumulated amortization	(225,603)	(225,603)
Net book value	**286,995**	**286,995**
2017		
Net book value at the beginning of the year	286,995	286,995
Acquired	169,133	169,133
Creation of intangible investments	50,587	50,587
Disposals	(48,485)	(48,485)
On disposals	48,485	48,485
Amortisation charge	(122,631)	(122,631)
Net book value at 31.12.2017	**384,084**	**384,084**

10.1. INTANGIBLE ASSETS (CONTINUED)

	Software EUR	Total EUR
At 31 December 2017		
Historical cost	633,246	633,246
Creation of intangible investments	50,587	50,587
Accumulated amortization	(299,749)	(299,749)
Net book value	**384,084**	**384,084**

10.2. FIXED ASSETS

	Plant and machinery EUR	Other fixed assets and inventory EUR	Total EUR
2016			
Net book value at the beginning of the year	8,125	2,534,512	2,542,637
Acquired	–	1,790,979	1,790,979
Unamortised portion written off	–	(1,167)	(1,167)
Disposals	–	(4,218)	(4,218)
On disposals	–	4,218	4,218
Depreciation	(4,380)	(870,740)	(875,120)
Net book value at 31.12.2016	**3,745**	**3,453,584**	**3,457,329**
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**
2017			
Net book value at the beginning of the year	3,745	3,453,584	3,457,329
Acquired	–	1,532,450	1,532,450
Disposals	–	(61,950)	(61,950)
On disposals	–	61,950	61,950
Depreciation	(1,534)	(1,171,143)	(1,172,677)
Net book value at 31.12.2017	**2,211**	**3,814,891**	**3,817,102**
At 31 December 2017			
Historical cost	12,505	6,617,467	6,629,972
Accumulated depreciation	(10,294)	(2,802,576)	(2,812,870)
Net book value	**2,211**	**3,814,891**	**3,817,102**

11. OTHER LONG-TERM FINANCIAL INVESTMENTS

	At 31.12.2017. EUR	At 31.12.2016. EUR
Investments in related companies, including:		
AS Conexus Baltic Grid	57,394,382	–
Investments in the capital of the general public, including:		
AS Nord Pool	1,901,465	1,901,465
*AS Pirmais slēgtais pensiju fonds**	1,422	1,422
TOTAL	**59,297,269**	**1,902,887**

Name of the company	Location	Type of business	Share (interest)
*AS Conexus Baltic Grid**	Latvia	Natural gas transmission and storage operator in Latvia	34.36%
*AS Nord Pool***	Norway	Organizing the electricity exchange	2.0%
*AS Pirmais slēgtais pensiju fonds****	Latvia	Pension plan management	1.9%

*Under the Cabinet decision of 5 December and 19 December 2017, in 2017, the Company acquired 34.36% of the shares in Latvian natural gas transmission and storage system operator *AS Conexus Baltic Grid*.

**The shares were purchased under the Cabinet order No. 370 *On AS Augstprieguma tīkls Holding of Shares in the Joint Stock Company Nord Pool Spot*.

***The Company holds 1.9% of the capital of *AS Pirmais slēgtais pensiju fonds*. The Company is a nominal shareholder as all risks and benefits arising from the Fund's activities are assumed or gained by the Company's employees – pension plan members. For this reason, the investment has been valued at acquisition value.

12. INVENTORIES

	At 31.12.2017. EUR	At 31.12.2016. EUR
INVENTORIES		
Materials and spare parts	477,819	483,301
TOTAL INVENTORIES	**477,819**	**483,301**

13. TRADE RECEIVABLES, NET

	At 31.12.2017. EUR	At 31.12.2016. EUR
Receivables		
Receivables (electricity transmission service)	394,694	999,256
Other trade receivables	99,839	39,440
Total receivables	**494,533**	**1,038,696**
Receivables for the electricity transmission service	(2,053)	(7,294)
Other trade receivables	(13,351)	(2,053)
Total provisions for doubtful and bad debts	**(15,404)**	**(9,347)**
Receivables, net		
Receivables (electricity transmission service)	392,641	991,962
Other trade receivables	86,488	37,387
TRADE RECEIVABLES, NET	**479,129**	**1,029,349**

Impairment of receivables

	2017 EUR	2016 EUR
At the beginning of the reporting year	9,347	12,196
Written off to profit and loss	6,057	(2,849)
At the end of the reporting year	**15,404**	**9,347**

14. OTHER RECEIVABLES

	At 31.12.2017. EUR	At 31.12.2016. EUR
Financial deposit with limited access rights*	57,394,382	-
Term deposits	25,000,000	30,000,000
Value added tax not deducted	3,365,043	1,178,275
Advance payments for connections	613	613
Other receivables	44,440	42,322
TOTAL OTHER RECEIVABLES	**85,804,478**	**31,221,210**

*Under the Cabinet decisions of 5 December and 19 December 2017, in 2017, the Company acquired 34.36% of the shares of Latvian natural gas transmission and storage system operator *AS Conexus Baltic Grid*. Pursuant to the above decisions, the Treasury issued a loan to the Company to buy shares. The Company has place its financial assets with the Treasury as a collateral on the received loan.

15. ACCRUED INCOME

	At 31.12.2017. EUR	At 31.12.2016. EUR
Accrued income for the services rendered		
Construction and refurbishment of transmission network assets	9,844,488	3,819,950
Transmission system services	6,180,342	6,364,627
Balancing electricity sales	742,915	466,528
Compulsory purchase component	551,492	473,089
Electric power overload elimination	548,692	572,381
Regulating electricity sales	63,351	61,701
Building facility management service	40,610	40,625
Reactive electricity revenue	28,922	29,226
Additional losses in transformers	16,277	15,922
Balancing administration service	3,557	3,201
Other services	68,926	8,491
Total accrued income for the services rendered	**18,089,572**	**11,855,741**
Electricity transit services (ITC)	2,026,955	2,743,430
Accruals for dividends	-	117,717
Miscellaneous accrued revenue	92,975	45,825
TOTAL ACCRUED INCOME	**20,209,502**	**14,762,713**

16. CASH AND CASH EQUIVALENTS

	At 31.12.2017. EUR	At 31.12.2016. EUR
CASH AT BANK	**8,113,170**	**56,233,067**

In the reporting year, interest was calculated on the Company's cash balance held in the account, based on variable banking deposit rates.

17. EQUITY

At 31 December 2017, the registered share capital of AS Augstsprieguma tīkls was EUR 5,744,342 (at 31 December 2016: EUR 5,691,487), consisting 5,744,342 ordinary shares with the nominal value per share of EUR 1. All shares are fully paid up.

Under the decision of AS Augstsprieguma tīkls decision (minutes No .2, 2.§) of 26 May 2017, the share of the profit for 2016 of EUR 52 855 was to be used to increase the share capital of AS "Augstsprieguma tīkls".

The Company is required to calculate dividends payable from the profits for 2016 and 2017 as a certain percentage of the net profit under 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 2016: EUR 155,345;

In 2017: EUR 299,511.

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.

18. NON-CURRENT LIABILITIES

	At 31.12.2017. EUR	At 31.12.2016. EUR
Provisions for post-employment benefit obligations:		
At the beginning of the reporting year	**2,406,639**	**2,282,249**
Current employment costs	340,252	191,175
Interest costs	29,793	31,330
Benefits paid	(32,527)	(112,018)
Revaluations as a result of the actuarial assumptions – replaced in the equity	173,307	1,773
Changes in the lump-sum benefits in accordance with Collective bargaining agreement	(318,735)	8,778
Changes in employment termination benefits	–	3,352
At the end of the reporting year	**2,598,729**	**2,406,639**
Deferred income		
Long-term portion of revenue from congestion fee*	85,532,066	84,067,316
Total non-current liabilities	**88,130,795**	**86,473,955**

*Under the provisions of Article 16 of the European Commission and the 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, the received revenue from congestion fee that is not spent for eliminating the overload in the transmission network are presented in the balance sheet as deferred income.

19. CURRENT BORROWINGS

	At 31.12.2017. EUR	At 31.12.2016. EUR
Borrowings*	57,394,382	-
TOTAL BORROWINGS	**57,394,382**	**-**

**Under the Cabinet decision of 5 December and 19 December 2017, in 2017, the Company acquired 34.36% of the shares of Latvian natural gas transmission and storage system operator *AS Conexus Baltic Grid*. Pursuant to the above decisions, the Treasury issued loans to the Company for purchasing the shares. The borrowing matures on 20 December 2018, interest rate 1.25% p.m. The interest rate is based on the 12-month interest rate for financial resources attracted by the Government of the Republic of Latvia in the financial and capital market, or the indicative quotations rate by the Treasury effective at the last working day of the previous period of fixing the rate. The covenants laid down in the loan agreements were carried out on 31 December 2017; the Company has issued a collateral for the loan received in the Treasury pursuant to the terms of the loan agreements.

20. CURRENT DEFERRED INCOME

	At 31.12.2017. EUR	At 31.12.2016. EUR
Revenue from the overload fee	4,495,456	3,258,631
EU co-financing receiving	1,032,353	16,668
Total current term deferred income	**5,527,809**	**3,275,299**

21. ADVANCES AND OTHER LIABILITIES

	At 31.12.2017. EUR	At 31.12.2016. EUR
Advances received for the connection fee	4,469,744	3,627,390
Amounts owed to employees	586,661	490,040
Other liabilities	3,041,330	1,856,551
TOTAL ADVANCES AND OTHER CREDITORS	**8,097,735**	**5,973,981**

**AS Augstsprieguma tīkls* provides the connections for system participants to connect to the transmission system or increasing of the permitted load of the existing connections in accordance with the PUC's terms and conditions for participant connections at the connection fee set by the transmission system operator in accordance with the methodology for calculation of the connection fee laid down by the PUC.

22. ACCRUED LIABILITIES

	At 31.12.2017. EUR	At 31.12.2016. EUR
Accrued liabilities for the costs of received services		
Fixed assets (transmission assets) lease	6,134,370	2,793,859
Compulsory purchase component	551,492	473,089
Purchases of balancing electricity	491,751	253,866
Electrical power reserve maintaining costs	361,584	361,584
Information technology services	235,222	67,834
Electricity transmission support repairs	77,647	11,284
Telecommunications expenditure	68,148	234,442
Cleaning transmission routes	53,794	42,849
Purchases of regulating electricity	38,783	38,513
Construction and refurbishment of transmission network assets	31,503	-
Using synchronous compensators	25,334	40,681
Electric power transmission losses and technological consumption	22,386	25,000
Accruals for other services	106,674	224,320
Total accrued liabilities for expenses for the received services	**8,198,688**	**4,567,321**
The costs for accrued unused annual leaves	509,094	307,545
The costs for the accrued bonuses for the performance of previous years	263,588	205,632
Accumulated costs of benefits and pension plan contributions	31,289	20,730
Accrued liabilities for compensating transit losses	2,452	-
TOTAL ACCRUED LIABILITIES	**9,005,111**	**5,101,228**

23. TAXES AND NATIONAL SOCIAL INSURANCE MANDATORY CONTRIBUTIONS

	At 31.12.2016. EUR	Calculated EUR	Paid/ (refunded) EUR	At 31.12.2017. EUR
Corporate income tax	114,174	(647,147)	(56,148)	(589,121)
Value added tax	(1,118,968)	(17,287,059)	16,575,006	(1,831,021)
Social insurance mandatory contributions	(325,045)	(3,624,148)	3,566,623	(382,570)
Personal income tax	(166,855)	(2,005,393)	1,946,924	(225,324)
Business risk duty	(192)	(2,323)	2,320	(195)
Electricity tax	(433)	(3,113)	3,160	(386)
TOTAL TAXES	**(1,497,319)**	**(23,569,183)**	**22,037,885**	**(3,028,617)**
Tax liabilities	(1,611,493)			(3,028,617)
Overpaid taxes	114,174			-

24. OPERATING LEASE AGREEMENTS

In accordance with the concluded lease agreements, at the end of the year, the Company had the following non-cancellable lease liabilities:

	At 31.12.2017. EUR	At 31.12.2016. EUR
Real estate lease liabilities		
Due within one year	87,050	87,050
TOTAL	**87,050**	**87,050**
Transmission system asset lease liabilities		
Due within one year	38,465,693	41,211,453
Payable between one and five years	181,806,864	178,806,944
TOTAL	**220,272,557**	**220,018,397**

In accordance with the Transmission system asset lease agreement dated 30 December 2014, the transmission system assets necessary for carrying out the business activity are leased from *AS Latvijas elektriskais tīkls.*

Long-term assets lease payment obligations for the years 2018-2022 have been calculated based on estimated included in the financial management plan of AS Augstprieguma tīkls for 2018-2027.

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. Each level of data is classified to determine the fair value hierarchy;

2. The financial instrument itself is classified based on the lowest level, if an essential part of their value is made up of the 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,** EUR	**Level 1,** EUR	**Level 2,** EUR	**Level 3,** EUR
At 31.12.2016			**Fair value**	
Cash and cash equivalents	56,233,067	-	56,233,067	-
Term deposits	5,000,000	-	5,000,000	-
Trade receivables	1,029,349	-	-	1,029,349
Term deposit	30,000,000	-	30,000,000	-
Other financial assets	42,322	-	-	42,322
Trade payables	3,600,323	-	-	3,600,323
Other financial liabilities	1,865,551	-	-	1,865,551

Balance sheet item	Book value, EUR	Level 1, EUR	Level 2, EUR	Level 3, EUR
At 31.12.2017.			**Fair value**	
Cash and cash equivalents	8,113,170	-	8,113,170	-
Term deposits	10,000,000	-	10,000,000	-
Trade receivables	479,129	-	-	479,129
Financial deposit with restricted access rights	57,394,382	-	57,394,382	-
Term deposit	25,000,000	-	25,000,000	-
Other financial assets	44,440	-		44,440
Trade payables	9,038,161	-	-	9,038,161
Borrowing	57,394,382	-	57,394,382	-
Other financial liabilities	3,041,330	-	-	3,041,330

26. 26.FINANCIAL RISK MANAGEMENT

(a) Turnover risk

The changes in external environment that can cause an unexpected effect on the Company's net turnover volume, 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 into 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 utility tariffs are set at such a level to cover economically justified costs of the public utility service providers, while maintaining the profitability of the public services. The effect of turnover risk on the Company's short-term liquidity is assessed as low to medium. 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 rendering of services.

(b) Cash flow/balance sheet risks

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.

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 2017, unpaid invoices totalled EUR 168,284, representing 0.01 % of the Company's net turnover, EUR 153,126 were paid in January 2018.

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	At 31.12.2017. EUR*	At 31.12.2016. EUR
Cash, including:			
Cash in current accounts, company cards	Aa3	8,113,170	36,233,067
Cash in transit	Aa3	-	20,000,000
Total cash		**8,113,170**	**56,233,067**
Cash as part of receivables*, including:			
As part of short-term receivables			
Deposits with a maturity term from 3 months to 12 months, including:			
	Aa3	20,000,000	30,000,000
	Aa2	5,000,000	-
As part of long-term receivables			
Deposits with a maturity term of longer than 12 months, including:			
	Aa2	10,000,000	5,000,000
Total deposits with a maturity term of over 3 months		**35,000,000**	**35,000,000**

* The credit ratings of DNB Bank ASA and Nordea Bank AB are specified, and the above banks were merged into Luminor Bank AB on 1 October 2017.

(c) Liquidity risk

The Company pursues 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 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.

(d) Managing capital risks

The shareholders of the Company is the Republic of Latvia represented by the Ministry of Finance (100%). The purpose of capital risk management is to ensure the Company's sustainable operation and development.

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*. In the light of the above, the Company's capital structure is characterized by a low share of equity. This capital structure does not pose any risks to the Company's sustainable development, because according to the Electricity Market Law, financing for the capital investments in the transmission system assets carried out by the Company is ensured by *AS Latvijas elektriskie tīkli* as the owner of the electricity transmission system assets.

Within the scope of capital risk management, when making decisions on the investments financed by the Company, the available amount of self-financing and borrowed financing is evaluated, as well as the need to encourage shareholders to invest in the Company's share capital. Considering the purchase of the shares of *AS Conexus Baltic Grid* in 2017, the Company has proposed that the shareholder should make an investment in the share capital of the Company, the carrying out of which consecutively is provided for in Section 60 of the Law on State Budget for 2018.

(e) Credit risk

The Company does not use borrowings to finance its operations. The financial resources that potentially expose the Company to a certain degree of risk concentration are primarily cash and trade receivables. Under the Company's Accounting policy, 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 relevant percentage.

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

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

	At 31.12.2017. EUR	**At 31.12.2016.** EUR
Cash and cash equivalents	8,113,170	56,233,067
Trade receivables and other receivables (gross amount), except advances and prepayments	494,533	1,038,696
Total	**8,607,703**	**57,271,763**

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

	At 31.12.2017. EUR	**At 31.12.2016.** EUR
Financial assets that are not overdue and for which there is no provision for impairment		
Receivables that are not overdue, including:		
	324,986	915,619
The aging analysis of the overdue financial assets but with no created provision for impairment*		
Up to 3 months	153,839	113,567
From 3 to 12 months	1,216	2,500
From 1 to 5 years	-	-
More than 5 years	-	-
including the financial assets for which a partial provision for impairment has been created	*912*	*2,064*
Total financial assets for which no provisions for impairment have been created		
Financial assets for which an impairment provision has been created (in full)	14,492	7,283
TOTAL	**494,533**	**1,038,969**

27. CONTINGENT TAX LIABILITIES

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 planning, constructing and commissioning 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 decade.

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 21^2, Paragraph three of the Electricity Market Law, 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 commitments.

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;
- In May 2017, an agreement was entered into with INEA about receiving the European Union co-financing for the project "Construction of the 330 kV power line "Riga CHP-2-Riga HPP", in the amount of 50% of the eligible costs of EUR 9,990,000, the project is due to be completed by the end of 2020.

29. REMUNERATION OF THE CERTIFIED AUDIT COMPANY

	2017 EUR	**2016** EUR
Audit service	11,900	7,400
Consulting services	13,800	9,000
TOTAL REMUNERATION OF THE CERTIFIED AUDIT COMPANY	**25,700**	**16,400**

30. EVENTS AFTER THE END OF THE REPORTING YEAR

Considering that from 1 January 2018 *PAS Gazprom* that owns 34.10% of the shares of *AS Conexus Baltic Grid*, no longer has voting and management rights, the Company has significant influence in *AS Conexus Baltic Grid* as of 1 January 2018 (52.1% of shares carrying voting rights).

To separate a commercial stock exchange function from the regulated market integration functions, the reorganization plan of *AS Nord Pool* was developed, the decision for the implementation of which was passes at the meeting of shareholders of *AS Nord Pool* on 19 April 2018. As part of the said reorganisation plan, establishing of a group is intended, in which *AS Nord Pool Holding* would be the main capital company with two dependent capital companies, ensuring the carrying out of the electricity exchange functions (*AS Nord Pool*) as well as market coupling functions (*AS European Market Coupling Operator*). Within the scope of the reorganisation, the current share of the shareholders' representation and voting rights has been preserved. In the light of the foregoing, under the Cabinet decision of 19 April 2018, *AS Augstsprieguma tīkls* may terminate the shareholding in *AS Nord Pool* and get a 2% ownership in *AS Nord Pool Holding*.

On 19 April 2018, the meeting of shareholders passed the decision to pay out NOK 2,166 in dividends for the 2017 reporting year, which according to the currency exchange rate published by the European Central Bank on 23 April 2018 corresponded to EUR 225 per share. Considering the amount of the shares held by the Company in *AS Nord Pool* (306 shares), the Company will receive EUR 78 thous. in dividends.

In the period from the last day of the reporting there have been no other events that would significantly affect the Company's financial statements for 2017.

Translation from Latvian original*

INDEPENDENT AUDITOR'S REPORT

To the Shareholder of AS Augstsprieguma tīkls

Our Opinion

In our opinion, the accompanying financial statements set out on pages 27 to 63 of the accompanying annual report give a true and fair view of the financial position of AS Augstsprieguma tīkls (Company) as at December 31, 2017, 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, 2017,
- the income statement the year then ended,
- 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

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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 Including the Management Report

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

- the Management Report, as set out on pages 5 to 24 of the accompanying Annual Report,
- the Statement on Board's Responsibility, as set out on pages 25 to 26 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, including the Management Report.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above 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.

With respect to the Management Report, we also performed the procedures required by Law on Audit Services. Those procedures include considering whether the Management Report is prepared in accordance with the requirements of the Law on Annual Reports and Consolidated Annual Reports.

Based on the work 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 requirements of the Law on Annual Reports and Consolidated Annual Reports.

In addition, in light of the knowledge and understanding of the entity and its environment obtained in the course of our audit, we are required to report if we have identified material misstatements in the Management Report and other information. We have nothing to report in this respect.

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

* 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.

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.

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Ilandra Lejiņa
Certified auditor in charge
Certificate No.168

Member of the Board

Riga, Latvia
17 May 2018