ANNUAL REPORT
2015

PREPARED IN ACCORDANCE WITH THE ANNUAL ACCOUNTS LAW
OF THE REPUBLIC OF LATVIA (TRANSLATED FROM LATVIAN)

CONTENT

FINANCIAL CALENDAR

Interim Condensed Financial Statements:

for the 3 months (unaudited) – **31.05.2016.**

for the 6 months (unaudited) – **31.08.2016.**

for the 9 months (unaudited) – **30.11.2016.**

Prepared in accordance with the Annual Accounts Law of the Republic of Latvia

www.latvenergo.lv

INFORMATION ON THE COMPANY

Name of the Company	Latvenergo
Legal status of the Company	Public Limited Company
Number, place and date of registration	40003032949 8th of October 1991 Reregistered in Commercial Register on 12th of November 2002
Legal address	Pulkveža Brieža street 12, Riga, LV–1230, Latvia
Shareholder	Republic of Latvia
Representative of State capital shareholder	– from 16th of February 2016 Raimonds Aleksejenko Acting State secretary, Deputy state secretary of the Ministry of Economics of the Republic of Latvia – from 6th of July 2016 Ringolds Beinarovičs State secretary of the Ministry of Economics of the Republic of Latvia – from 27th of February 2015 Jurijs Spiridonovs Deputy state secretary of the Ministry of Economics of the Republic of Latvia – from 28th of August 2014 Mārtiņš Lazdovskis State secretary of the Ministry of Economics of the Republic of Latvia
Names of the members of Management Board	Āris Žīgurs – Chairman of the Board Uldis Bariss – Member of the Board Māris Kuņickis – Member of the Board Guntars Baļčūns – Member of the Board from 16th of November 2015 Guntis Stafeckis – Member of the Board from 16th of November 2015 Arnis Kurgs – Member of the Board until 15th of November 2015 Zane Kotāne – Member of the Board until 19th of June 2015
Financial year	1st of January – 31st of December 2015
The certified auditor	Ernst & Young Baltic SIA Licence No. 17 Muitas street 1A, Riga, LV–1010, Latvia Certified auditor in charge: Diāna Krišjāne Latvian Certified Auditor Certificate No. 124

KEY FIGURES

Financial figures

	2015	2014	2013	2012	2011
			EUR'000	EUR'000	EUR'000
Revenue	521,146	564,550	809,575	819,459	930,285
Including electricity supply**	381,702	409,542	640,233	645,072	703,607
heat supply	81,545	96,812	104,161	113,387	84,948
Result from transfer of business activity*	–	–	–	–	822,404
EBITDA[1]	181,814	106,273	122,579	127,772	268,651
Operating profit[2]	91,307	19,379	29,452	53,639	124,742
Profit before tax	104,044	36,266	31,500	55,142	115,099*
Profit	94,534	34,977	26,228	45,131	114,555*
Dividends	77,413	31,479	23,605	40,617	56,773
Non-current assets	2,638,048	2,634,150	2,678,442	2,718,671	2,624,493
Total assets	3,124,054	3,104,592	3,231,169	3,217,674	3,049,865
Equity	2,114,865	2,047,666	2,042,434	2,047,660	1,987,896
Net borrowings	681,146	721,715	676,617	603,727	588,477
Cash flow from operating activities	174,797	94,604	9,097	90,653	235,656
Capital expenditure	78,694	52,465	66,627	140,874	256,870

Financial ratios

		2015	2014	2013	2012	2011
EBITDA margin [3]	%	35	19	15	16	29*
Operating margin [4]	%	17.5	3.4	3.6	6.5	13.4*
Profit before tax margin [5]	%	20.0	6.4	3.9	6.7	12.4*
Profit margin [6]	%	18.1	6.2	3.2	5.5	12.3*
Return on assets (ROA)[7]	%	3.0	1.1	0.8	1.4	3.6*
Return on equity (ROE)[8]	%	4.5	1.7	1.3	2.2	5.9*

Operational figures

		2015	2014	2013	2012	2011
Retail electricity supply	GWh	5,329	5,636	5,873	6,708	6,685
Electricity generation	GWh	3,833	3,577	4,811	5,039	5,252
Aggregate heat supply	GWh	2,128	2,241	2,310	2,451	2,320
Number of employees		1,464	1,439	1,426	1,380	1,323

* in 2011 Latvenergo AS invested distribution system assets and transmission system assets in the share capital of Sadales Tīkls AS and Latvijas elektriskie tīkli AS, respectively, and that had the effect on Latvenergo AS financial figures and ratios
** figures from electricity supply are reclassified to present figures in net amount, excluding mandatory procurement public service obligation fee, transmission and distribution system services provided to market participants

[1] EBITDA – earnings before interest, corporate income tax, share of profit or loss of associates, depreciation and amortisation, and impairment of intangible and property, plant and equipment and result from transfer of business activity
[2] Operating profit – earnings before income tax, finance income and costs and result from transfer of business activity
[3] EBITDA margin – EBITDA / revenue
[4] Operating margin – operating profit / revenue
[5] Profit before tax margin – profit before tax / revenue
[6] Profit for the year margin – profit for the year / revenue
[7] Return on assets (ROA) – profit for the year / average value of assets (assets at the beginning of the year + assets at the end of the year/2)
[8] Return on equity (ROE) – profit for the year / average value of equity (equity at the beginning of the year + equity at the end of the year/2)

Latvenergo AS is a power supply utility operating in generation and supply of electricity and thermal energy in Latvia. In 2015 the revenue of Latvenergo AS is EUR 521.2 million (2014: EUR 564.6 million). The decrease in revenue was due to change in financial accounting principles along with the establishment of Enerģijas publiskais tirgotājs AS on 1st of April 2014 as mandatory procurement revenues are no longer included in revenue of Latvenergo AS. Also, in 2015 the total amount of thermal energy supplied decreased by 5 %.

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

In 2015 EBITDA is EUR 181.8 million (2014: EUR 106.3 million). The results of Latvenergo AS were mainly positively impacted by the opening of electricity market for households in Latvia as of 1st of January 2015. Until that Latvenergo AS supplied electricity to households at the regulated tariff, which was lower than the market price. In 2014, lost revenues due to electricity supply at the regulated tariff were EUR 48.2 million. Likewise, the results were positively impacted by 16 % lower electricity prices in the market and by 15 % lower natural gas price. In turn, the results were negatively affected by 6 % lower output from Daugava HPPs, which was due to the historically lowest water inflow in the Daugava River since 1976.

According to the Electricity Market Law, in 2015, Latvenergo AS has supplied electricity to vulnerable customers (poor or low-income persons, large families) reimbursing for the electricity price increase resulting from the market opening. In 2015, costs of electricity supply to vulnerable customers reached EUR 3.4 million.

In 2015 Latvenergo Group has successfully maintained the leading electricity supplier position in the Baltics with around 1/3 market share.

The total retail electricity supply in Latvia in 2015 was 5,329 GWh (2014: 5,636 GWh). The decrease in electricity supply in Latvia is linked to changes in electricity procurement at Augstsprieguma tīkls AS, as of 2015 it purchases electricity directly from Nord Pool. In comparison, the electricity supply volume in Lithuania and Estonia reached 2,539 GWh, which is by more than 40 % higher than the amount provided by competing electricity suppliers in Latvia.

In 2015, the total amount of electricity generated by the power plants of Latvenergo AS was 3,833 GWh (2014: 3,577 GWh). Electricity output at Daugava HPPs is 1,805 GWh (2014: 1,925 GWh), at Riga CHPPs it is 2,025 GWh (2014: 1,648 GWh). The increased generation was fostered by 15 % decrease in the average natural gas price compared to 2014.

In 2015, the total amount of thermal energy generated was 2,128 GWh (2014: 2,241 GWh). The decrease was determined by warmer weather conditions compared to the previous year.

Reconstruction of the Daugava HPP hydropower unit is continued

In 2015 the total amount of investment in Latvenergo AS is EUR 78.7 million (2014: EUR 52.5 million). Increase in investments was mainly determined by implementation of Daugava HPPs hydropower unit reconstruction programme thereby contributing to environmentally friendly and environmental development projects. In 2015, the amount invested in Daugava HPPs hydropower unit reconstruction was EUR 31.9 million. The programme is scheduled to be completed until 2022, with the estimated total reconstruction costs exceeding EUR 200 million. The reconstruction will provide for further 40-year operation of hydropower units.

Diversified borrowing sources

Latvenergo AS regularly sources borrowed capital to ensure the required funding for investment programme of following years and debt repayment in due term.

As of 31st of December 2015 Latvenergo AS borrowings are EUR 783.0 million (31st of December 2014: EUR 810.7 million), which includes loans from commercial banks, international investment banks, and bonds of EUR 180 million, of which EUR 75 million *green* bonds were issued on 10th of June 2015.

The net borrowings of Latvenergo AS were EUR 681.1 million as of 31st of December 2015 (31st of December 2014: EUR 721.7 million). Latvenergo AS maintains stable capital structure and at the end of 2015 the equity is 68 % of total assets (31st of December 2014: 66 %).

At the beginning of 2015 the international credit rating Moody’s Investors Service increased Latvenergo AS credit rating to Baa2 with stable outlook. In August 2015, international rating agency Moody’s Investors Service has assigned Baa2 (stable) to the *green* bonds issued by Latvenergo AS.

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

Financial risk management

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

Events after the reporting period

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

On 5th of April 2016 Latvenergo AS published Final Terms of additional issue of the first Series of Notes, dated 5th April 2016, relating to the issue of green bonds in the amount of EUR 25 million in accordance with Green Bond Framework. The Notes are issued under the Second Programme for the Issuance of Notes in the amount of EUR 100 million, dated 25th of May 2015.

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

On 26th of February 2016 Shareholders’ meeting of Latvenergo AS has accepted conclusion of long-term loan agreement with Latvijas elektriskie tīkli AS in amount till EUR 156.6 million and with Enerģijas publiskais tirgotājs AS – in amount till EUR 200.0 million.

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

Statement of management responsibility

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

Profit distribution

Fulfilling the requirements of the Article No. 47 of the law "On the State budget 2016" that determines the share of the profit payable to the State Budget for use of State Capital, the Management Board of Latvenergo AS proposes to allocate profit for the year of Latvenergo AS in the amount of EUR 77.4 million to be paid out in dividends and the rest of the profit to be transferred to Latvenergo AS reserves.

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

Management Board of Latvenergo AS:

______(signed by)
Āris Žīgurs
Chairman of the Management Board

______(signed by)
Guntars Baļčūns
Member of the Management Board

______(signed by)
Uldis Bariss
Member of the Management Board

______(signed by)
Māris Kuņickis
Member of the Management Board

______(signed by)
Guntis Stafeckis
Member of the Management Board

Riga 19th of April 2016

Statement of profit or loss

	Notes	2015	2014
		EUR'000	EUR'000
Revenue	5	**521,146**	**564,550***
Other income	6	1,715	3,370
Raw materials and consumables used	7	(251,836)	(379,298)*
Personnel expenses	8	(38,555)	(34,948)
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	12, 13	(90,507)	(86,894)
Other operating expenses	9	(50,656)	(47,401)*
Operating profit		**91,307**	**19,379**
Income from investments in subsidiaries and associates	14 b)	17,739	25,562
Finance income	10 a)	14,097	12,829
Finance costs	10 b)	(19,099)	(21,504)
Profit before taxes		**104,044**	**36,266**
Real estate tax		(1,045)	(1,044)
Corporate income tax	11	(8,465)	(245)
Profit for the year		**94,534**	**34,977**

* comparative financial figures for year 2014 are reclassified (Note 2.1.)

Notes on pages 13 to 45 form an integral part of these financial statements.

The Management Board of Latvenergo AS:

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Member of the Management Board

Riga 19th of April 2016

Balance sheet

	Notes	31/12/2015	31/12/2014
		EUR'000	EUR'000
ASSETS			
Non-current assets			
Intangible assets	12	**19,846**	**18,687**
Property, plant and equipment and investment properties			
Land and buildings	13	859,123	876,738
Equipment and machinery	13	384,359	429,276
Other property, plant and equipment	13	39,024	34,015
Assets under construction and advances for property, plant and equipment	13	62,164	20,634
Investment properties	13	71,041	69,253
Investment properties held for sale	13 d)	522	1,136
Total property, plant and equipment and investment properties		**1,416,233**	**1,431,052**
Non-current financial investments			
Investments in subsidiaries	14	817,009	817,009
Investments in associates and other non-current investments	14 a)	40	40
Loans to subsidiaries	27 f), g)	362,605	338,834
Investments in held-to-maturity financial assets	28	20,609	28,528
Total non-current financial investments		**1,200,263**	**1,184,411**
Other non-current debtors		1,706	
Total non-current assets:		**2,638,048**	**2,634,150**
Current assets			
Inventories	**15**	**8,388**	**8,742**
Receivables			
Trade receivables	16 a)	76,877	70,351
Loans to subsidiaries	27 g)	261,972	241,334
Receivables from subsidiaries	27 c),d)	23,930	40,302
Corporate income tax overpayment	25	–	4,565
Other receivables	16 b)	3,061	16,182
Deferred expenses		2,100	
Total receivables		**367,940**	**372,734**
Held–to–maturity financial assets	28	7,859	-
Cash and cash equivalents	17	101,819	88,966
Total current assets:		**486,006**	**470,442**
TOTAL ASSETS		**3,124,054**	**3,104,592**

Notes on pages 13 to 45 form an integral part of these financial statements.

Balance sheet (continued)

	Notes	31/12/2015	31/12/2014
		EUR'000	EUR'000
EQUITY AND LIABILITIES			
Equity			
Share capital	18	1,288,531	1,288,446
Non-current assets revaluation reserve	19	662,034	662,052
Hedge reserve	19	(12,256)	(16,333)
Other reserves	19	82,022	78,524
Retained earnings		94,534	34,977
Total equity:		**2,114,865**	**2,047,666**
Provisions			
Provisions for post-employment benefits	21 a)	5,445	4,510
Environmental provisions	21 b)	1,160	1,205
Total provisions		**6,605**	**5,715**
Non-current liabilities			
Borrowings from credit institutions	20	522,117	569,015
Issued debt securities (bonds)	20	179,705	104,802
Deferred income tax liabilities	11	127,935	123,102
Derivative financial instruments	26	8,291	11,698
Other non-current payables and deferred income		1,132	749
Total non-current liabilities:		**839,180**	**809,366**
Current liabilities			
Borrowings from credit institutions	20	79,641	136,170
Issued debt securities (bonds)	20	1,502	694
Trade payables	22	27,582	31,352
Accounts payable to subsidiaries	27 c), e)	33,774	51,559
Taxes and the state social security contributions	25	7,946	5,917
Other payables	24	1,948	2,882
Accrued liabilities	23	3,728	4,416
Derivative financial instruments	26	7,283	8,855
Total current liabilities:		**163,404**	**241,845**
TOTAL EQUITY AND LIABILITIES		**3,124,054**	**3,104,592**

Notes on pages 13 to 45 form an integral part of these financial statements.

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Member of the Management Board

Riga 19th of April 2016

Statement of changes in equity

	Share capital	Reserves	Retained earnings	Total
	EUR'000	EUR'000	EUR'000	**EUR'000**
Balance as of 31st of December 2013	**1,288,011**	**728,195**	**26,228**	**2,042,434**
Increase of share capital	435	–	–	**435**
Dividends for 2013	–	–	(23,605)	**(23,605)**
Transfer to reserves	–	2,623	(2,623)	**–**
Cash flow hedge	–	(6,495)	–	**(6,495)**
Revaluation of property, plant and equipment	–	(80)	–	**(80)**
Profit for the year	–	–	34,977	**34,977**
Balance as of 31st of December 2014	**1,288,446**	**724,243**	**34,977**	**2,047,666**
Increase of share capital	85	–	–	**85**
Dividends for 2014	–	–	(31,479)	**(31,479)**
Transfer to reserves	–	3,498	(3,498)	**–**
Cash flow hedge	–	4,077	–	**4,077**
Revaluation of property, plant and equipment (Note 19)	–	(18)	–	**(18)**
Profit for the year	–	–	94,534	**94,534**
Balance as of 31st of December 2015	**1,288,531**	**731,800**	**94,534**	**2,114,865**

Notes on pages 13 to 45 form an integral part of these financial statements.

Statement of cash flows

	Notes	31/12/2015	31/12/2014
		EUR'000	EUR'000
Cash flows from operating activities			
Profit before taxation		104,044	36,266
Adjustments for:			
- amortisation and depreciation	12, 13	90,538	87,438
- (gains) / losses on impairment of non-current assets	13	(31)	(544)
- losses from disposal of non–current assets		1,041	216
- interest expenses	10 b)	19,255	21,536
- interest income	10 a)	(12,750)	(11,870)
- (gains) from changes in the fair value of the financial instruments	7, 10	(901)	(8,759)
- increase / (decrease) in provisions	21	890	(103)
- income from investments in subsidiaries	14 b)	(17,739)	(25,562)
- losses from exchange rate fluctuations	10 b)	27	58
Operating profit before working capital adjustments		**184,374**	**98,676**
Decrease in inventories		354	244
Decrease in receivables		21,670	25,531
Decrease in payables		(28,015)	(13,515)
Cash generated from operating activities		***178,383***	***110,936***
Interest paid		(19,740)	(22,077)
Interest received		12,633	11,358
Repaid / (paid) corporate income tax and real estate tax		3,521	(5,613)
Net cash generated from operations		**174,797**	**94,604**
Cash flows from investing activities			
Investment in subsidiary		–	(40)
Loans issued to subsidiaries	27 g)	(165,573)	(175,583)
Received repayment of the issued loans to subsidiaries	27 g)	118,770	73,035
Proceeds from sale of non-current assets		785	811
Acquisition of intangible assets and property, plant and equipment		(74,284)	(56,737)
Proceeds from the disposal of shares and bonds		69	60
Proceeds from investments in subsidiaries and associates	14 b)	17,739	31,056
Net cash used in investing activities		**(102,494)**	**(127,398)**
Cash flows from financing activities			
Proceeds on issued debt securities	20	74,893	–
Proceeds on borrowings from financial institutions	20	30,000	20,000
Repayment of borrowings from financial institutions	20	(132,864)	(130,345)
Dividends paid*		(31,479)	(12,649)
Net cash generated from financing activities		**(59,450)**	**(122,994)**
Net (decrease) / increase in cash and cash equivalents		**12,853**	**(155,788)**
Cash and cash equivalents at the beginning of the reporting year		88,966	244,754
Cash and cash equivalents at the end of reporting year	**17**	**101,819**	**88,966**

* In 2014 dividends paid for the year 2013 in amount of EUR 10 956 thousand are covered by corporate income tax overpayment

Notes on pages 13 to 45 form an integral part of these financial statements.

Notes to the financial statements

1. GENERAL INFORMATION ON THE COMPANY

All of the shares of public limited company Latvenergo (hereinafter – Latvenergo AS or the Company) are owned by the State of Latvia and are held by the Latvian Ministry of Economics. The registered address of the Company is 12 Pulkveža Brieža St., Riga, LV–1230, Latvia. Pursuant to the Latvian Energy Law, Latvenergo AS is designated as national economy object of state importance and, therefore, is not subject to privatisation. Latvenergo AS is engaged in the generation and supply of electricity and thermal energy in the Baltic states. Latvenergo AS is one of the largest corporate entities in the territory of Latvia.

The Annual report for the year 2015 include the financial information in respect of Latvenergo AS for the annual period ending 31st of December 2015 and comparative information for year ending 31st of December 2014.

Latvenergo AS Management Board has approved Annual report on 19th of April 2016.

The Company's auditor is the certified audit company Ernst & Young Baltic SIA and certified auditor in charge Diāna Krišjāne.

2. ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these Financial Statements are set out below. These policies have been consistently applied to all the years presented.

2.1. Financial statements preparation basis

Financial Statements are prepared in accordance with the Annual Accounts Law of the Republic of Latvia and are prepared under the historical cost convention, except for certain property, plant and equipment group revaluation and revaluation of derivative instruments at fair value.

The Statement of profit or loss is prepared in accordance with the period costs method.

The cash flow statement is prepared using indirect cash flow method.

Financial Statements are in compliance with comparability of indicators. In cases if presentation of financial statement information has been changed during the reporting period, comparative figures have been also reclassified and are comparable.

In the Financial Statements of the reporting year 2015 is made reclassification in Statement of profit or loss separate captions for the year 2014 – mandatory procurement (PSO) costs in amount EUR 37,394 thousand from *Purchased electricity costs* reclassified to *Electricity and electricity services sales*, distribution system services costs in amount of EUR 137,902 thousand and transmission services costs in amount EUR 1,261 thousand reclassified from *Other operating expenses* to *Electricity and electricity services sales* to present PSO, transmission and distribution system services sales in net amount. By assessing the nature of the transactions it was concluded that Latvenergo AS is acting as an agent in these transactions, therefore applied agent accounting principle by presenting those transations in net amount.

Financial Statements are prepared in euros (EUR) currency, all amounts shown in these Financial Statements are presented in thousands of euros (EUR).

These are standalone financial statements of the Company. The Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards as adopted by the European Union and in accordance with Article No.16 of the Law on Consolidated Annual Reports of the Republic of Latvia.

2.2. Financial investments

Investments in subsidiary undertakings and associated companies are accounted for at cost net of accumulated impairment loss. The Company recognises the income only if the share of the profit accumulated after the acquisition date is received from the respective subsidiary or associated company. Received distributions in excess of such profit are regarded as recovery of the investment and are booked as a decrease of the cost of investment.

When there is objective evidence that the carrying amount of the investment in subsidiary undertaking or associated company has impaired, the impairment loss is calculated as a difference between the carrying amount of the investment and its recoverable amount. The recoverable amount is determined as the higher of its fair value less costs to sell and its value in use. An impairment loss recognised in prior periods can be reversed only if there has been a change in the estimates used to determine the investment's recoverable amount since the last impairment loss was recognised.

2.3. Transactions in foreign currency

a) Functional and presentation currency
All amounts in these Financial Statements are presented in euros (EUR), which is the Company's functional currency or the currency of the primary economic environment in which the Company operates.

b) Transactions and balances
All transactions denominated in foreign currencies are translated into euros (EUR) according to European Central bank (ECB) exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into euros using the exchange rate of Central European bank at the last day of the reporting year. The resulting gain or loss from the settlement of transaction denominated in foreign currencies and monetary assets and liabilities denominated in foreign currencies is charged to the Statement of profit or loss.

2.4. Intangible assets

Intangible assets are shown at historical cost net of accumulated amortisation.

a) Connection usage rights
Connection usage rights are shown at historical cost, based on methodology determined by the Public Utilities Commission, net of accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of connection usage rights to the residual value over the estimated period of relationship with a customer (connection user) – 20 years.

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

c) Greenhouse gas emission allowances
Emission rights for greenhouse gases (or allowances) are recognised at purchase cost. Allowances received from the Government free of charge are recognised at zero cost. Emission rights are recognised at cost when the Company is able to exercise the control. If the quantity of emitted greenhouse gases exceeds the quantity of allowances allocated by the state free of charge, the Company purchases additional allowances and carrying value of those allowances is determined on the basis of the market price of greenhouse gas emission allowances at the reporting period. Allowances are accounted for within 'Intangible assets'.

2.5. Property, plant and equipment

All property, plant and equipment (PPE) are stated at historical cost or revalued amount (see point 2.6), less accumulated depreciation and accumulated impairment loss.

The cost comprises the purchase price, transportation costs, installation, and other direct expenses related to the acquisition or implementation. The cost of the self-constructed item of PPE includes the cost of materials, services and workforce. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of an item can be measured reliably. Such costs are depreciated over the remaining useful life of the related asset. Repairs and maintenance are charged to the Statement of profit or loss during the period in which they are incurred. Borrowing costs are capitalised proportionally to the part of the cost of asset under construction over the period of construction.

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

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

Type of property, plant and equipment	**Estimated useful life, years**
Buildings and facilities:	
- hydropower plants, thermal power plants	15 – 100
- power plant constructions	50
- other buildings and constructions	20 – 80
Technology equipment and machinery:	
- hydropower plants	10 – 40
- thermal power plants	3 – 25
- other technology equipment	10 – 20
Other property, plant and equipment	2 – 10

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see point 2.8).

Gains or losses on property, plant and equipment disposals are determined by comparing carrying amount with proceeds and gains from related asset's revaluation reserve write-off and are charged to the Statement of profit or loss.

2.6. Revaluation of property, plant and equipment

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

The following property, plant and equipment groups are revalued regularly but not less frequently than every five years:
- buildings and facilities of hydropower plants,
- technology equipment and machinery of hydropower plants,
- other property, plant and equipment of hydropower plants.

Increase in the carrying amount arising on revaluation net of deferred tax is credited to "Long-term investments revaluation reserve" in equity. Decreases that offset previous increases of the same asset are charged against the revaluation reserve directly in equity; all other decreases are charged to the current year's Statement of profit or loss.

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

Long-term investments revaluation reserve is decreased at the moment, when revalued asset has been eliminated or disposed.

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

2.7. Leases

a) The Company is the lessee
Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the Statement of profit or loss on a straight-line basis over the period of the lease.

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

2.8. Impairment of non-financial assets

Assets that are subject to depreciation or amortisation and land are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market expectations regarding the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognised in the Statement of profit or loss within depreciation of property, plant and equipment, amortisation of intangible assets and impairment charge expenses.

The key assumptions used in determining recoverable amounts of the assets are based on the Company's management best estimation of the range of economic conditions that will exist over the remaining useful life of the asset, on the basis of the most recent financial budgets and forecasts approved by the Company's management for a maximum period of 10 years. Assets are reviewed for possible reversal of the impairment at each reporting date. Gain on such reversal is recognised in Statement of profit or loss (for property, plant and equipment within depreciation, for other assets – within other operating expenses).

2.9. Inventories

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

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

Amount of inventories as of the end of reporting period is verified during stock-taking.
During the reporting year at least each month has revaluation of the inventories been performed with purpose to identify obsolete and damaged inventories. Allowances for an impairment loss are recognised for those inventories.

The following basic principles are used in determining impairment losses for idle and obsolete inventories:
- inventories that have not turned over during last 12 months are fully impaired,
- machinery and equipment of hydropower plants and thermal power plants that haven't turned over during last 12 months are impaired in amount of 90 %,
- inventories that have not turned over during last 6 months are impaired in amount of 50 %,
- machinery and equipment of hydropower plants and thermal power plants that haven't turned over during last 6 months are impaired in amount of 45 %,
- Allowances are not calculated for the inventory of heating materials necessary to ensure uninterrupted operations of Riga CHPPs.

2.10. Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less allowances for impairment. An allowance for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of repayment.

Significant financial difficulties of the debtor, probabilities that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered as indicators that the trade receivable is impaired.
Trade receivables are classified in groups:

a) Electricity supply and electricity services receivables,
b) Heating receivables,
c) Other services trade receivables.

An allowance for impairment of doubtful debts is calculated on the basis of trade receivables ageing analysis according to estimates defined by the Company's management, which are revised at least once a year. Allowances for electricity and electricity services trade receivables are calculated for debts overdue 45 days, and, if the debt is overdue for more than 181 day, allowances are established at 100 %. For other trade receivables allowances are calculated for debts overdue 31 day, and, if the date of payment is overdue for more than 91 day, allowances are established at 100 %. Individual impairment assessments are performed for the debtors if their debt balance exceeds EUR 700 thousand and debt repayment schedule has been individually agreed. The level of allowance for such type of debtors is based on the individual risk assessment of insolvency probability (see Note 16 a).

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

2.11. Cash and cash equivalents

Cash and cash equivalents include cash balances on bank accounts, demand deposits at bank and other short-term deposits with original maturities of three months or less.

If the Company has overdraft arrangement and it has been used, creating negative balance in bank account at the end of the period, amount of overdraft in full amount should be included in Company's liabilities as borrowings from credit institution.

2.12. Dividend distribution

Dividend distribution to the Shareholder of the Company is recognised as a liability in the Financial Statements in the period in which the dividends are approved by the Company's shareholder.

2.13. Pensions and employment benefits

a) Pension obligations

The Company makes monthly contributions to a closed defined contribution pension plan on behalf of its employees. The plan is managed by the non-profit public limited company Pirmais Slēgtais Pensiju Fonds AS, with the participation of the Company amounting for 46.30% of its share capital. A defined contribution plan is a pension plan under which the Company pays contributions into the plan. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior periods. The contributions amount to 5 % of each pension plan member's salary. The Company recognises the contributions to the defined contribution plan as an expense when an employee has rendered services in exchange for those contributions.

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

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

The defined benefit obligations are calculated annually by independent gualified actuaries. The expected costs of these benefits are accrued over the period of employment using the same accounting principles as used for defined benefit pension plans.

The liability recognised in the Balance Sheet in respect of post-employment benefit plan is the present value of the defined benefit obligation at the end of the reporting period less accrued costs or revenue referring to employment relationships until the change of benefit conditions. The defined obligation is calculated annualy using the projected unit credit method.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows. According to projected unit credit method it has been stated that each period of work makes benefit obligation extra unit and the sum of those units comprises total Company's obligations of post-employment benefits. The Company uses objective and mutually compatible actuarial assumptions on variable demographic factors and financial factors (including expected remuneration increase and determined changes in benefit amounts).

The Company's net total of current service cost, interest cost, actuarial gains and losses arising from changes in assumptions, past service costs, and the effect of any settlements is recognised as expense or income in the Statement of profit or loss.

2.14. Corporate income tax

Income tax expense for the period comprises current income tax and deferred income tax. Income tax is calculated in accordance with Latvian tax regulations and is based on the taxable income reported for the taxation period.

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

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

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

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

2.15. Subsidised Energy Tax

In order to limit the increase of the mandatory procurement public service obligation fee for electricity consumers in Latvia, a Subsidised Energy Tax (SET) has been introduced for a four-year period as of 1 January 2014, which applies to state support for generators of subsidised electricity. The SET applies both to income from electricity supplied under the mandatory procurement process as well as to mandatory procurement capacity payments for installed capacity at cogeneration plants. The tax is differentiated according to the type of energy sources used. For cogeneration plants that use fossil energy sources a 15 % tax rate applies to the received support (taxable income) amount, 10 % tax rate – plants that use renewable energy sources, 5 % – cogeneration plants that use gas, biogas and biomass energy tsources and installed electrical capacity in cogeneration plants is below 4 MW. SET taxpayers are all producers of subsidised electricity. Revenues from SET are used as a funding for the grant included in the State Budget programme “Electricity user support” to limit the increase of mandatory procurement public service obligation fee.

SET applied for the subsidised electricity produced by the Company is recognised in the Statement of Profit or Loss as ‘Other operating expenses’ (Note 9) at gross amount.

2.16. Borrowings and loans

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the Statement of profit or loss over the period of the borrowings using the effective interest method, except for the capitalised part.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability at least for 12 months after the end of reporting period.

The Company capitalises the borrowing costs related with new capital expenditure funding (see point 2.5).

Issued loans are recognised initially at fair value and subsequently measured at amortised cost. The amount between loans issued and loans repayment value is gradually recognised in the Statement of profit or loss during the period of the loan. Loans are classified as current receivables and non-current receivables if the Company has an unconditional right to defer settlement of the liability at least for 12 months after the end of reporting period.

2.17. Provisions

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

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

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

2.18. Provision for unused vacations

Provision for unused vacations is formed to reflect precisely company's liability to employees depending on unused vacation, if any. Amount for provision has been reviewed once per year at the balance sheet date.

2.19. Grants

Government grants are recognised as income over the period necessary to match them with the related costs, for which they are intended to compensate, on a systematic basis. A government grant is not recognised until there is reasonable assurance that the entity will comply with the conditions attaching to it, and that the grant will be received. Receipt of a grant does not of itself provide conclusive evidence that the conditions attaching to the grant have been or will be fulfilled.

Property, plant and equipment received at nil consideration are accounted for as grants.

The Company ensures the management, application of internal controls and accounting for the Company's projects financed by the European Union funds or other funding, according to the guidelines of the European Union and legislation of the Republic of Latvia.

Accounting of the transactions related to the projects financed is ensured using separately identifiable accounts. The Company ensures separate accounting of financed projects with detailed income and expense, non-current investments and value added tax in the relevant positions of the Company's Statement of profit or loss and Balance Sheet.

2.20. Derivative financial instruments and hedging activities

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

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices and discounted cash flow models as appropriate (see point 3.3).

The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, what is position of highly probable forecasted (for example, concluded agreement) or certain (for example, received or issued invoice) revenue or capital expenditure, inventories or operating expenses. The Company designates certain derivatives as either:

- hedges of a particular risk associated with a recognised liability or highly probable forecast transactions denominated in foreign currency (cash flow hedge),
- derivatives are accounted for at fair value through Statement of profit or loss.

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

The fair values of derivative instruments used for hedging purposes are disclosed in Note 26. Movements on the hedging reserve in shareholders' equity are shown in Note 19. The fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Those derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

a) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity within 'Hedging reserve'. The gain or loss relating to the ineffective portion, if such arise, would be recognised immediately in the Statement of profit or loss.

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

The gain or loss relating to the ineffective portion of electricity swaps hedging variable electricity prices is recognised in the Statement of profit or loss position 'Raw materials and consumables used' (see Note 7). The gain or loss relating to the ineffective portion of interest rate swaps hedging variable rate borrowings is recognised in the Statement of profit or loss.

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

b) Financial assets at fair value through profit and loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled with 12 months; otherwise, they are classified as non-current.

Changes in the fair value of derivatives at fair value through profit or loss, ineffective part of changes in the fair value of hedging derivatives and amounts accumulated in equity that are recycled to the Statement of profit or loss, are classified according to the purpose of the derivatives – gains/losses from electricity SWAP agreements and CO_2 forward contracts are recognised within 'Raw materials and consumables used', while gains/losses from interest rate SWAP agreements are recognised within 'Finance costs' or 'Finance income'.

2.21. Revenue recognition

Revenue comprises the value of goods sold and services rendered in the ordinary course of the Company's activities. Revenue is shown at net value excluding value-added tax, estimated returns, rebates and discounts. The Latvian regulatory authority (Public Utilities Commission) determines tariffs for electricity and heat.

Revenue is recognised as follows:

a) Electricity sales

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

b) Heat sales

The Company recognises revenue from sales of thermal energy at the end of each month on the basis of the meter readings.

c) Sales of IT & telecommunication services

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

d) Other revenue

Revenue derived from assets lease and maintenance, management, vehicle fleet management, customer service, credit control and other services are recognised according to invoices issued to customers in accordance to mutual agreements.

e) Interest income

Interest income is recognised using the effective interest method. Interest income is recorded in the Statement of profit or loss as 'Finance income'.

f) Dividend income

Revenue is recognised when the Company's right to receive the payment is established, which is generally when shareholders approve the dividend (Note 14 b).

g) Accrued income on mandatory procurement public service obligation fee

Revenue is recognised as the amount of income on mandatory procurement can be reliably measured and it is virtually certain that the economic benefits from mandatory procurement will flow to the Company with collected mandatory procurement public service obligation fees from electricity end users.

Income is calculated as difference between mandatory procurement expenses above the electricity market price and collected mandatory procurement PSO fee payments from all end users of electricity.

Reimbursable accrued mandatory procurement PSO fee income for the period from 1st January 2013 till 31st March 2014 is covered by Enerģijas publiskais tirgotājs AS in accordance with requirements of point 37 of Electricity market law transition rules.

Since 1st of April 2014 revenue from mandatory procurement PSO fees are recognised in net amount by applying agent accounting principle as:

- The entity has not the primary responsibility for including the mandatory procurement PSO fee as a part of the services or products ordered or purchased by customers;
- The entity has not latitude in establishing prices, either directly or indirectly.

h) Electricity transmission and distribution services

Revenue from electricity transmission and distribution system services is recognised based on regulated tariffs that are subject to approval by the Public Utilities Commission. Electricity transmission and distribution services are recognised in Statement of profit or loss in net amount by applying agent accounting principle as:

- The entity has not the primary responsibility for including electricity transmission and distribution services per invoices issued to the customers,
- The entity has not latitude in establishing prices, either directly or indirectly.

2.22. Expenses recognition

Expenses are recognised based on accruals basis. Calculating expenses for the reporting period, should be taken into account all of the estimated and potential expenses that are incurred in the reporting period or in previous years, even if those expenses become aware in the period from balance sheet date and date of financial statement preparation, regardless the date of invoice received as the Company's operating transactions are recognised in the reporting period based on economical substance and nature, not only legal form.

Operating and other expenses disclosed in the Statement of profit or loss notes are shown detailed according to its nature.

2.23. Non-current and current liabilities

Liability is an obligation of an entity arising from past transactions or events, the settlement of which may result in the transfer or use of assets, provision of services or other yielding of economic benefits in the future. For example, as a result of goods purchased or services acquired states debts to creditors, or after bank loan acquirement there is an obligation to repay particular loan.

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

Accrued liabilities are expenses occurred in reporting period, certain of amount in the reporting period, but for what no invoice has been received. Such expenses are disclosed in ‘Accrued liabilities’.

Income received prior balance sheet date, but that refers to next 12 months (current) or refers to period after 12 months (non-current) – is disclosed as next period income in current or non-current creditors.

2.24. Related parties

Related parties are subsidiaries and associates, Shareholder of the Company who could control or who has significant influence over the Company in accepting operating business decisions. Key management personnel of the Company and close family members of any above-mentioned persons, as well as companies over which those persons have control or significant influence.

2.25. Non-current assets held for sale

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

2.26. Investment property

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

2.27. Share capital

The Company’s share capital consists of ordinary shares.

2.28. Held-to-maturity investments

Held-to-maturity financial assets are non-derivative financial assets, quoted on an active market, with fixed or determinable payments and fixed maturities that the Company’s Management has the positive intention and ability to hold to maturity. If the Company were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available for sale. Held-to-maturity financial assets with maturities more than 12 months from the end of the reporting period are included in non-current assets; however those with maturities less than 12 months from the end of the reporting period are classified as current assets.

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

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

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

2.29. Events after the reporting period

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

3. FINANCIAL RISK MANAGEMENT

3.1. Financial risk factors

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

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

a) Market risk

I) Foreign exchange risk

The introduction of euro in Latvia as of 1st of January 2014 prevented the euro currency risk, which primarily was arising from settlements in foreign currencies for borrowings, capital expenditures and imported electricity. As of 31st of December 2015 the Company had borrowings denominated only in euros (see Note 20).

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

The Treasury's Financial Risk Management Policy is to hedge all anticipated cash flows (capital expenditure and purchase of inventory) in each major foreign currency that might create significant currency risk. During 2015 the Company had not committed any capital expenditure project whose expected transactions would created significant currency risk (Note 26 d).

The Company has certain investment in subsidiary in Lithuania, which was exposed to foreign currency risks till 1st of January 2015. Nevertheless currency exposure arising from the net assets of the Company's foreign operations in Lithuania was limited as subsidiary had insignificant amount of assets and Lithuania had fixed currency peg to Euro. The introduction of euro in Lithuania prevented the euro currency risk arising from above mentioned investments in subsidiary in Lithuania.

II) Cash flow and fair value interest rate risk

As the Company has significant floating interest-bearing assets and liabilities exposed to interest rate fluctuations (loans issued to subsidiaries and borrowings received from credit institutions and subsidiaries), the Company's financial income and operating cash flows are dependent on changes in market interest rates. The Group's internal financing is organised on mutual loan bases, which occasionally creates receivable balances to the benefit of the Company. Such loans issued have floating interest rates based on market rates; therefore the intra-group loans have some impact on profit or loss of the Company.

During 2015, if Euro interest rates had been 50 basis points higher or lower with all other variables held constant, the Company's interest income from the cash reserves held at bank would have been EUR 478 thousand higher or lower (2014: EUR 265 thousand).

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

To hedge a cash flow risk, the Company has entered into interest rate swap agreements with the total notional amount EUR 221.5 million (2014: EUR 320.0 million) (see Note 26 b). 55 % of the Company's borrowings as of 31st of December 2015 (31/12/2014: 43 %) had fixed interest rate, taking into account the effect of the interest rate swaps, and average fixed rate duration was 2.4 years (2014: 2.2 years).

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

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

During 2015, if interest rates on Euro denominated borrowings at floating base interest rate after considering hedging effect had been 50 basis points higher with all other variables held constant, the Company's profit for the year net of taxes would have been EUR 1,868 thousand (2014: EUR 2,080 thousand) lower, while if the rates had been 50 basis points lower – profit for the year net of taxes would have been EUR 1,834 higher. The Company's borrowings with floating rates do not impose fair value interest rate risk. Derivatives such as interest rate swaps are the only source of fair value interest rate risk.

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

III) Price risk

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

The most significant price risk is related to purchase of electricity. To hedge the risk related to changes in the price of electricity the Company has purchased electricity swap contracts (Note 26 c).

b) Credit risk

Credit risk is managed at the Group level. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks, outstanding receivables. Credit risk exposure in connection with trade receivables is limited due to broad range of the Company's customers. The Company has no significant concentration of credit risk with any single counterparty or group of counterparties having similar characteristics (Note 16), however regarding to subsidiaries concentration of the Company's credit risk reached 57 % from the maximum exposure of credit risk on financial assets. Impairment loss has been deducted from gross accounts receivable (Note 16).

The maximum credit risk exposure related to financial assets comprises of carrying amounts of cash and cash equivalents (see table below and Note 17) and trade and other receivables (Note 16).

Assessment of maximum possible exposure to credit risk:

	Notes	31/12/2015	31/12/2014
		EUR'000	EUR'000
External trade receivables	16 a)	76,877	84,537
Receivables from subsidiaries	27 c), d), f), g)	648,507	620,470
Accrued income	16 b)	–	1,176
Other current financial receivables	16 b)	601	205
Cash and cash equivalents	17	101,819	88,966
Held-to-maturity financial assets	28	28,468	28,528
		856,272	**823,882**

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

For estimation of the credit quality of fully performing trade receivables two rating categories are used:

- Customers with no overdue receivables,
- Customers with overdue receivables.

Credit limits are regularly monitored.

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

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

	31/12/2015	**31/12/2014**
	EUR'000	EUR'000
With investment level credit rating	96,345	63,280
Without investment level or credit rating	5,474	25,686
	101,819	**88,966**

No credit limits were exceeded during the reporting period, and the Company's management does not expect any losses from non-performance by these counterparties.

c) Liquidity risk

The Company's policy of liquidity risk management is to maintain sufficient amount of cash and cash equivalents, the availability of long and short term funding through an adequate amount of committed credit facilities (Note 20) to meet commitments according to the Company's strategic plans as well as to compensate the fluctuations in the cash flows due to occurrence of variety of financial risks.

The Company's management is monitoring rolling forecasts of the Company's liquidity reserve, which comprises of undrawn borrowing facilities (Note 20), and cash and cash equivalents (Note 17).

The table below analyses the Company's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the Company's Balance Sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Contractual undiscounted cash flows originated by the borrowings are calculated taking into account the actual interest rates at the end of reporting period.

Liquidity analysis (contractual undiscounted cash flows):

	Less than 1 year	**From 1 to 2 years**	**From 3 to 5 years**	**Over 5 years**	**TOTAL**
	EUR'000	EUR'000	EUR'000	EUR'000	**EUR'000**
As of 31st of December 2015					
Borrowings from banks	86,486	76,850	300,045	174,899	**638,280**
Issued debt securities (bonds)	4,365	74,519	41,864	77,751	**198,499**
Derivative financial instruments	17,320	4,950	5,727	1,683	**29,680**
Trade and other payables*	63,331	–	–	–	**63,331**
	171,502	**156,319**	**347,636**	**254,333**	**929,790**
As of 31st of December 2014					
Borrowings from banks	145,876	94,580	303,461	207,390	**751,307**
Issued debt securities (bonds)	2,940	2,940	74,900	35,980	**116,760**
Derivative financial instruments	10,704	5,351	7,029	3,146	**26,230**
Trade and other payables*	85,618	–	–	–	**85,618**
	245,138	**102,871**	**385,390**	**246,516**	**979,915**

* Excluding advances received, deferred income, tax related liabilities and other non-current payables

3.2. Capital risk management

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

In order to maintain or adjust the capital structure, the Company may evaluate the amount and timing of raising new debt due to investment programs or initiate new investments in the share capital by shareholder. Also asset revaluation directly influences the capital structure. To comply with loan covenants, the Company monitors capital on the basis of the capital ratio. This ratio is calculated by dividing the equity by the sum of total assets and nominal value of issued and outstanding financial guarantees. According to the Company's strategy and defined loan covenants as per loan agreements the capital ratio shall be maintained at least at 30 % level.

	31/12/2015	31/12/2014
	EUR'000	EUR'000
Total equity	2,114,865	2,047,666
Total assets and outstanding financial guarantees issued	3,124,054	3,104,592
Capital Ratio (%)	**68 %**	**66 %**

3.3. Fair value estimation of financial instruments

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

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

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

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

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

Fair values of financial instruments are obtained from corresponding counterparty revaluation reports and, if counterparty is a bank, in financial statements fair values of financial instruments are disclosed as specified by banks.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

a) Estimates concerning property, plant and equipment

I) Useful lives of property, plant and equipment

The Company makes estimates concerning the expected useful lives and residual values of property, plant and equipment. These are reviewed at the end of each reporting period and are based on the past experience as well as industry practice.

II) Recoverable amount of property, plant and equipment

When the events and circumstances indicate a potential impairment, the Company performs impairment tests for items of property, plant and equipment. According to these tests assets are written down to their recoverable amounts, if necessary. When carrying out impairment tests management uses various estimates for the cash flows arising from the use of the assets, sales, maintenance, and repairs of the assets, as well as in respect of the inflation and growth rates. The estimates are based on the forecasts of the general economic environment, consumption and the sales price of electricity. If the situation changes in the future, either additional impairment could be recognised, or the previously recognised impairment could be partially or fully reversed. Such factors as high maintenance and reconstruction costs, low load of several auxiliaries, comparatively substantial maintenance expense, limited facilities to sell property, plant and equipment in the market and other essential factors have an impact of decreasing of the recoverable amounts. If discount rate used for the purposes of impairment charge calculation would be lower or higher by one per cent point the current year's impairment charge on technological equipment would be by EUR 29.0 million higher or lower (2014: EUR 32.5 million). Impairment charges recognised during the current reporting year are disclosed in Note 13 b.

III) Revaluation of property, plant and equipment

External, certified valuers have performed revaluation of the Company's property, plant and equipment by applying the depreciated replacement cost model. Valuation has been performed according to international standards on property valuation and *IAS 16 "Property, plant and equipment"*, based on current use of property, plant and equipment. As a result of revaluation, depreciated replacement cost was determined for each asset. Depreciated replacement cost is calculated as land's instant market value at its current use, increased by the replacement cost of existing buildings and refinements on the said land plot and decreased by the depreciation expenses and other impairment losses. Last revaluation was performed for assets of Daugava hydropower plants as of 1st of January 2012 and results of revaluation are disclosed in Note 13 a.

IV) Useful lives of spare parts for emergency repair

The Company makes estimates concerning the expected useful lives of spare parts for emergency repair and considering past experience including evaluation of future events, it has been determined on the basis of useful life of the equipment.

b) Recoverable amount of trade receivables

The estimated collectability of accounts receivable is assessed on an individual basis for each customer. In case individual assessment is not possible due to the large number of individual balances, receivables are classified into groups of similar credit risk characteristics and are collectively assessed for impairment, using historical loss experience. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The circumstances indicating an impairment loss may include initiated insolvency of the debtor and inability to meet payment terms (Note 2.10.). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss incurred (Note 16).

c) Fair values of financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. In valuation models is used only observable data, however in such factors as credit risk (both own and counterparty's), volatility and corellation requires the management's estimates.

The Company uses a variety of methods and make assumptions that are based on market conditions existing at each end of reporting period. However, changes in assumptions about these factors could not affect fair value of financial instruments as disclosed in financial statements, as for the accounting has been used fair values of the financial instruments respectively disclosed in the corresponding banks' reports (Note 26).

d) Recognition of connection service fees

Connection and other service fees are recognised as income over the estimated customer relationship period, which is 20 years. The estimated customer relationship period is based on the Company's Management estimate.

e) Recognition and revaluation of provisions

As of 31st of December 2015, the Company had set up provisions for environmental protection and post–employment benefits totalling EUR 6,605 thousand (31/12/2014: EUR 5,715 thousand) (Note 21). The amount and timing of the settlement of these obligations is uncertain. A number of assumptions and estimates have been used to determine the present value of provisions, including the amount of future expenditure, inflation rates, and the timing of settlement of the expenditure. The actual expenditure may also differ from the provisions recognised as a result of possible changes in legislative norms, technology available in the future to restore environmental damages, and expenditure covered by third parties. For revaluation of provisions for post–employment obligations probabilities of retirement in different employees' aging groups as well as variable demographic factors and financial factors (including expected remuneration increase and determined changes in benefit amounts) have been estimated. The probabilities and other factors are determined on the basis of previous experience.

f) Evaluation of effectiveness of hedging instruments

The Company has concluded forward and future contracts and swap agreements to hedge the risk of the changes in prices of electricity and of the interest rate fluctuations to which cash flow hedge risk accounting is applied. The gains and losses from changes in the fair value of the effective hedging instruments and items secured against risk are included in respective equity reserve. The evaluation of the effectiveness of the hedging is based on the Company's Management estimates with regard to future purchase transactions of electricity and signed variable interest loan agreements. When hedging instruments turn out to be ineffective, gains/losses from the changes in the fair value is recognised in the Company's Statement of profit or loss (Note 26).

g) Held–to–maturity financial assets

The management of the Company applies judgement in assessing whether financial assets can be categorised as held–to–maturity at initial recognition, in particular (a) its intention and ability to hold the assets to maturity and (b) whether the assets are quoted in an active market. If the Company fails to keep these investments to maturity other than in certain specific circumstances – for example, selling an insignificant amount or settle a position close to maturity – it will be required to reclassify the entire category as available–for–sale. The investments would therefore be measured at fair value rather than amortised cost. For the estimated fair value of investment securities held–to–maturity as of 31st of December 2015 refer to Note 28.

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

h) Financial investments

The Company has applied judgement in determining that it has a financial investment with 46.3 % interest held in the company Pirmais Slēgtais Pensiju Fonds AS that manages closed pension plan in Latvia as investment that has been valued at cost without applying equity method. The Company is only a nominal shareholder as all risks and benefits arising from management of pension plan will accrue to the Company's employees who are members of the pension plan and the Company does not have existing rights that give it the current ability to direct the relevant activities of the investee. Therefore this investment has been determined as financial investment in Pirmais Slēgtais Pensiju Fonds AS and not as investment in associate.

i) Use of agent principle

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

5. REVENUE

	2014	2014
	EUR'000	EUR'000
Electricity and electricity services sales	381,702	409,541*
Heat sales	81,546	96,812
Lease of assets	17,824	16,561
Other revenue	40,074	41,636
	521,146	**564,550**

* comparative financial figures for year 2014 are reclassified (Note 2.1.) and since 1st of April 2014 in electricity sales are not recognised revenue from mandatory procurement PSO fee and distribution system services.

Geographical distribution of revenues

	2015	2014
	EUR'000	EUR'000
Latvia	504,443	540,817*
Lithuania	981	3,100
Estonia	1,604	7,405
Other countries	14,118	13,228
	521,146	**564,550**

6. OTHER INCOME

	2015	2014
	EUR'000	EUR'000
Net gain from sale of investment property and property, plant and equipment	273	351
Gain from disposal of non–current assets revaluation reserve (Note 19)	21	94
Gain from sale of current assets and recovered inventories	7	1,731
Compensation of losses, fines and penalties and other income	1,414	1,194
	1,715	**3,370**

7. RAW MATERIALS AND CONSUMABLES USED

	2015	2014
	EUR'000	EUR'000
Electricity:		
Purchased electricity	82,350	204,928*
Fair value loss / (income) on electricity forwards and futures (Note 26 c)	446	(7,800)
	82,796	**197,128**
Fuel expense	157,944	170,297
Raw materials, spare parts and maintenance costs	10,953	11,212
Allowance for slow moving inventories	143	661
	251,836	**379,298**

* comparative financial figures for year 2014 are reclassified (Note 2.1.)

8. PERSONNEL EXPENSES

	2015	2014
	EUR'000	EUR'000
Wages and salaries	28,486	26,729
Expenditure of employment termination	1,264	649
Pension costs – defined contribution plan and life insurance costs	1,939	1,167
State social insurance contributions and other benefits defined in the Collective Agreement	6,866	6,403
Total (including remuneration to the management):	**38,555**	**34,948**
Remuneration to the management:		
– wages and salaries	523	530
– expenditure of employment termination	33	
– pension costs – defined contribution plan and life insurance costs	32	26
– state social insurance contributions and other benefits defined in the Collective Agreement	58	68
	646	**624**

Number of employees at the end of the year	1,464	1,439
Average number of employees during the year	1,452	1,440

Remuneration to the management includes remuneration to the members of the Management Board of the Company and Supervisory body – Audit Committee.

9. OTHER OPERATING EXPENSES

	2015	2014
	EUR'000	EUR'000
Selling expenses and customer service costs	6,708	5,871
Transmission system service costs	1,045	1,034*
Distribution system service costs	2,290	1,888
Telecommunication and information technology maintenance expenses	4,286	3,675
Transportation expenses	2,111	2,405
Environment protection and work safety expenses	4,300	3,416
Rent, maintenance and other utilities and service costs	5,913	6,145
Electricity transit and capacity utilisation costs	10	4
Public utilities regulation fee	732	611
Subsidised energy tax	15,023	15,039
Other expenses	8,238	7,313
	50,656	**47,401**

* comparative financial figures for year 2014 are reclassified (Note 2.1.)

10. FINANCE INCOME AND COSTS

a) Finance income

	2015	2014
	EUR'000	EUR'000
Interest income	11,205	10,325
Coupon interest income from held-to-maturity financial assets	1,545	1,545
Fair value gain on interest rate swaps (Note 26 b)	1,347	943
Fair value gain on forward foreign currencies exchange contracts (Note 26 d)	–	16
	14,097	**12,829**

b) Finance costs

	2015	2014
	EUR'000	EUR'000
Interest expense on borrowings	12,323	13,980
Interest expense on interest rate swaps	6,932	7,556
Management commission on borrowings	16	17
Capitalised borrowing and finance costs (Note 13)	(268)	(167)
Net losses on redemption of held-to-maturity financial assets	60	60
Net losses on issued debt securities	9	–
Net losses on currency exchange rate fluctuations	27	58
	19,099	**21,504**

11. INCOME TAX

	2015	2014
	EUR'000	EUR'000
Current income tax	3,629	–
Deferred income tax	4,836	245
	8,465	**245**

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

	2015	2014
	EUR'000	EUR'000
Profit before tax	**104,044**	**36,266**
Corporate income tax at the statutory rate 15 %	15,607	5,440
Real estate tax	(157)	(157)
Expenses non–deductible for tax purpose	95	484
Income from dividends	(2,661)	(3,792)
Allowances for trade receivables	584	130
Tax discounts on donations	(141)	–
Other expenses	(111)	(64)
Tax incentives for new technological equipment *	(4,751)	(1,796)
	8,465	**245**

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

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

The movement on the deferred income tax accounts is as follows:

	2015	2014
	EUR'000	EUR'000
At the beginning of the year	**123,102**	**122,871**
Expenses charged to the Statement of profit or loss	4,836	245
Attributable to non–current assets revaluation reserve in equity	(3)	(14)
Deferred tax liabilities at the end of the year	**127,935**	**123,102**

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

	2015	2014
	EUR'000	EUR'000
Deferred tax liabilities:	**Accelerated tax depreciation**	
At the beginning of the year	130,976	126,508
Expenses charged to the Statement of profit or loss	(1,057)	4,482
Attributable to non–current assets revaluation reserve in equity	(3)	(14)
At the end of the year	**129,916**	**130,976**
Deferred tax assets:	**Accruals / accrued expenses**	
At the beginning of the year	(7,874)	(3,637)
Income credited to the Statement of profit or loss	5,893	(4,237)
At the end of the year	**(1,981)**	**(7,874)**
Deferred tax liabilities at the end of the year	**127,935**	**123,102**

12. INTANGIBLE ASSETS

	Connection usage rights and licenses	Software	Assets under construction and advance payments	TOTAL
	EUR'000	EUR'000	EUR'000	**EUR'000**
As of 31st of December 2013				
Cost	8,735	29,617	5,504	**43,856**
Accumulated amortisation	(1,986)	(23,957)	–	**(25,943)**
Net book amount	**6,749**	**5,660**	**5,504**	**17,913**
Year ended 31st of December 2014				
Opening net book amount	6,749	5,660	5,504	**17,913**
Additions	1	262	3,708	**3,971**
Transfers	–	6,750	(6,750)	–
Disposals*	(553)	–	–	**(553)**
Amortisation charge	–	(2,644)	–	**(2,644)**
Closing net book amount	**6,197**	**10,028**	**2,462**	**18,687**
As of 31st of December 2014				
Cost	8,737	36,545	2,462	**47,744**
Accumulated amortisation	(2,540)	(26,517)	-	**(29,057)**
Net book amount	**6,197**	**10,028**	**2,462**	**18,687**
Year ended 31st of December 2015				
Opening net book amount	6,197	10,028	2,462	**18,687**
Additions	17	718	4,210	**4,945**
Transfers	2,135	4,335	(6,470)	–
Disposals*	(643)	–	–	**(643)**
Amortisation charge	–	(3,143)	–	**(3,143)**
Closing net book amount	**7,706**	**11,938**	**202**	**19,846**
As of 31st of December 2015				
Cost	10,888	41,588	202	**52,678**
Accumulated amortisation	(3,182)	(29,650)	–	**(32,832)**
Net book amount	**7,706**	**11,938**	**202**	**19,846**

* Amortisation charge of connection usage rights is included in the Company's Statement of profit or loss position 'Other operating expenses'.

a) Greenhouse gas emission allowances:

	2015	2014
	Number of allowances	Number of allowances
At the beginning of the year	**1,882,207**	**2,377,774**
Received emission allowances*	392,255	442,778
Purchased emission allowances	18,000	–
Used emission allowances	(1,053,701)	(938,345)
Sold emission allowances	(18,000)	–
At the end of the year	**1,220,761**	**1,882,207**

* Allowances are allocated free of charge in accordance with the law On Pollution and Directives of the Ministry of Environmental Protection and Regional Development of the Republic of Latvia and are recognised as off-balance sheet assets. As at the end of reporting year the number of allowances in the Company received in 2015 from the Government free of charge was 392,255 (2014: 442,778). Therefore their carrying amount as at the end of reporting year was nil (31/12/2014: nil). The fair value of greenhouse gas emission allowances as of 31st of December 2015 was EUR 10,071 thousand (31/12/2014: EUR 13,740 thousand). For estimation of the fair value of allowances were used closing market prices of NASDAQ OMX commodities exchange on the last trade date on 30th of December 2015 – 8.25 EUR/t (30/12/2014: 7.30 EUR/t).

13. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

	Revalued Daugava hydropower plants' buildings and facilities	Non-revalued buildings and facilities	Land, buildings and facilities, total	Revalued Daugava hydropower plants' technology equipment, machinery	Non-revalued technology equipment, machinery	Technology equipment and machinery, total	Revalued Daugava hydropower plants' other PPE	Non-revalued other property, plant and equipment	Other property, plant and equipment, total	Assets under constructio n and advance payments		Property, plant and equipment, TOTAL
	EUR'000	EUR'000	**EUR'000**	EUR'000	EUR'000	**EUR'000**	EUR'000	EUR'000	**EUR'000**	EUR'000	**EUR'000**	**EUR'000**
As of 31st of December 2013												
Cost or valuation	1,499,501	304,927	**1,804,428**	329,450	581,532	**910,982**	13,657	120,485	**134,142**	**33,147**	**97,394**	**2,980,093**
Accumulated depreciation and impairment	(862,778)	(62,799)	**(925,577)**	(213,422)	(235,090)	**(448,512)**	(8,209)	(91,721)	**(99,930)**	**(6,458)**	**(30,042)**	**(1,510,519)**
Net book amount	**636,723**	**242,128**	**878,851**	**116,028**	**346,442**	**462,470**	**5,448**	**28,764**	**34,212**	**26,689**	**67,352**	**1,469,574**
Year ended 31st of December 2014												
Opening net book amount	**636,723**	**242,128**	**878,851**	**116,028**	**346,442**	**462,470**	**5,448**	**28,764**	**34,212**	**26,689**	**67,352**	**1,469,574**
Additions	–	13	**13**	–	7	**7**	–	6 707	**6,707**	**41,332**	**–**	**48,059**
Invested in share capital	–	–	**–**	–	–	**–**	–	–	**–**	**–**	**435**	**435**
Transfers	13,266	10,424	**23,690**	714	16,763	**17,477**	1	2,940	**2,941**	**(47,930)**	**3,822**	**–**
Reclassified to investment properties held for sale	–	(386)	**(386)**	–	–	**–**	–	–	**–**	**–**	**(48)**	**(434)**
Disposals	–	(40)	**(40)**	–	(22)	**(22)**	–	(3)	**(3)**	**–**	**(9)**	**(74)**
Impairment charge	–	–	**–**	–	–	**–**	–	–	**–**	**544**	**–**	**544**
Reclassified depreciation for emergency equipment	–	–	**–**	–	(3,394)	**(3,394)**	–	–	**–**	**–**	**–**	**(3,394)**
Depreciation	(15,904)	(9,486)	**(25,390)**	(8,958)	(38,304)	**(47,262)**	(503)	(9,339)	**(9,842)**	**-**	**(2,300)**	**(84,794)**
Closing net book amount	**634,085**	**242,653**	**876,738**	**107,784**	**321,492**	**429,276**	**4,946**	**29,069**	**34,015**	**20,635**	**69,252**	**1,429,916**
As of 31st of December 2014												
Cost or valuation	1,512,382	314,766	**1,827,148**	330,151	598,242	**928,393**	13,657	125,254	**138,911**	**26,549**	**101,472**	**3,022,473**
Accumulated depreciation and impairment	(878,297)	(72,113)	**(950,410)**	(222,367)	(276,750)	**(499,117)**	(8,711)	(96,185)	**(104,896)**	**(5,914)**	**(32,220)**	**(1,592,557)**
Net book amount	**634,085**	**242,653**	**876,738**	**107,784**	**321,492**	**429,276**	**4,946**	**29,069**	**34,015**	**20,635**	**69,252**	**1,429,916**
Year ended 31st of December 2015												
Opening net book amount	**634,085**	**242,653**	**876,738**	**107,784**	**321,492**	**429,276**	**4,946**	**29,069**	**34,015**	**20,634**	**69,253**	**1,429,916**
Additions	–	–	**–**	–	262	**262**	–	10,812	**10,812**	62,542	48	**73,664**
Invested in share capital	–	–	**–**	–	–	**–**	–	–	**–**	**–**	**85**	**85**
Transfers	6,369	1,959	**8,328**	1,400	2,031	**3,431**	2,449	2,675	**5,124**	(21,019)	4,136	**–**
Reclassified to investment properties held for sale	–	(12)	**(12)**	–	–	**–**	–	–	**–**	–	–	**(12)**
Disposals	–	(20)	**(20)**	(377)	(4)	**(381)**	–	(124)	**(124)**	(24)	(29)	**(578)**
Impairment charge	–	–	**–**	–	–	**–**	–	–	**–**	31	–	**31**
Depreciation	(16,116)	(9,795)	**(25,911)**	(8,062)	(40,167)	**(48,229)**	(627)	(10,176)	**(10,803)**	–	(2,452)	**(87,395)**
Closing net book amount	**634,085**	**242,653**	**876,738**	**107,784**	**321,492**	**429,276**	**4,946**	**29,069**	**34,015**	**20,634**	**69,253**	**1,429,916**
As of 31st of December 2015												
Cost or valuation	1,518,751	316,627	**1,835,378**	331,399	599,782	**931,181**	16,106	132,020	**148,126**	68,046	105,476	**3,088,207**
Accumulated depreciation and impairment	(894,413)	(81,842)	**(976,255)**	(230,654)	(316,168)	**(546,822)**	(9,338)	(99,764)	**(109,102)**	(5,882)	(34,435)	**(1,672,496)**
Net book amount	**624,338**	**234,785**	**859,123**	**100,745**	**283,614**	**384,359**	**6,768**	**32,256**	**39,024**	**62,164**	**71,041**	**1,415,711**

* In accordance with the Regulations No. 583 of the Cabinet of Ministers of the Republic of Latvia, dated 29th of September 2015 – "On the Investment of the State's property units in the Share Capital of Latvenergo AS", real estate in the amount of EUR 85 thousand was invested in the share capital of Latvenergo AS (2014: in the amount of EUR 436 thousand).

According to The State Land Service data the cadastral value of Latvenergo AS real estate in 2015 amounted to EUR 362,501 thousand (2014: EUR 95,941 thousand).

In 2015 the Company has capitalised borrowing and finance costs in the amount of EUR 268 thousand (2014: EUR 167 thousand) (Note 10b).

a) Property, plant and equipment revaluation

Latvenergo AS revalued assets of Daugava hydropower plants as of 1st of January 2012. Valuation have been done by independent certified valuators by applying the cost model, which provides, that the assets value comprises replacement or renewal costs of similar asset at the date of revaluation less the accumulated depreciation and impairment losses. To determine original cost replacement value of the revaluated asset is used current acquisition or purchase cost.

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

	Buildings and facilities	Technology equipment and machinery	Other property, plant and equipment	TOTAL
	EUR'000	EUR'000	EUR'000	**EUR'000**
		At revalued amount:		
As of 31st of December 2014				
Revalued	1,512,382	330,151	13,657	**1,856,190**
Accumulated depreciation	(878,297)	(222,367)	(8,711)	**(1,109,375)**
Revalued net book amount	**634,085**	**107,784**	**4,946**	**746,815**
As of 31st of December 2015				
Revalued	1,518,751	331,399	16,106	**1,866,256**
Accumulated depreciation	(894,413)	(230,654)	(9,338)	**(1,134,405)**
Revalued net book amount	**624,338**	**100,745**	**6,768**	**731,851**
		At historical acquisition amount:		
As of 31st of December 2014				
Cost	119,146	150,990	10,754	**280,890**
Accumulated depreciation	(36,549)	(108,020)	(9,370)	**(153,939)**
Net book amount	**82,597**	**42,970**	**1,384**	**126,951**
As of 31st of December 2015				
Cost	125,515	152,360	13,203	**291,078**
Accumulated depreciation	(38,798)	(112,259)	(9,672)	**(160,729)**
Net book amount	**86,717**	**40,101**	**3,531**	**130,349**

b) Impairment

As at the end of reporting year has been performed impairment evaluation in accordance with IAS 36 '*Impairment of Assets'* requirements. The cash-generating unit consists of the assets of Riga combined heat and power plant. During evaluation of impairment was calculated recoverable value of technological equipment and machinery of the Riga combined heat and power plant (disclosed in the category of property, plant and equipment "Non-revalued technology equipment and machinery"). Evaluation resulted with no additional impairment. The accumulated impairment as of 31st of December 2015 amounted to EUR 93,770 thousand (31/12/2014: EUR 93,770 thousand). In 2015 there is no any additional impairment loss that must be recognised for Riga combined heat and power plants.

Nominal pre-tax discount rate used to determine value in use of cash-generating unit by discounting cash flows in 2015 is 7.5 % (2014: 7.2 %).

c) Operating lease of assets (the Company as lessor):

Assets leased to subsidiaries *Latvijas elektriskie tīkli AS* and *Sadales tīkls AS*:

	Latvijas elektriskie tīkli AS	*Sadales tīkls AS*	TOTAL
	EUR'000	EUR'000	**EUR'000**
As of 31st of December 2015			
Investment properties for lease	27,207	43,834	**71,041**
Other property, plant and equipment	78	12,849	**12,927**
Total	**27,285**	**56,683**	**83,968**

In order to provide its operating activities Latvenergo AS on 1st of April 2011 entered into agreement with subsidiary Latvijas elektriskie tīkli AS for lease of the real estate related to transmission system network infrastructure with duration of five years. Real estate and non-current assets rent for the 2015 is calculated on the basis of the Company's management estimates for the foreseeable value changes of leased assets.

On 1st of October 2011 Latvenergo AS invested most of the distribution system assets in its subsidiary Sadales tīkls AS, which continues the management and maintenance of assets. Lease of the real estate related to distribution system network infrastructure for 2015 is calculated on the basis of the Company's management estimates as of the date of preparation of financial statements for the foreseeable value changes of assets as a result of capital investment projects realised by the Company.

d) Investment property

Property, plant and equipment are classified to investment properties if adopted decision that those are not furthermore used in operating activities and it is foreseen to gain its value through sale.

Type of property, plant and equipment	Land		Buildings		TOTAL land and buildings	
	31/12/2015	31/12/2014	31/12/2015	31/12/2014	31/12/2015	31/12/2014
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
At the beginning of the year	**273**	**238**	**863**	**959**	**1,136**	**1,197**
Reclassified from property, plant and equipment to investment property	7	80	5	354	12	434
Released	(12)	(44)	(353)	(387)	(365)	(431)
Impairment charge (change)	–	–	(235)	–	(235)	–
Depreciation	–	–	(26)	(64)	(26)	(64)
At the end of the year	**268**	**274**	**254**	**862**	**522**	**1,136**

Based on fair value estimations for real estate assets prepared by external, certified valuers the fair value of the investment property at the end of 2015 assessed in the amount of EUR 1,666 thousand (2014: EUR 1,903 thousand). As the estimated fair value is higher than assets closing net book amount, investment property is recognised and accounted at acquisition cost, less accumulated depreciation and impairment loss.

14. INVESTMENTS

The Company's participating interest in (%) in subsidiaries, associates and other non-current financial investments:

			31/12/2015	31/12/2014
Subsidiaries				
Latvijas elektriskie tīkli AS	Latvia	Management of transmission system assets	100 %	100 %
Sadales tīkls AS	Latvia	Electricity distribution	100 %	100 %
Enerģijas publiskais tirgotājs AS		Management of the mandatory procurement process	100 %	100 %
Elektrum Eesti OÜ	Estonia	Electricity supply	100 %	100 %
Elektrum Latvija SIA	Latvia	Electricity supply	100 %	100 %
Elektrum Lietuva, UAB	Lithuania	Electricity supply	100 %	100 %
Liepājas enerģija SIA	Latvia	Thermal energy and electricity generation and supply	51 %	51 %
Other non–current financial investments				
Pirmais Slēgtais Pensiju Fonds AS	Latvia	Management of pension plans	46,30 %	46,30 %
Rīgas siltums AS	Latvia	Thermal energy and electricity generation and supply	0,0051 %	0,0051 %

The Company owns 46.30 % of the shares of the closed pension fund Pirmais Slēgtais Pensiju Fonds AS. However, the Company is only a nominal shareholder as all risks and benefits arising from associate's activities will accrue to the Company's employees who are members of the pension fund.

Investments in subsidiaries

On 25th of February 2014, a new subsidiary of Latvenergo AS was established – Enerģijas publiskais tirgotājs AS (100 %), with investment in share capital in amount of EUR 40 thousand, based on amendments in Electricity market law of the Republic of Latvia, providing separation of public supplier functions in order to ensure fulfilment of public supplier duties stated per electricity industry regulatory legislation.

Movement in investments in subsidiaries:

	2015	2014
	EUR'000	EUR'000
At the beginning of the year	**817,009**	**816,969**
Increase of subsidiaries' share capital	–	40
At the end of the year	**817,009**	**817,009**

a) Other non-current financial investments

	31/12/2015	31/12/2014
	EUR'000	EUR'000
Other non–current financial investments:		
Investment in Pirmais Slēgtais Pensiju Fonds AS	36	36
Investment in Rīgas siltums AS	4	4
	40	**40**

b) Income on the Company's participating interest in subsidiaries

	2015	2014
	EUR'000	EUR'000
Dividends received:		
Latvijas elektriskie tīkli AS	10,662	10,771
Sadales tīkls AS	5,225	10,812
Elektrum Lietuva, UAB	383	307
Elektrum Eesti OÜ	274	216
Liepājas enerģija SIA	1,195	1,247
Nordic Energy Link AS	–	1,924
	17,739	**25,277**
Income on sale of investment in Nordic Energy Link AS	–	5,779
Sold investment in Nordic Energy Link AS	–	(5,494)
	–	**285**

Name of the Company	Equity		Net profit / (loss) for the year		Net share of interest from investment	
	31/12/2015	31/12/2014	2015	2014	31/12/2015	31/12/2014
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Subsidiaries						
Latvijas elektriskie tīkli AS	204,067	199,849	14,880	11,846	185,624	185,624
Sadales tīkls AS	578,943	575,299	(10,837)	5,806	627,656	627,656
Enerģijas publiskais tirgotājs AS	40	40	–	–	40	40
Elektrum Eesti OÜ	863	945	192	304	36	36
Elektrum Lietuva, UAB	906	761	529	426	98	98
Liepājas enerģija SIA	14,112	13,327	3,126	2,603	3,555	3,556
	798,931	**790,221**	**7,890**	**20,985**	**817,009**	**817,010**

15. INVENTORIES

	31/12/2015	31/12/2014
	EUR'000	EUR'000
Raw materials and spare parts	1,248	1,375
Fuel, petrol and oils	8,167	8,250
Allowance for obsolete and idle inventories	(1,027)	(883)
	8,388	**8,742**

Movements on allowances for inventories:

	2015	2014
	EUR'000	EUR'000
At the beginning of the year	**883**	**3,616**
Reclassified to property, plant and equipment	–	(3,394)
Charged to the Statement of profit or loss	144	661
At the end of the year	**1,027**	**883**

16. TRADE RECEIVABLES AND OTHER CURRENT RECEIVABLES

a) Trade receivables

	31/12/2015	31/12/2014
	EUR'000	EUR'000
Receivables		
– Electricity and electricity services customers	106,759	101,983*
– Heating customers	9,994	14,835
– Other trade receivables	3,546	8,996
	120,299	**125,814**
Allowances for impaired receivables		
– Electricity and electricity services customers	(42,844)	(40,573)
– Heating customers	(400)	(363)
– Other trade receivables	(178)	(341)
	(43,422)	**(41,277)**
Receivables, net		
– Electricity and electricity services customers	63,915	61,410
– Heating customers	9,594	14,472
– Other trade receivables	3,368	8,655
	76,877	**84,537**

* reclassified accrued electricity sales in amount EUR 14,186 thousand from other receivables

The Company's Management has estimated allowances for impaired receivables on the basis of aging of trade receivables and by evaluating liquidity and history of previous payments of each significant debtor (see point 2.10). The carrying amount of trade receivables, less provision for impairment, is assumed to approximate their fair values.

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

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

	2015	2014
	EUR'000	EUR'000
At the beginning of the year	**41,277**	**41,286**
Receivables written off as uncollectible	(1,871)	(895)
Allowances for impaired receivables	4,016	886
At the end of the year	**43,422**	**41,277**

The charge and release of allowance for impaired trade receivables due to delayed payments have been recorded in the Company's Statement of profit or loss position 'Other operating expenses' as selling expenses and customer services costs (Note 9).

b) Other receivables

	31/12/2015	31/12/2014
	EUR'000	EUR'000
Other current receivables		
Accrued income on coupon interest from issued debt securities (bonds)	1,148	1,148
Other accrued income	–	28*
Overpaid taxes (Note 25)	3	7
Other receivables	1,910	205
	3,061	**1,388**

* reclassified accrued electricity sales in amount EUR 14,186 thousand to electricity and electricity services receivables

17. CASH AND CASH EQUIVALENTS

	31/12/2015	31/12/2014
	EUR'000	EUR'000
Cash at bank	86,667	35,360
Short–term bank deposits	10,000	52,000
Restricted cash and cash equivalents*	5,152	1,606
	101,819	**88,966**

*Restricted cash and cash equivalents consist of the financial security for participating in NASDAQ OMX Commodities Exchange in the amount of EUR 5,152 thousand (31/12/2014: EUR 1,606 thousand).

Cash at bank balances earns daily interest for the Company mostly based on floating interbank deposit rates. Short–term deposits are placed by the Company for different periods between several days and three months depending on the immediate cash needs of the Company and cash flow forecasts. In 2015 the average annual effective interest rate earned on short-term cash deposits was 0.16 % (2014: 0.33 %), see also Note 3.1.b.

18. SHARE CAPITAL

As of 31st of December 2015 the registered share capital of Latvenergo AS is EUR 1,288,531 thousand (31/12/2014: EUR 1,288,446 thousand).

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

19. RESERVES AND DIVIDENDS

The Company cannot distribute the non-current assets revaluation reserve and hedge reserve into dividends.

	Non-current assets revaluation reserve	Hedge reserve	Other reserves*	TOTAL
	EUR’000	EUR’000	EUR’000	**EUR’000**
As of 31st of December 2013	**662,132**	**(9,838)**	**75,901**	**728,195**
Transfer to reserves from previous year profit	–	–	2,623	**2,623**
Change of non–current assets revaluation reserve (Note 6)	(94)	–	–	**(94)**
Deferred tax (Note 11)	14	–	–	**14**
Income from fair value changes	–	(6,495)		**(6,495)**
As of 31st of December 2014	**662,052**	**(16,333)**	**78,524**	**724,243**
Transfer to reserves from previous year profit	–	–	3,498	**3,498**
Change of non–current assets revaluation reserve (Note 6)	(21)	–	–	**(21)**
Deferred tax (Note 11)	3	–	–	**3**
Income from fair value changes	–	4,077	–	**4,077**
As of 31st of December 2015	**662,034**	**(12,256)**	**82,022**	**731,800**

* in accordance with the Shareholder’s decisions previous year profit is transferred into other reserves for the Company’s future development

The amount of dividends in 2015 is EUR 77,413 thousand (2014: EUR 23,605 thousand).

Management Board of Latvenergo AS is fulfilling the requirements of the Article No. 47 of the law "On the State budget 2016", that determines the share of the profit payable to the State Budget for use of State Capital as well as the law “On the Management of State–Owned Capital Shares and Capital Companies”.

The distribution of net profit for the year 2015 is subject to a resolution of the Company’s Shareholders meeting.

20. BORROWINGS

	31/12/2015	31/12/2014
	EUR’000	EUR’000
Non–current borrowings from financial institutions	522,117	569,015
Issued debt securities (bonds)	179,705	104,802
Total non-current borrowings	**701,822**	673,817
Accrued coupon interest on issued debt securities (bonds)	1,502	694
Current portion of non–current borrowings from financial institutions	78,832	134,799
Accrued interest on non–current borrowings	809	1,371
Total current borrowings	**81,143**	**136,864**
Total borrowings	**782,965**	**810,681**

Movement in borrowings:

	2015	2014
	EUR'000	EUR'000
At the beginning of the year	**810,681**	**921,371**
Borrowings received	30,000	20,000
Borrowings repaid	(132,864)	(130,345)
Change in accrued interest on borrowings and coupon interest liabilities	255	(345)
Issued debt securities (bonds)	74,893	–
At the end of the year	**782,965**	**810,681**

Borrowings by categories of lenders:

	31/12/2015	31/12/2014
	EUR'000	EUR'000
Foreign investment banks	432,979	482,869
Commercial banks	168,779	222,316
Issued debt securities (bonds)	181,207	105,496
Total borrowings:	**782,965**	**810,681**

Borrowings by maturity excluding the effect of derivative financial instruments:

	31/12/2015	31/12/2014
	EUR'000	EUR'000
Fixed rate non–current and current borrowings:		
– < 1 year	1,703	1,099
– 1 – 5 years	172,985	70,432
– > 5 years	74,902	34,570
	249,590	**106,101**
Floating rate non–current and current borrowings:		
– < 1 year (current portion of non-current borrowings)	79,440	135,765
– 1 – 5 years	289,097	372,612
– > 5 years	164,838	196,203
	533,375	**704,580**
Total borrowings:	**782,965**	**810,681**

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

	31/12/2015	31/12/2014
	EUR'000	EUR'000
– < 1 year	432,979	465,987
– 1 – 5 years	168,779	230,124
– > 5 years	181,207	114,570
Total borrowings:	**782,965**	**810,681**

As of 31st of December 2015 and as of 31st of December 2014 the Company had all of its borrowings denominated in euros.

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

a) Pledges

The Company's assets are not pledged to secure the borrowings.

b) Un-drawn borrowing facilities

As of 31st of December 2015 the un–drawn portion of committed non–current credit facilities amounts to EUR 290 million (31/12/2014: EUR 320 million). 290 million includes: 100 million from EIB, 150 million from banks (agreements concluded in 2014) and 40 million from EBRD (year 2010 agreement). After the end of the reporting year from the available non–current credit facilities withdrawn EUR 40 million from EBRD.

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

c) Weighted average effective interest rate

During the reporting year the weighted average effective interest rate (including interest rate swaps) on non–current borrowings was 2.40 % (2014: 2.48 %), weighted average effective interest rate for current borrowings was 0.87 % (2014: 1.06 %). As of 31st of December 2015 interest rates for non–current borrowings in Euros were 3, 6 and 12 month EURIBOR+0.74 % (31/12/2014: +1.04 %).

d) Issued debt securities (bonds)

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

In 2015 the fair value of issued debt securities (bonds) exceeds their carrying amount by EUR 6,542 thousand (2014: EUR 4,899 thousand). The fair value of debt securities (bonds) issued is calculated by discounting their future cash flows and using the banks' quoted prices of the financial instruments at the end of the reporting year as discount factor.

21. PROVISIONS

a) Provisions for post-employment benefits

	2015	2014
	EUR'000	EUR'000
At the beginning of the year	**4,510**	**4,347**
Current service cost	901	184
Interest cost	77	164
Post-employment benefits paid	(277)	(101)
Income / (losses) as a result of changes in actuarial assumptions	234	(84)
At the end of the year	**5,445**	**4,510**

Total charged provisions are included in the Company's Statement of profit or loss position 'Personnel expenses' (Note 8):

	2015	2014
	EUR'000	EUR'000
At the beginning of the year	**4,510**	**4,347**
Provisions transferred to Sadales tīkls AS	–	(26)
Provisions transferred to Enerģijas publiskais tirgotājs AS	–	(10)
Charged to the Statement of profit or loss	935	199
At the end of the year	**5,445**	**4,510**

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

b) Environmental provisions

	2015	2014
	EUR'000	EUR'000
At the beginning of the year	**1,205**	**1,471**
Charged to the Statement of profit or loss	(45)	(266)
At the end of the year	**1,160**	**1,205**

Total charged provisions are included in the Company's Statement of profit or loss position 'Other operating expenses'. The environmental provision in the amount of EUR 1,160 thousand (2014: EUR 1,205 thousand) represents the estimated cost of cleaning up Riga first combined heat and power plant (Riga TEC–1) ash–fields in accordance with the requests made by the regional Environmental Authority of Riga and feasibility study on this project. The amount of the provisions is calculated taking into account the construction cost index (data from the Central Statistical Bureau of the Republic of Latvia).

22. TRADE PAYABLES

	31/12/2015	31/12/2014
	EUR'000	EUR'000
Payables for materials and services	22,851	28,348
Payables for electricity	1,089	2,811
Advances received for materials and services	3,642	193
	27,582	**31,352**

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

23. ACCRUED LIABILITIES

	31/12/2015	31/12/2014
	EUR'000	EUR'000
Accrued liabilities on expenses	1,534	2,232
Accrued liabilities on unpaid vacations	1,349	1,337
Accruals for bonuses on reporting year financial results	760	755
Accruals for benefits and post–employment plan contributions	85	92
	3,728	**4,416**

24. OTHER PAYABLES

	31/12/2015	31/12/2014
	EUR'000	EUR'000
Payables to personnel	1,372	1,313
Deferred income and other current payables	576	1,569
	1,948	**2,882**

25. TAXES AND STATE SOCIAL SECURITY CONTRIBUTIONS

	31/12/2014	Calculated	Paid	31/12/2015
	EUR'000	EUR'000	EUR'000	EUR'000
Corporate income tax*	4,565	(3,629)	(4,565)	(3,629)
Value added tax**	(4,224)	(57,045)	58,596	(2,673)
Energy tax	(142)	(1,415)	1,493	(64)
Subsidised energy tax	–	(15,023)	15,023	–
State social security contributions	(930)	(9,574)	9,542	(962)
Personal income tax	(576)	(5,482)	5,484	(574)
Real estate tax	–	(1,045)	1,045	–
Natural resources tax	(38)	(127)	124	(41)
	(1,345)	**(93,340)**	**86,742**	**(7,943)**
Tax overpayment	**4,572**	**–**	**–**	**3**
Tax liabilities	**(5,917)**	**–**	**–**	**(7,946)**

* Corporate income tax overpayment for 2014 – EUR 4,565 thousand

** Includes value added tax overpayment as of 31st of December 2015 in the amount of EUR 7 thousand (31/12/2014: EUR 7 thousand) (Note 16 b).

26. DERIVATIVE FINANCIAL INSTRUMENTS

a) Outstanding fair values of derivatives and their classification

Outstanding fair values of derivatives are disclosed as follows:

	Notes	31/12/2015		31/12/2014	
		EUR'000		EUR'000	
		Assets	**Liabilities**	**Assets**	**Liabilities**
Interest rate swaps	26 b)	–	13,016	–	18,441
Electricity forwards and futures	26 c)	–	2,558	–	2,112
Total outstanding fair values of derivatives:		**–**	**15,574**	**–**	**20,553**

	31/12/2015		31/12/2014	
	EUR'000		EUR'000	
	Assets	Liabilities	Assets	Liabilities
Non–current	–	8,291	–	11,698
Current	–	7,283	–	8,855
Total:	**–**	**15,574**	**–**	**20,553**

According to amendments to IAS 1 a financial liability or asset that is not held for trading purposes should be presented as current or non-current on the basis of its settlement date. The Company implemented the above-mentioned amendments to IAS 1 in its Financial Statements from 2008. Derivatives that have a maturity of more than twelve months and are expected to be held for more than twelve months after the end of the reporting period have been classified as non-current assets or liabilities.

b) Interest rate swaps

As of 31st of December 2015 the Company had interest rate swap agreements with total notional amount of EUR 221.5 million (31/12/2014: EUR 320.0 million). Interest rate swaps are concluded with 6 to 10 year initial maturities and hedged floating rates are 6 month EURIBOR. As of 31st of December 2015 fixed interest rates vary from 0.7725 % to 4.4925 %, that has not changed in comparison with the previous year.

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

Fair value changes of interest rate swaps are disclosed as follows:

	2015		2014	
	EUR'000		EUR'000	
	Assets	Liabilities	Assets	Liabilities
Outstanding fair value at the beginning of the year	**–**	**18,440**	**(618)**	**13,506**
Included in the Statement of profit or loss, net (Note 10)	–	(1,347)	–	(943)
Included in hedge reserve (Note 19)	–	(4,077)	618	5,877
Outstanding fair value at the end of the year	**–**	**13,016**	**–**	**18,440**

The main interest rate hedging criteria stated in the Financial Risk Management policy is to ensure average fixed rate duration from 2 to 4 years and fixed rate portion at more than 35 % of borrowings. As of 31st of December 2015 56 % (31/12/2014: 43 %) of the Company's borrowings had fixed interest rates (taking into account the effect from the interest rate swaps), and average remaining time to interest re–pricing was 2.4 years (2014: 2.2 years).

c) Electricity forwards and futures

As of 31st of December 2015 the Company has entered into electricity forward and future contracts with total outstanding volume of 2,880,436 MWh (31/12/2014: 1,144,162 MWh) and notional value of EUR 64.1 million (31/12/2014: EUR 38.0 million). Electricity forward and future contracts are concluded for the maturities from one quarter to one year during the period from 1st of January 2016 to 31st of December 2018.

In 2014 the Company, after becoming a member of NASDAQ OMX Commodities Exchange, started to conclude future contracts in NASDAQ OMX Commodities Exchange, in addition continuing to conclude forward contracts with other counterparties. Electricity forward and future contracts are agreed for electricity price hedging purposes in order to fix electricity purchase price in the Nord Pool power exchange. All purchased forward and future contracts were contracts with fixed amount of electricity and price in euros.

At the end of reporting year none of the electricity forward and future contracts are designated to comply with hedge accounting treatment (31/12/2014: no contracts) and consequently as of 31st of December 2015 all outstanding fair value changes of valid electricity forward and future contracts are included in the Statement of profit or loss (see Note 7).

Fair value changes of electricity forward and future contracts are disclosed as follows:

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

d) Forward foreign currencies exchange contracts

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

In 2014 fair value changes of forward foreign currencies exchange contract in the amount of EUR 16 thousand are included in the Statement of Profit or Loss – see Note 10.

27. RELATED PARTY TRANSACTIONS

The Company and, indirectly, its subsidiaries are controlled by the Latvian state. The Company's related parties, excluding subsidiaries, are associates, key management personnel of the Company and Supervisory body – Audit commitee, as well as entities over which the Company has significant influence.

	2015	2014
	EUR'000	EUR'000
a) Income from transactions with related parties:		
– subsidiaries	174,296	195,088
	174,296	**195,088**
b) Expenses from transactions with related parties:		
– subsidiaries	351,719	363,531
	351,719	**363,531**
including expenses from transactions with related parties recognised in net amount through profit or loss :		
– Sadales tīkls AS	*339,379*	*175,970*
– Enerģijas publiskais tirgotājs AS	*584*	*474*
	339,963	***176,444***
c) Balances at the end of the year arising from sales/purchases of goods and services:		
Trade receivables:		
– subsidiaries	14,863	38,945
	14,863	**38,945**
Trade payables:		
– subsidiaries	32,822	38,763
	32,822	**38,763**
d) Accrued income raised from transactions with related parties:		
– for goods sold / services received from subsidiaries	6,881	1,357
– for interest received	2,186	2,394
	9,067	**3,751**
e) Accrued expenses raised from transactions with related parties:		
– for purchased goods / received services from subsidiaries	952	12,796
	952	**12,796**

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

Receivables and payables with related parties are current balances for services and goods. None of the amounts at the end of the reporting year are secured. Remuneration to the key management personnel that is defined as Members of the Management Board of the Company and Supervisory body is disclosed in Note 8.

f) Non–current loans to related parties

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

Agreement conclusion date	Principal amount of the loan	Interest rate	Maturity date
	EUR'000		
01/04/2011	97,467	6 months EURIBOR + fixed rate	01/04/2025
03/09/2013	44,109	fixed rate	10/09/2023
Total	**141,576**		

Total outstanding amount of non–current loans as of 31st of December 2015 amounted to EUR 74,746 thousand (31/12/2014: EUR 99,800 thousand), including current portion of the loan repayable in 2016 – EUR 14,517 thousand (31/12/2014: EUR 25,054 thousand). As of 31st of December 2015 for 41 %

(31/12/2014: 56 %) of the loans issued to Latvijas elektriskie tīkli AS was set floating interest rate, which was influenced by 6 months EURIBOR interbank rate fluctuations. During 2015 the effective average interest rate of non–current loans was 2.59 % (2014: 2.42 %). Non–current loans are not secured with a pledge or otherwise.

Non–current loans to Latvijas elektriskie tīkli AS by maturity:

	31/12/2015	31/12/2014
	EUR'000	EUR'000
Non–current loan:		
– < 1 year	14,517	25,054
– 1 – 5 years	43,796	50,515
– > 5 years	16,433	24,231
	74,746	**99,800**

Concluded non–current borrowing agreements with Sadales tīkls AS:

Agreement conclusion date	Principal amount of the loan	Interest rate	Maturity date
	EUR'000		
29/09/2011	316,271	6 months EURIBOR + fixed rate	01/09/2025
06/02/2013	42,686	fixed rate	10/09/2022
18/09/2013	42,686	fixed rate	10/08/2023
29/10/2014	90,000	fixed rate	10/09/2024
20/10/2015	90,000	fixed rate	21/10/2025
Total	**581,643**		

Total outstanding amount of non–current loans as of 31st of December 2015 amounted to EUR 351,954 thousand (31/12/2014: EUR 355,669 thousand), including current portion of the loan repayable in 2016 – EUR 49,578 thousand (31/12/2014: EUR 91,581 thousand). As of 31st of December 2015 for 31 % of the loans issued to subsidiary (31/12/2014: 55 %) was set floating interest rate, which was influenced by 6 months EURIBOR interbank rate fluctuations. During 2015 the effective average interest rate of non–current loans was 1.95 % (2014: 1.90 %). Non–current loans are not secured with a pledge or otherwise.

Non–current loans to Sadales tīkls AS by maturity:

	31/12/2015	31/12/2014
	EUR'000	EUR'000
Non–current loan:		
– < 1 year	49,578	91,581
– 1 – 5 years	200,786	173,445
– > 5 years	101,590	90,643
	351,954	**355,669**

g) Current loans to related parties

Financial transactions between related parties have been carried out by using current loans with a target to effectively and centrally manage Latvenergo Group companies' financial resources, using Group accounts. In the reporting period Latvenergo AS issued loans to subsidiaries in accordance with mutually concluded agreement 'On provision of mutual financial resources'. In 2015 the effective average interest rate was 0.89 % (2014: 1.16 %).

In the reporting period Enerģijas publiskais tirgotājs AS received current loan from Latvenergo AS in accordance with mutually concluded agreement 'On provision of mutual financial resources', using Group accounts. Some cash and cash equivalents received in 2014 has been restricted – received government grant for compensation of the increase of mandatory procurement PSO costs in 2014. Respective permission for use was received in December 2015 and cash in the amount of EUR 29,264 thousand has been deposited into Enerģijas publiskais tirgotājs AS bank account as of 30th of December 2015 and as a result of it for Enerģijas publiskais tirgotājs AS has been formed a current loan to Latvenergo AS in the amount of EUR 34,232 thousand, that partly covered received borrowings from Latvenergo AS.

In 2015 the effective average interest rate was 0.89 % (2014: 1.13 %). On 31st of March 2015 was concluded agreement between Latvenergo AS and Enerģijas publiskais tirgotājs AS for issue of the loan in amount of EUR 185,000 thousand to ensure Enerģijas publiskais tirgotājs AS financial resources for the fulfilment of public supplier duties and mandatory procurement process administration. Loan annual interest rate is fixed at 1.259 % (2014: 1.646 %). Maturity date of the loan is 31st of March 2016. Latvenergo AS issued and Enerģijas publiskais tirgotājs AS accepted loan or its part at the end of each month, reassigned Enerģijas publiskais tirgotājs AS current loan liabilities from Latvenergo AS at the end of last calendar day of the current calendar month. As of 31st of December 2015 issued, but not unpaid net amount of current loan is EUR 126,490 thousand.

Non–current and current loans to related parties

	31/12/2015	31/12/2014
	EUR'000	EUR'000
Non–current loans to subsidiaries		
Sadales tīkls AS	302,376	264,088
Latvijas elektriskie tīkli AS	60,229	74,746
Total non–current loans	**362,605**	**338,834**
Current portion of non–current loans		
Sadales tīkls AS	49,578	91,581
Latvijas elektriskie tīkli AS	14,517	25,054
Current loans to subsidiaries		
Latvijas elektriskie tīkli AS	13,382	10,711
Sadales tīkls AS	48,540	21,463
Elektrum Eesti OÜ	2,941	5,129
Elektrum Lietuva, UAB	6,523	8,187
Enerģijas publiskais tirgotājs AS	126,490	76,815
Total current loans	**261,972**	**238,940***
TOTAL loans to subsidiaries	**624,577**	**577,774**

* – provisions for receivable interest in 2014 are reclassified to accrued income raised from transactions with related parties (see Note 27 d)

Movement in loans:

	2015	2014
	EUR'000	EUR'000
At the beginning of the year	**577,774**	**475,226**
Issued / (repaid) current loans (net)	165,573	175,583
Repaid non–current loans	(118,770)	(73,035)
At the end of the year	**624,577**	**577,774**

Interest received from related parties:

	2015	2014
	EUR'000	EUR'000
Interest received	1,865	1,076
	1,865	**1,076**

h) Current borrowings from related parties

Financial transactions between related parties have been carried out by using current loans with a target to effectively and centrally manage Latvenergo Group companies' financial resources, using Group accounts. In the reporting period Latvenergo AS has received borrowings from subsidiaries in accordance with mutually concluded agreement 'On provision of mutual financial resources'. In 2015 the effective average interest rate was 0.89 % (2014: 1.16 %). At the end of the reporting year Latvenergo AS has no borrowings from related parties.

Interest paid to related parties:

	2015	2014
	EUR'000	EUR'000
Interest paid	81	47
	81	**47**

28. HELD–TO–MATURITY FINANCIAL ASSETS

As of 31st of December 2015 the entire Company's held–to–maturity financial assets were State Treasury bonds with 5 year and 10 year maturity, which were purchased with the purpose to invest liquidity reserve in the low risk financial instruments with higher yield.

It was not necessary to prepare and was not made reclassification for financial assets which are recognised at amortised cost during 2015 (2014: nil). All held–to–maturity financial assets are denominated in euros. The maximum exposure to credit risk at the reporting date is the carrying amount of held–to–maturity financial assets.

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

29. COMMITMENTS AND CONTINGENT LIABILITIES

As of 31st of December 2015 the Company had commitments amounting to EUR 187.2 million (31/12/2014: EUR 106.4 million) for capital expenditure contracted but not delivered at the end of the reporting year.

In 2016 Latvenergo AS has issued support letters to its subsidiaries Sadales tīkls AS and Latvijas elektriskie tīkli AS acknowledging that its position as 100 % shareholder is to ensure that subsidiaries are managed so that they have sufficient financial resources and are able to carry their operations and settle their obligations.

30. FEES TO CERTIFIED AUDITOR'S COMPANIES

	2015	2014
	EUR'000	EUR'000
Audit of the financial statements	38	35
Consultancy and training services	1	30
	39	**65**

31. EVENTS AFTER THE REPORTING YEAR

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

On 26th of February 2016 Latvenergo AS Shareholders' Meeting has agreed to conclusion of non-current loan agreements with Latvijas elektriskie tīkli AS in the amount up to EUR 156.5 million. On 31st of March 2016 Latvenergo AS entered into an agreement with Enerģijas publiskais tirgotājs AS for a loan issue in the amount up to EUR 200.0 million.

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

There have been no other significant events subsequent to the end of the reporting year that might have a material effect on the Financial Statements of the Company for the year 2015.

SIA "Ernst & Young Baltic"
Muitas iela 1A
Rīga, LV-1010
Latvija
Tālr.: +371 6704 3801
Fakss: +371 6704 3802
riga@lv.ey.com
www.ey.com/lv

Reģ. Nr. 40003593454
PVN maksātāja Nr. LV40003593454

SIA Ernst & Young Baltic
Muitas iela 1A
Riga, LV-1010
Latvia
Tel.: +371 6704 3801
Fax: +371 6704 3802
riga@lv.ey.com
www.ey.com/lv

Reg. No: 40003593454
VAT payer code: LV40003593454

INDEPENDENT AUDITORS' REPORT

To the shareholder of AS Latvenergo

Report on the financial statements

We have audited the accompanying financial statements of AS Latvenergo (the "Company"), set out on pages 8 through 45 of the accompanying 2015 Annual Report, which comprise the balance sheet as at 31 December 2015, and the statement of profit or loss, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Law of the Republic of Latvia on Annual Reports and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

Opinion
In our opinion, the financial statements give a true and fair view of the financial position of AS Latvenergo as of 31 December 2015, and of its financial performance and its cash flows for the year then ended in accordance with the Law of the Republic of Latvia on Annual Reports.

Report on other legal and regulatory requirements
Furthermore, we have read the management report for the year ended 31 December 2015 (set out on pages 5 through 7 of the accompanying 2015 Annual Report) and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2015.

SIA Ernst & Young Baltic
Licence No. 17

/Signed by/

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

Riga, 19 April 2016