Joint Stock Company “Augstsprieguma tīkls”
Separate Annual Report 2018

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

Translated from Latvian

Contents

Information on the Company

Name of the Company	JSC “Augstsprieguma tīkls”
Legal status of the Company	Joint Stock Company
Registration number, place and date	000357556 Riga, 28 December 2001 Re-registration in the Commercial Register is performed On 13 November 2004 under unified registration number 40003575567
Principal activity	Electricity supply, NACE code 35.12
Address	Dārzciema iela 86 Riga, LV-1073 Latvia
Shareholder	From 2 January 2012: Ministry of Finance in the name of the Republic of Latvia (100%) Smilšu iela 1, Riga, LV-1050, Latvia
Names, surnames and positions held of the board members	Varis Broks - Chairman of the Board Arnis Staltmanis - Member of the Board Imants Zviedris - Member of the Board Gatis Junghāns - Member of the Board Mārcis Kauliņš - Member of the Board
Names, surnames and positions held of Council members	Vilnis Krēsliņš - Chairman of the Supervisory Board (until 19 March 2019) Jurijs Spiridonovs - Deputy Chairman of the Supervisory Board Olga Bogdanova - Member of the Supervisory Board
Reporting year Previous reporting year	1 January 2018 – 31 December 2018 1 January 2017 - 31 December 2017
Name and address of the certified audit company and certified auditor in charge	“Deloitte Audits Latvia” LTD Commercial Company of Certified Auditors Licence No. 43 Unified registration number: 40003606960 Grēdu iela 4a, Riga, LV-1019, Latvia Responsible certified auditor: Inguna Staša, Certificate No. 145

Management Report

Type and character of activity

Joint-stock company “Augstsprieguma tīkls” (hereinafter - the Company) is the sole independent Transmission System Operator of the Republic of Latvia (hereinafter - TSO).

The overall strategic goal of the Company is to ensure the security of electricity supply of Latvia, to provide a continuous, high-quality and affordable electricity transmission service, also to implement sustainable management of electricity supply assets of strategic importance to the country and to facilitate their integration in the internal electricity market of the European Union.

Our mission is to ensure continuous, secure and sustainably efficient electricity transmission throughout Latvia.

The Company's activity as an electricity transmission system operator is characterised by three directions:

- Provision of electricity transmission system services
- Maintaining and developing the electricity market
- Management, development and integration of the electricity transmission system into the European power system

In accordance with the separation model of the electricity transmission system operator that has been implemented in Latvia, the Company leases the assets of the electricity transmission system necessary for the provision of electricity transmission system services from its owner JSC “Latvijas elektriskie tīkli”.

Considering the Company's investment in its associate, Latvian natural gas transmission and storage system operator JSC “Conexus Baltic Grid”, an important direction of the Company's activity is the sustainable management of strategically important energy supply assets and their integration into the internal energy resource market of the European Union (hereinafter - EU).

Quality Management System and Values

The Company has developed, implemented and maintains the management system of the company in accordance with the requirements of ISO 9001:2015 (quality), ISO 14001:2015 (environment), ISO 45001:2018 (OHSAS 18001:2007) (occupational safety), ISO 50001:2011 (energy management).

The implemented Integrated Management System ensures efficient operation of the Company, observing internationally accepted operating mechanisms regarding quality, energy management, environment protection, occupational and occupational health management, ensuring correct compliance with regulatory requirements, promoting awareness of the Company's business context, taking into account the view of the Company's risks and processes.

A quality policy has been developed in the Company, that, based on the Energy Law, the Electricity Market Law and the Network Code, defines the Company's core values:

Trust	**Honesty** Independent, ethical and transparent action towards anyone and everyone
Growth	**Wisely** Effective. Looking forward. Long-term thinking
Safety	**Responsibly** Deliberate action. With high responsibility towards work, people and nature
Team	**Together** We join forces to achieve more. Strong team that encourages and challenges

Description of the business environment

Electricity transmission

Electricity transmission is carried out by a transmission system operator through the electricity transmission system which contains interconnected networks and equipment, including international connectors, with a voltage of 110 kilovolts or more that are used for transmission to the relevant distribution system or users. The activities of the electricity transmission system operator are regulated by the Public Utilities Commission (hereinafter - PUC) under the guidance of its Supervisory board. During the reporting period, the obligations imposed on the Transmission system operator were fulfilled through the following transmission networks:

Highest voltage (kV)	Number of substations (pcs)	Number of autotransformers and transformers (pcs)	Installed power (MVA)	Overhead cable and cable ETL (km)
330 kV	16	26	3 950	1 346.43
110 kV	123	248	5 215	3 897.24
Total	**139**	**274**	**9 165**	**5 243.67**

As a positive trend it is worth mentioning the fact that the volume of electricity transported to users in Latvia in 2018 has increased by 4%.

Maintaining and developing the electricity market

The legal basis for the operation of the electricity market in Latvia is the Electricity Market Law, which stipulates that the transmission system operator by performing its functions shall facilitate the functioning of the internal electricity market and cross-border trade, including supporting the development of the electricity stock exchange.

In addition, the development of the electricity market in Latvia is facilitated by the European Commission Regulation resulting from Regulation (EC) No. 714/2009 of the European Parliament and of the Council on conditions for access to the network for cross-border exchanges in electricity.

Main activities during the reporting year

- Implementation of the requirements of the Regulations for the development and integration of the European Union internal market of electricity (Network Codes)

In 2018, the Company, together with other TSOs of the European Union, actively participated in the implementation of four Regulations (Network Codes) aimed at the development and integration of the European Union internal electricity market:

- Commission Regulation (EU) No. 2015/1222 establishing a Guideline on Capacity Allocation and Congestion Management;
- Commission Regulation (EU) No. 2016/1719 establishing a guideline on forward capacity;
- Commission Regulation (EU) No. 2017/2195 establishing a guideline on electricity balancing;
- Commission Regulation (EU) No. 543/2013 on the submission and publication of data in electricity markets.

These Network codes, that are aimed at market development and integration, allow the operation of cross-border markets to be harmonised across all market activity periods, ensuring more stable functioning of the electricity market and allowing all market participants to operate without restriction in the EU internal electricity market.

The Latvian electricity market is directly integrated with the Baltic and Nordic countries, but the retail market is organised at a national level.

- creation of a joint capacity auction platform

In 2018 JSC "Augstsprieguma tīkls" also joined the common project of the European Union TSOs on the fulfilment of the requirements of Commission Regulation (EU) 2016/1719 on the organisation of auctions on long-term transmission rights, including the transfer of the Estonian-Latvian border auctions to the joint allocation platform.

As a result of the implementation of the project, JSC "Augstsprieguma tīkls" has transferred the organisation and provision of long-term transmission rights auctions on the Estonian-Latvian border to the joint allocation platform, regarding transmission capacities that enter into force as from 1 January 2019.

- Project for the development of a single European platform for day-to-day electricity trading - XBID

Continuing integration into the operation of the common European internal electricity market, JSC "Augstsprieguma tīkls", according to the requirements of Commission Regulation (EU) 2015/1222 and based on the joint cooperation of European Union Transmission System Operators and Nominal Electricity Market Operators (NEMO), was involved in the development of the common European Platform of Cross-Border Intraday (XBID). On 12 June 2018, the XBID platform successfully launched its operation and thus JSC "Augstsprieguma tīkls" provides internal electricity market participants in Latvia and in all of Europe with the opportunity to trade across Europe.

- Joint and harmonised Baltic electricity system balancing market

Continuing the work started in 2014, in 2015 the Baltic TSOs developed a joint project on a unified and harmonised Baltic balancing market and imbalance settlement system with the possible integration of the Baltic balancing system with the Nordic balancing system.

During the implementation of the project, the TSOs of the Baltic countries have achieved remarkable results - a single harmonised Baltic balancing market and joint Baltic balance control model have been created, which began their operations de facto on 1 January 2018.

In order to ensure efficient operation of the Baltic balancing market and balance control, the Baltic TSOs developed and implemented a common Baltic balancing IT solution.

The benefits in 2018 of the Baltic balancing market and the joint balance control model include a reduction in balancing costs for the market participants and a significant reduction in Russia's balancing bill, due to a number of factors, such as: decrease in total Baltic imbalance amount, more active balancing activities (more frequent activation of balancing energy), possibility to provide a single balancing price across all Baltic payment areas, diversified balancing energy offers from Baltic market participants, Nordic countries and Poland.

Electricity market statistics

In 2018, the average NP power exchange price in the trading area of Latvia was EUR 49.90 per megawatt-hour (EUR/MWh), and compared to 2017 the price increased by 43.9%.

The daily electricity price of the next day of Electricity exchange of the trading area of Latvia (ELSPOT) ranged from EUR 14.91 per megawatt-hour to EUR 100.16 per megawatt-hour.

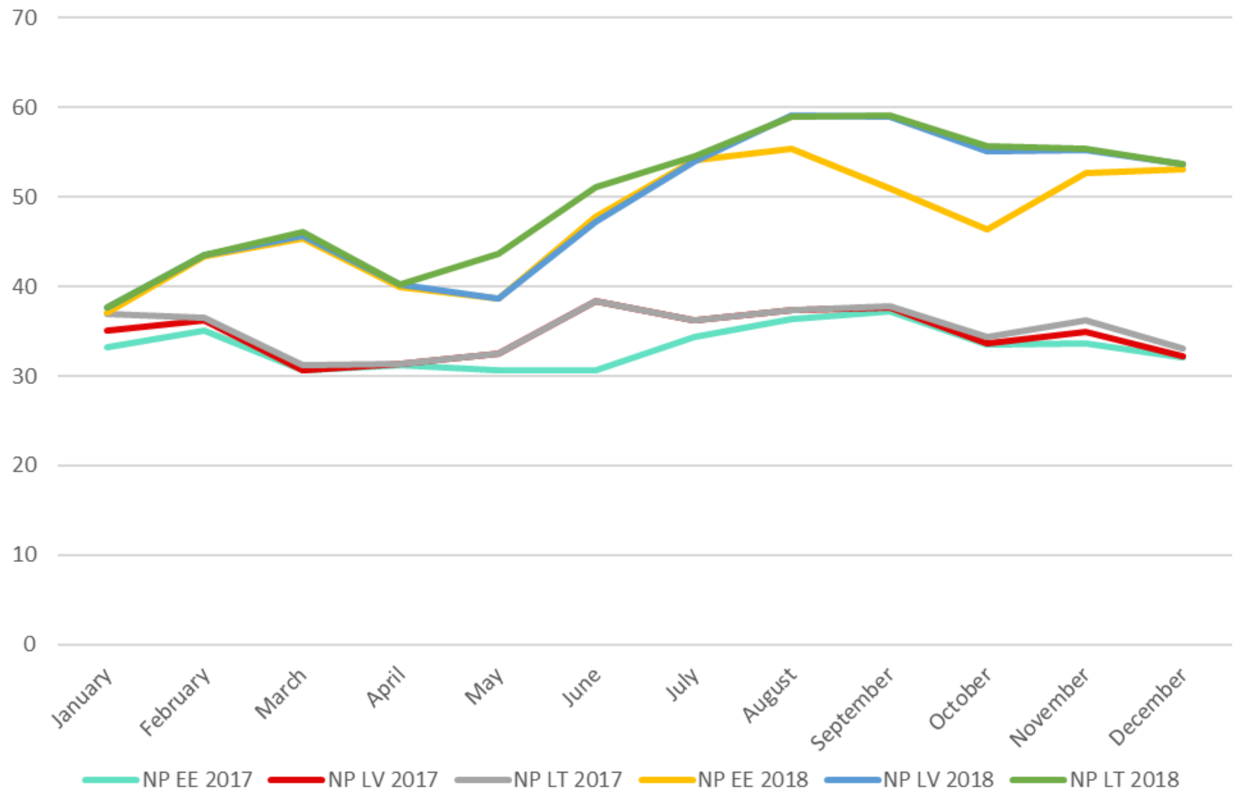
Comparing the monthly electricity hour price between Latvia and Estonia, it can be concluded that the price was equal to 74% of the annual number of hours, but in 2017 the price was equal to 82% of all the hours of the year. Meanwhile, the monthly electricity hour price difference between Latvia and Lithuania in 2018 was equal to 98% of the annual number of hours, but in 2017 prices were equal to 94% of all hours of the year.

Considering that the Baltic countries are integrated into the common European electricity market, Latvia, like any other European country, is not able to significantly influence the wholesale market electricity prices, as prices are based on the principles of a free, transparent electricity market.

Not only does the integration into the single European electricity market provide access to cheaper Nordic electricity, it also contributes to higher price volatility caused by weather conditions in other European countries.

Picture

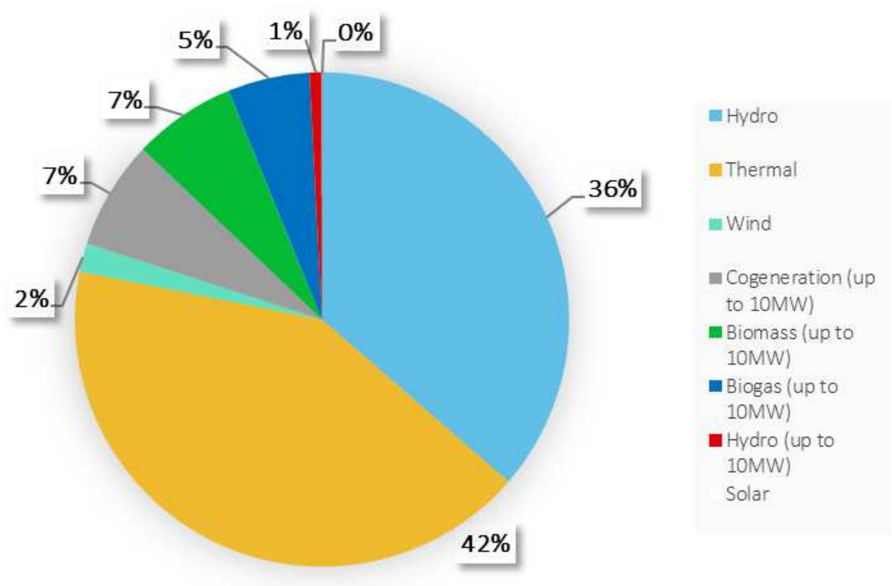
Average electricity prices in the Baltic countries in 2017 and 2018, EUR/MWh



Electricity production at Daugava Hydropower Plants (HPP) decreased by 44% in 2018, compared to 2017. Electricity production in thermal power plants (TPP) increased by 80% compared to 2017. As a result, local Latvian electricity sources generated 6 501 335 MWh, which is 11% less than in 2017.

Picture

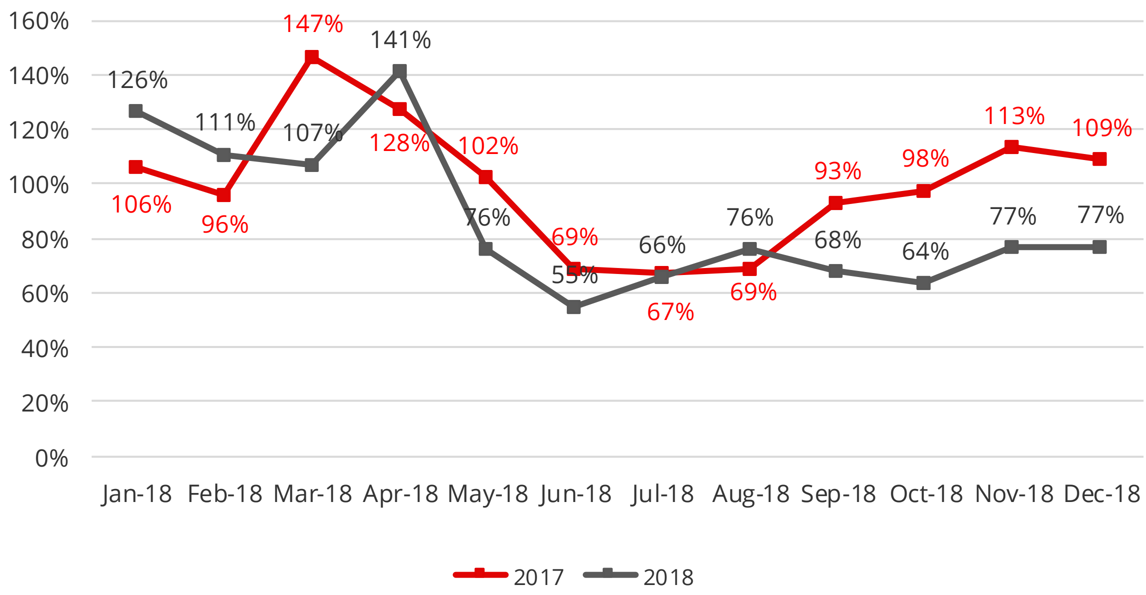
Electricity produced in Latvia in 2018, MWh



In 2018, 87.7% of Latvia's electricity consumption was covered by domestic electricity sources, which is a decrease of 13.1% percentage points compared to 2017.

Picture

Providing national consumption with local generation, %



Latvia's electricity consumption in 2018 was 7 410 215 MWh, an increase of 1.8% compared to 2017.

Import of electricity from third countries to the Baltics can only take place through the "Nord Pool" (NP) Lithuanian trading area - LBI. In 2018, the amount of imported electricity from third countries was 2 558 187 MWh, which is 229% less compared to 2017, when it was 776 395 MWh.

In 2018, the average load on the Estonian-Latvian interconnection was 56%, an increase of 2 percentage points compared to the previous year.

Financial performance and financial risk management

During the reporting period the Company's revenue is EUR 193 866 482, including the revenue from electricity transmission network services of EUR 72 576 114, which is 37% of the Company's revenue. A significant share (44%) of the total revenue of the Company in 2018 is generated by revenue from the reconstruction of the transmission assets of JSC "Latvijas elektriskais tīkls". Profit of the Company in the reporting period is EUR 4 677 118.

In assesing the Company's financial performance indicators, operating results, it should be considered that according to Article 5 of the Energy Law, electricity transmission is a regulated sector; PUC determines the allowed profit of the Company, determining the rate of return on capital, approving tariffs for electricity transmission system services.

In 2018, the Company's profitability was in line with the Electricity transmission system services tariff methodology. The profit and the increase in fixed asset return in 2018 is related to dividends received from AS "Conexus Baltic Grid" for the reporting year of 2017.

Given the above and that the Company is a natural monopoly, its profitability ratios are not comparable to those of the industry. In view of the TSO unbundling model implemented in Latvia - the establishment of an independent transmission system operator - the Company's profitability and other financial ratios are not comparable with other TSOs in the neighbouring countries or Europe, which in most cases own transmission assets.

Financial and operational indicators

	2018	2017
Financial indicators		
Revenue, thous. EUR	193 866	158 862
EBITDA*, thous. EUR	1 642	1 843
Profit, thous. EUR	4 677	309
Total amount of assets, thous. EUR	193 000	188 722
Equity, thous. EUR	70 344	8 499
Financial ratios		
Liquidity total ratio	3.8	1.3
EBITDA Profitability	0.8%	1.2%
Return on Equity (ROE)	6.6%	3.6%
Operational indicators		
Electricity transmitted to users in Latvia, GWh	6 051	5 807
Average number of employees	548	539

*EBITDA - earnings before financial income, income from participating interests, corporate income tax, depreciation and amortisation.

The procedure for the determination and calculation of wages and salaries is regulated by the Company's internal normative acts in accordance with the requirements of the Republic of Latvia legislation.

Financial risk management

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

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

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

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

The Company pursues prudent liquidity risk management, ensuring that it has access to adequate financial resources to meet its obligations when they fall due.

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

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

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

Corporate and Social Responsibility

The strategic direction of the Company is focused on sustainable development. The Company participates in the annual "Sustainability Index" managed by the Corporate Responsibility and Sustainability Institute, and in 2018 the Company received the top Platinum award (as an assessment of its work in 2017). At the same time, the Company received the title "Family Friendly Merchant" from the Ministry of Welfare.

During the reporting year, corporate governance was further improved, and Corporate governance guidelines were developed.

From 2017, in addition to the Company's financial statements, a non-financial report Sustainability report has been prepared according to the Global sustainability reporting guidelines, Core Approach that has been issued by the Global Reporting Initiative (GRI).

Corporate and social responsibility policy has been developed and approved by the Company. Corporate and social responsibility (hereinafter - CSR) policy defines the forms, basic principles and directions of CSR, criteria for choosing activities.

The aim of the Company's Environmental Policy is to continuously improve the Company's environmental performance by eliminating or reducing environmental impacts through the rational use of natural resources and implementation of the best available techniques in all areas of the Company's operations.

The Company carries out systematic risk assessment (environmental review is performed every three years, the next one is scheduled in 2020 for 2017-2019), and environmental programmes are established to prevent significant risks. A register of environmental events is maintained. Key environmental pollution indicators are periodically controlled in accordance with the environment monitoring plan. The overall environmental risk is low.

Increased attention is paid to energy efficiency issues. The Energy management policy of the Company is aimed at continuously improving the Company's energy performance by reducing technical and technological losses, improving the operational energy consumption of the Company's facilities and improving the Company's vehicle purchasing and utilisation strategy.

During the reporting period, the Energy management report for 2018 was prepared, reviewed and approved on 5 April 2019.

Electricity transmission system services tariff

The electricity transmission services tariffs are determined in accordance with the "Methodology for calculating tariffs for electricity transmission system services" approved by the PUC. In 2018 transmission system services were provided at tariffs that were approved by the decision of the PUC Council on 4 April 2017.

As one of its priority objectives the Company has set the implementation of measures to reduce the increase of electricity transmission system service tariffs. In order to achieve the pursued objective, the Company actively attracts co-financing from the European Union to finance its capital investments. Currently, the EU co-financing is attracted to five capital investment projects. In addition, in order to minimise the impact on the transmission tariffs, the Company redistributes the accumulated overload charge revenue to finance the capital investments.

In 2019 it is planned to continue the improvement of the efficiency of the Company's business operations that has been started in 2017, also cost optimisation.

As a result of the Company's activities, 77% of the financing required for the implementation of the development projects included in the European Ten-Year Development Plan is covered by the EU co-financing and overload charge revenues, thus reducing the impact on electricity transmission system service tariffs.

Further development

The Company focuses on sustainable growth in order to improve the services provided to the Latvian and Baltic electricity market participants.

When setting long-term strategic goals, the Company has been guided by the goals set in the Sustainable Development Strategy of Latvia until 2030, the National Development Plan for 2014-2020, as well as the Energy Development Guidelines for 2016-2020. One of the priority objectives set out in the above-mentioned strategic planning documents is to ensure the country's energy independence by increasing the self-sufficiency of energy resources and integration into the EU energy networks.

In approving the Medium-term operational strategy for 2016-2019, the Company has defined the following groups of strategic objectives:

A. Strengthening of the energy security of Latvia by integrating into the EU electricity market and ensuring the development of Latvia's transmission system in accordance with the electricity transmission system development plan approved by the PUC for a ten-year period.

B. To ensure safe operation of the Latvian electricity system and quality electricity supply to customers.

C. To ensure sustainable and thoughtful economic activities, ensuring the efficient use of energy resources, monitoring of environmental risks, preventing or reducing pollution from activities of the Company.

D. To verify the Company as a socially responsible company by meeting customer needs in a timely, responsive, technically and economically sound manner and in accordance with the law.

Development of the electricity transmission system

With the decision of the PUC Council No. 111 of 28 September 2018 "On Electricity transmission system development plan" the Company's electricity transmission system development plan for the period from 2019 to 2028 (hereinafter - Development plan) was approved.

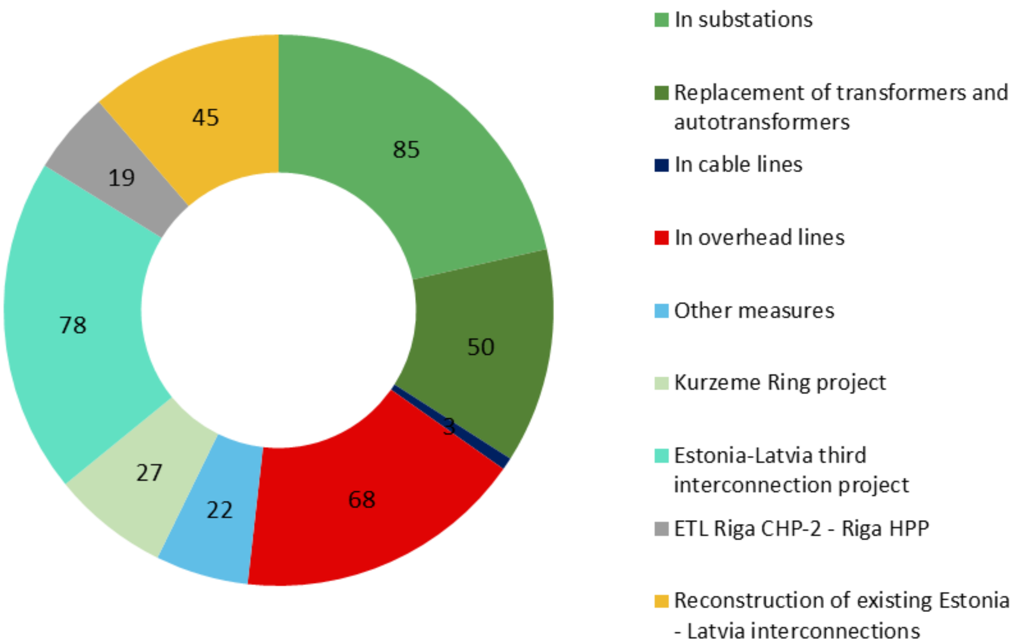
The Development Plan determines the development of the transmission system and the necessary financial investments in the transmission infrastructure for the next ten years, defining the investment of EUR 397 million for the development of the electricity transmission system.

In order to minimise the impact of planned capital investments on the electricity transmission tariffs, the Company has successfully attracted EU co-financing for the projects included in the Development Plan, that have joint interests with Europe, including:

- 330 kV EPL connection "Kurzemes loks" Step 3: 330 kV overhead line "Ventspils - Tume - Imanta" "(hereinafter also - Kurzeme loks) - attracted EU co-financing of up to 45% of the eligible costs or EUR 55 089 thousand.
- Third 330 kV interconnection Estonia - Latvia - attracted EU co-financing of up to 65% of eligible costs or EUR 63 380 thousand.
- 330 kV power transmission line "Riga TPP2 - Riga HPP" - attracted EU co-financing up to 50% of eligible costs or EUR 9 990 thousand.
- Project "Synchronisation of the Baltic Power System with the Trans-European Network, Phase 1" - attracted EU co-financing of up to 75% of eligible costs or EUR 57 750 thousand.

Picture

Investments envisaged in the Development Plan, EUR million



Within the framework of the development plan, it is planned to rebuild an average of four distribution plants per year, to replace seven autotransformers during the planning period, to replace an average of ten transformers per year, to gradually increase the level of capital investments in power transmission lines.

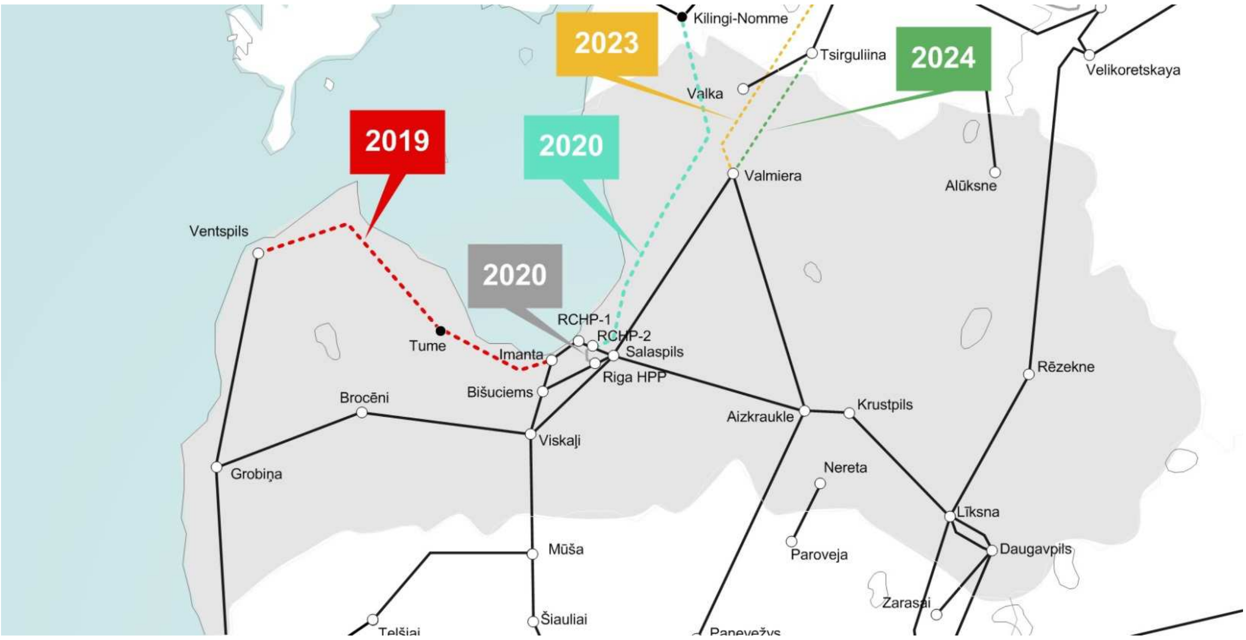
As a result of the implementation of the development plan, in the long term it is planned to reduce the amount of equipment exceeding the critical age limit values.

Progress in 2018 and key development events in the years to come:

The electricity transmission network is being developed in accordance with the Latvian electricity transmission system development plan and the European transmission system ten-year development plan. The European ten-year development plan includes those Latvian development projects which are of strategic importance, not only nationally but also in the Baltic Sea region.

Picture

Development projects included in the European ten-year development plan.



- 330 kV EPL connection "Kurzemes loks" Step 3: 330 kV overhead line "Ventspils - Tume - Imanta"

Within the framework of the project, it is planned to reconstruct the existing 110 kV overhead electricity transmission lines to 330 kV lines from Ventspils to Imanta (in Riga), as well as expansion of the existing 330 kV substation "Imanta" and construction of a new 330 kV distribution switchyard at "Tume" substation. The reconstruction of 110 kV switchyard at the substations "Dundaga", "Talsi", "Valdemārpils", "Kandava", "Priedaine" is also planned.

In 2018 the new line sections Ventspils - Dundaga, Dundaga - Valdemārpils, Valdemārpils - Talsi, Kandava - Tume, Tume - Tukums, Sloka - Dzintari were built. In these sections, the route cleaning and the line commissioning procedure will continue. In total, by the end of 2018, 80% of pylons provided in the project are raised and 65% of the planned volume of line wires are installed.

In 2018, reconstruction of the 110 kV switchyards of "Priedaine", "Valdemārpils", "Kandava" and "Dundaga" substations were completed, these objects were commissioned, as well as expansion works of "Imanta" 330 kV switchyard and construction of "Tume" 330 kV substation, as well as construction of the distribution point "Ķemeri Park" was launched.

In 2019 it is **planned to complete** all work related to the implementation of this capital investment project.

- Latvia - Estonia third interconnection.

The project includes the construction of a new 330 kV line of 180 km that will connect the "Riga CHP-2" substation in Latvia and the "Kilingi-Nomme" substation in Estonia, as well as to extend the Riga CHP-2 substation by installing shunt reactor systems for reactive power compensation.

In 2018 contracts were signed for the design and construction of the new line, as well as for the extension of the Riga CHP-2 substation and the supply of shunt reactors. Construction design of the new line and extension of the Riga CHP-2 substation has been started.

In 2019 the active construction of the new line is planned at virtually all sections from the Latvian-Estonian border to the Riga CHP-2 substation. The expansion works of the Riga CHP-2 substation will also be started. The whole project is **planned to be completed** in 2020.

- Construction of a new power transmission line Riga CHP-2 - Riga HPP

The project foreseen the construction of a new 330 kV overhead/cable line (indicative line length - 13 km), the extension of the 330 kV switchyard of the “Riga CHP-2” substation, as well as the reconstruction of the substation “Riga HPP”, using the existing equipment and solutions.

In 2018 contract was signed for 330 kV line construction design, cable supply and construction works, as well as contract for the reconstruction of 330 kV switchyard of substation "Riga HPP" and extension of 330 kV switchyard of the “Riga CHP-2” substation. Construction design works have been started on all objects, mentioned above.

In 2019 it is planned to start construction of the line "Riga CHP-2 - Riga HPP", as well as the reconstruction of 330 kV switchyard of substation "Riga HPP" and extension of 330 kV switchyard of substation "Riga CHP-2". All the construction works of the project **are planned to be completed** by the end of 2020.

- Increasing the capacity of the 330 kV electricity transmission line Tartu (EE) - Valmiera (LV) and the 330 kV electricity transmission line Tsirgulina (EE) - Valmiera (LV) between Latvia and Estonia within the framework of Phase 1 of the Baltic synchronisation project with continental Europe.

The project provides the reconstruction of both existing 330 kV lines with new high capacity lines. The total length of both lines in the territory of Latvia is ~100 km.

In 2018 both 330 kV line reconstruction projects have undergone an initial environmental impact assessment and received technical regulations from Valmiera Regional Environmental Board of the Environmental State Service, which the project promoters must take into account during project implementation.

Also, in 2018, all the necessary activities for receiving the European co-financing from the Connecting Europe Facility (CEF) have been done.

Taking into account that on 23 January 2019 the European co-financing of 75% has been granted for the Baltic synchronisation project, including the reconstruction of the two existing 330 kV lines of the Estonia-Latvia interconnections, **in 2019** activities to start the implementation of the project will be continued - public consultations, implementation of the procurement procedure for the selection of the contractor and other activities.

The implementation of the project is planned immediately after the implementation of the project “Third Interconnection of Latvia - Estonia”.

All of the above mentioned projects are included in 3rd list of Projects of Common Interest (PCI) and they have been co-financed by the European Union -for the 330 kV electricity transmission line Tartu (EE) - Valmiera (LV) and 330 kV electricity transmission line Tsirgulina (EE) - Valmiera (LV) EU co-financing to increase the transmission capacity was granted in 2019, for the construction of the electricity transmission line "Riga CHP-2 - Riga HPP" - in 2017, and for the projects “Construction of the 3rd phase of Kurzemes loks” and “Construction of Latvia - Estonia Third Interconnection” European co-financing from the Connecting Europe Facility programme was received in November 2014.

Electricity transmission system sustainability projects

The prepared electricity transmission system development plan of Latvia for the next ten years envisages several measures to improve the transmission infrastructure - reconstruction of existing 330 kV and 110 kV substations, improvement of electricity transmission lines, replacement of transformers, etc.

Access of third parties to the electricity transmission network

Considering the principles of operation of the electricity market of Latvia, JSC “Augstsprieguma tīkls” will continue to provide non-discriminatory access to the transmission system for both electricity producers and transmission system users in accordance with the principles of fairness, transparency and equality, both by constructing new and renovating existing connections.

System management and electricity market development

Carrying out the policy of the European Union regarding the single electricity market, JSC “Augstsprieguma tīkls” continues to actively participate in the activities of integration of the internal electricity market of the European Union, both within the European Union and in the Baltic region.

The main challenges for the upcoming years will be related to the synchronisation of the Baltic countries with continental Europe.

On 14 January 2015, the Baltic ministers responsible for the energy field adopted a political decision on the further progress and development of the Baltic synchronisation project with continental Europe, by signing a Declaration on Security of energy supply in the Baltic countries, one of the points of which is to support the synchronisation of Baltic countries with continental Europe and desynchronisation with the Russian and Belarusian power systems.

On 21 October 2015, during the meeting of the TSOs of the Baltic countries, a decision was made to launch a project for conducting an isolated operation test of the Baltic power systems and to conclude a cooperation agreement for the implementation of this project.

In 2017-2018, with the co-financing of the EU, in cooperation with the TSOs of the Baltic States and Poland, a study was prepared on performing an isolated operation test on the Baltic power system, dynamics and frequency studies.

Based on the results of the studies, on 28 June 2018, the Prime Ministers of the Baltic countries and the President of the European Commission signed a synchronisation roadmap with recommended further steps for synchronisation with continental Europe and de-synchronisation with the unified power system of Russia.

On 14 September 2018, the European Commission supported the synchronisation of the Baltic countries at the political level and recommended the initiation of the Baltic synchronisation procedure with continental Europe.

On 19 September 2018, the TSOs of the Baltic countries submitted an application to the TSOs of Poland to join the synchronous area of continental Europe, and on 21 September 2018, the Polish TSO submitted an application to the continental Europe regional group of ENTSO-E on the extension of the synchronous area with electricity systems of the Baltic countries.

On 23 January 2019, the CEF Steering Committee approved Phase 1 of the Baltic synchronisation application and decided to allow co-financing of 75% to the projects included in the application.

Transmission and storage of natural gas

Following the decisions of the Cabinet of Ministers of 5 December and 19 December 2017, in 2017 the Company has acquired 34.36% of the Latvian natural gas transmission and storage system operator JSC "Conexus Baltic Grid".

The investment of the Company is managed in accordance with the Corporate Governance Guidelines. The strategic goals of JSC "Conexus Baltic Grid" are subordinated to the plan to continue the development of the regional gas market in the Baltic countries, Poland and Finland by 2020.

The acquisition of participation in JSC "Conexus Baltic Grid" will not affect the tariffs of electricity transmission system services.

Events and occurrences after the end of the reporting period

According to JSC "Conexus Baltic Grid" annual report of 2018, the profit of JSC "Conexus Baltic Grid" for 2018 is EUR 13 306 thousand. On 25 April 2019, the shareholders' meeting of JSC "Conexus Baltic Grid" decided to pay out a dividend of EUR 0.30 per share for the year 2018. Considering the number of shares of JSC "Conexus Baltic Grid" owned by the Company, the Company will receive EUR 4 101 thousand in dividends.

After the end of the reporting period there were no other material circumstances or events that could affect the future development of the Company.

Proposed distribution of the profit

The Management of the Company, fulfilling Section 28 of the Law on the Management of Public Shareholdings and Corporations, in compliance with Article 47 of the Law "On the State Budget for 2019", proposes to pay out EUR 3 598 352 to the State in dividends.

The profit distribution for 2018 is decided by the shareholders' meeting of JSC "Augstsprieguma tīkls".

Varis Boks,
Chairman of the Board

Arnis Staltmanis,
Member of the Board

Imants Zviedris,
Member of the Board

Gatis Junghāns,
Member of the Board

Mārcis Kauliņš,
Member of the Board

Māra Grava,
Head of the Finance and Accounting Department

Riga, 15 May 2019

Statement of Board's responsibility

The Board of the Company is responsible for preparing the financial statements.

The separate financial statements are prepared based on accounting records and source documents and present fairly the financial position of the Company as at 31 December 2018, results of operations and cash flows for the year 2018.

The Board confirms that the separate financial statements included on pages 19 to 60 for the year ended on 31 December 2018 were prepared using appropriate accounting policies that have been consistently applied and that the Board has provided reasonable and prudent conclusions and estimates. The Board also confirms that the financial statements have been prepared in accordance with the relevant International Financial Reporting Standards as adopted by the European Union. The Financial statements are prepared on the principles of the continuation of activities.

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

Riga, 15 May 2019

Separate Profit or Loss Statement for 2018

	Note	2018 EUR	2017 EUR
Revenue	3	193 866 482	158 861 710
Other operating income	4	120 002	337 843
Consumed raw materials, materials and the cost of repairs	5	(29 866 634)	(21 173 030)
Personnel expenses	6	(15 666 872)	(13 764 039)
Depreciation and amortisation	9	(1 416 505)	(1 295 309)
Other operating expenses	7	(146 810 928)	(122 419 518)
Income from investing	10	4 852 507	-
Finance income	8(a)	19 620	37 787
Finance expenses	8(b)	(420 554)	(23 990)
Profit before taxes		**4 677 118**	**561 454**
Corporate income tax		-	(99 259)
Deferred income tax asset redustion		-	(152 951)
Profit for the reporting year		**4 677 118**	**309 244**

The notes on pages 26 to 60 form an integral part of these financial statements.

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Member of the Board

Māra Grava,
Head of the Finance and Accounting Department

Riga, 15 May 2019

Separate statement of comprehensive income for 2018

	Note	2018 EUR	2017 EUR
Profit for the reporting year		**4 677 118**	**309 244**
Other income:			
Items that will not be reclassified to profit or loss:			
Actuarial income		19 920	(171 533)
Other income/(loss) for the reporting year		**19 920**	**(171 533)**
Comprehensive income for the reporting year attributable to the shareholders of the Company		**4 697 038**	**137 711**

The notes on pages 26 to 60 form an integral part of these financial statements

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Head of the Finance and Accounting Department

Riga, 15 May 2019

Separate statement of Financial Position at 31 December 2018

	Note	31.12.2018 EUR	31.12.2017 EUR (reclassified)*
ASSETS			
Long-term investments			
Intangible assets	9	4 650 393	384 084
Fixed assets	9	4 318 933	3 817 102
Investment in associates	10	57 394 972	57 394 382
Other long-term financial investments	10	1 902 887	1 902 887
Term deposits		-	10 000 000
Total long-term investments		**68 267 185**	**73 498 455**
Current assets			
Inventories	11	491 767	477 819
Receivables			
Trade receivables, net	12	1 601 681	479 129
Term deposits	14	50 000 000	25 000 000
Financial deposit with restricted access rights	14	-	57 394 382
Other receivables	14	54 646	3 410 096
Corporate income tax	14	11 512	-
Prepayments		341 905	139 102
Accrued income	15	15 593 970	20 209 502
Total receivables		**67 603 714**	**106 632 211**
Cash	**16**	**56 636 900**	**8 113 170**
Total current assets		**124 732 381**	**115 223 200**
TOTAL ASSETS		**192 999 566**	**188 721 655**

*Reclassification of items is described in Note 30.
The notes on pages 26 to 60 form an integral part of these financial statements.

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Head of the Finance and Accounting Department

Riga, 15 May 2019

Separate statement of Financial Position at 31 December 2018 (Continued)

	Note	31.12.2018 EUR	31.12.2017 EUR (reclassified)*
EQUITY AND LIABILITIES			
Equity			
Share capital	17	63 139 313	5 744 342
Reserves		2 527 228	2 445 459
Profit for the reporting year		4 677 118	309 244
Total equity		**70 343 659**	**8 499 045**
Non-current liabilities			
Provisions for post-employment benefits	18	2 918 284	2 598 729
Deferred income	18	87 090 454	85 532 066
Total non-current liabilities		**90 008 738**	**88 130 795**
Current liabilities			
Borrowings	19	-	57 394 382
Deferred income	20	5 962 839	5 527 809
Trade payables		13 569 641	9 038 161
Taxes and national social insurance mandatory contributions	23	907 197	2 439 496
Corporate income tax	23	-	589 121
Advances received from customers	21	1 310 742	4 469 744
Other liabilities	21	3 692 462	3 627 991
Accrued liabilities	22	7 204 288	9 005 111
Total current liabilities		**32 647 169**	**92 091 815**
TOTAL LIABILITIES		**192 999 566**	**188 721 655**

*Reclassification of items is described in Note 30.
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Head of the Finance and Accounting Department

Riga, 15 May 2019

Separate statement of Changes in Equity for 2018

	Note	Share capital EUR	Accumulated profit EUR	Reserves EUR	Total EUR
At 31 DECEMBER 2016	**17**	**5 691 487**	**352 366**	**2 616 992**	**8 660 845**
Dividends paid for 2016		-	(299 511)	-	(299 511)
Increase in share capital		52 855	(52 855)	-	-
Actuarial loss		-	-	(171 533)	(171 533)
Profit for the reporting year		-	309 244	-	309 244
At 31 DECEMBER 2017	**17**	**5 744 342**	**309 244**	**2 445 459**	**8 499 045**
Dividends paid for 2017		-	(247 395)	-	(247 395)
Transferred to reserves			(61 849)	61 849	-
Share capital increase		57 394 971	-	-	57 394 971
Actuarial income		-	-	19 920	19 920
Profit for the reporting year		-	4 677 118	-	4 677 118
At 31 DECEMBER 2018	**17**	**63 139 313**	**4 677 118**	**2 527 228**	**70 343 659**

The notes on pages 26 to 60 form an integral part of these financial statements.

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Riga, 15 May 2019

Separate Statement of cash flow for 2018

	Note	31.12.2018 EUR	31.12.2017 EUR (reclassified)*
I CASH FLOW FROM OPERATING ACTIVITIES			
Profit before taxes		4 677 118	561 454
Adjustments			
a) depreciation, amortization	9	1 418 638	1 295 309
b) changes in provisions		339 475	20 557
c) income from dividends		(4 852 507)	-
d) interest income	8(a)	(19 620)	(37 787)
e) interest and exchange rate fluctuation costs	8(b)	420 554	23 990
Profit before working capital and short-term liabilities balance change effects adjustments		1 983 658	1 863 523
Adjustments			
a) decrease/(increase) in trade receivables, other receivables and accrued revenue		63 800 305	20 082 554
b) decrease/(increase) in inventories		(13 948)	5 482
c) (decrease)/increase in trade payables and other payables, accrued liabilities		(57 950 961)	16 599 859
Gross cash flow from operating activities		**7 819 054**	**38 551 418**
Foreign exchange loss		(2 053)	(709)
Interest income		19 620	37 787
Corporate income tax		(600 633)	56 148
NET CASH FLOW FROM OPERATING ACTIVITIES		**7 235 988**	**38 644 644**

*Reclassification of items is described in Note 30.
The notes on pages 26 to 60 form an integral part of these financial statements.

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Member of the Board

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Head of the Finance and Accounting Department

Riga, 15 May 2019

Separate cash flow statement for 2018 (Continued)

	Note	31.12.2018 EUR	31.12.2017 EUR (reclassified)*
II CASH FLOW FROM INVESTING ACTIVITIES			
Acquisition of intangible assets and fixed assets		(6 121 486)	(1 752 171)
The term deposits placed, Net		(15 000 000)	(30 000 000)
Dividends received	10	4 852 507	-
Other long-term financial investments	10	-	(57 394 382)
Financial deposit with restricted access rights	14	57 394 382	(57 394 382)
NET CASH FLOW FROM INVESTING ACTIVITIES		**41 125 403**	**(146 540 935)**
III CASH FLOW FROM FINANCING ACTIVITIES			
Borrowings received/(repaid)	19	(57 394 382)	57 394 382
Investment in equity	17	57 394 382	-
Received EU funding	30	828 235	2 704 804
Interest paid		(418 501)	(23 281)
Dividends paid		(247 395)	(299 511)
NET CASH FLOW FROM FINANCING ACTIVITIES		**162 339**	**59 776 394**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**48 523 730**	**(48 119 897)**
Cash and cash equivalents at the beginning of the reporting year		8 113 170	56 233 067
Cash and cash equivalents at the end of the reporting year		**56 636 900**	**8 113 170**

*Reclassification of items is described in Note 30.

The notes on pages 26 to 60 form an integral part of these financial statements.

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Head of the Finance and Accounting Department

Riga, 15 May 2019

Notes to the separate financial statements

1. GENERAL INFORMATION ABOUT THE COMPANY

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

As at 31 December 2018 all shares of JSC "Augstsprieguma tīkls" are owned by the Ministry of Finance of the Republic of Latvia. The registered address of the Company is Dārzciema iela 86, Riga, LV-1073, Latvia

The financial statements were approved by the Board of the Company on 15 May 2019 as follows: Varis Boks (Chairman of the Board), Imants Zviedris (Member of the Board), Arnis Staltmanis (Member of the Board), Mārcis Kauliņš (Member of the Board), Gatis Junghāns (Member of the Board).

The auditor of the Company is the certified audit company "Deloitte Audits Latvia" LTD, and the responsible certified auditor is Inguna Staša.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This section of the appendix sets out the key accounting principles that are used in the preparation of the financial statements. These principles are applied consistently, reflecting data for all periods presented in the report.

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, applying the going concern principle. Considering the European Union approval process, this Annex also presents standards and interpretations that have not been approved for application in the European Union, as those standards and interpretations may have an impact on the Company's financial statements in future periods, if they are adopted.

These financial statements are the separate financial statements of the Company, where investments in associates are measured at cost value. These financial statements do not use the equity method in measuring investments in associates.

The financial statements have been based on the initial cost accounting method. The cash flow statement has been prepared using the indirect method.

The financial indicators in the financial statements are presented in euros.

The comparability of indicators is kept in the financial report, in the case when the presentation of financial statements information is changed during the reporting year, comparative figures are reclassified and are comparable.

Financial statements cover the time period from 1 January to 31 December 2018.

To prepare the financial statements in accordance with the IFRS, the management of the Company based it on certain estimates and assumptions, which affect the balance of separate items reflected in certain statements, as well as the possible amount of liabilities. Future events may affect the assumptions on which the relevant estimates were based. Any impact of the changes of the estimates is reflected in the financial reports at the moment of identification thereof. Although these estimates are based on comprehensive information about the current events and activities available to the Company's management, actual results may differ from those estimates.

The following new and amended IFRSs and interpretations became effective in 2018:

- In the reporting year the Company applied IFRS 9 - Financial Instruments (adopted by the EU on 22 November 2016) and related further amendments to other IFRSs effective for annual periods beginning on or after 1 January 2018. 9. The transitional provisions of IFRSs allow an entity not to modify the comparators.

9. include requirements for recognition and measurement, impairment, derecognition and general risk limitation accounting.

Classification and evaluation - IFRS 9 introduces a new approach to the classification of financial assets based on cash flow characteristics, as well as their business model for which the financial asset is held. This common principle approach replaces the existing rule based on the requirements contained in IAS 39. This new approach also defines a single impairment model for all financial instruments.

Impairment - IFRS 9 introduces a new model for measuring impairment losses that will require the more timely recognition of expected losses from default. The new standard requires companies to recognise contract losses at the time of first recognition of financial instruments and requires the more timely recognition of expected life-cycle losses.

Hedge accounting - IFRS 9 introduces a hedge accounting model that has been transformed from the basics, with improved disclosure requirements regarding risk management activities. The new model reflects a significant overhaul of hedge accounting that aligns the accounting approach with risk management activities.

Own liabilities - IFRS 9 cancels fluctuations in the income statement arising from changes in credit risk estimates for liabilities selected for measurement under the fair value model. This change in accounting means that the proceeds from a reduction in the credit assessment of the company itself in respect of those liabilities are no longer recognised in the income statement.

The management of the Company reviewed and evaluated the existing financial assets of the Company on 1 January 2018 and, based on the facts and circumstances existing at that date, concluded that: The initial application of IFRS 9 has had the following effects on the Company's financial assets in respect of their classification and measurement:

- Equity instruments were reclassified from available-for-sale to equity instruments, which after initial recognition are measured at fair value with other comprehensive income.

The table below presents the information relating to the reclassification of financial assets:

	(i)	(ii)	(iii)	(iv) = (i) + (ii) + (iii)	(v) = (iii)
	IAS 39 book value as of 31.12.2017	Re-classification	Revaluation	9. book value as of 01.01.2018	Effect on retained earnings as of 01.01.2018
Financial assets	EUR	EUR	EUR	EUR	EUR
At fair value with other comprehensive income					
Added:					
From available for sale (IAS 39)	-	1 902 887	-	1 902 887	-

	(i)	(ii)	(iii)	(iv) = (i) + (ii) + (iii)	(v) = (iii)
	IAS 39 book value as of 31.12.2017	Re-classification	Revaluation	9. book value as of 01.01.2018	Effect on retained earnings as of 01.01.2018
Reduced:					
To fair value with other comprehensive income - equity instruments (IFRS 9)	1 902 887	(1 902 887)	-	-	-
Total	1 902 887	-	-	1 902 887	-

The management of the Company has estimated that the fair value of the shares is similar to their acquisition value, therefore no changes in fair value were recognised. The fair value measurement is based on an expected dividend yield that is similar to the dividend yield of companies with a similar risk profile whose shares are publicly traded.

IFRS 9 does not have a material impact on the Company's financial statements in respect of impairment losses.

- IFRS 15 "Revenue from Contracts with Customers" (effective for reporting periods beginning on or after 1 January 2018) and amendments to IFRS 15 "Revenue from Contracts with Customers" (for reporting periods beginning on or after 1 January 2018);

IFRS 15 "Revenue from Contracts with Customers" uses a five-step model. The model consists of:

- Determination of contractual relations;
- Determination of contract performance obligations;
- Determination of pricing;
- Assignment of the transaction price to the performance obligation;
- Recognition of the revenue when the Company has fulfilled its performance obligation.

A new standard introduces the recognition of revenue together with the delivery of goods or services to the buyer, according to the transaction price. When individual goods and services are combined into offer bundles, the sale of each individual item or service is recognised as an individual transaction and any contractual discounts should normally be attributed to each element of the transaction. For transactions with variable remuneration, a minimum amount, that is not subject to a substantial cancellation risk, should be recognised. The costs, associated with the conclusion of customer contracts, are capitalised and can be amortised over the life of the contract.

The Company applies the standard of IFRS 15 "Revenue from Contracts with Customers" to all contracts with customers, except:

a) leases that fall within the scope of IAS 17 "Leases";

b) insurance contracts that fall within the scope of IFRS 4 "Insurance Contracts";

c) financial instruments and other contractual rights or obligations that fall within the scope of IFRS 9 "Financial instruments", IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements", IAS 27 "Consolidated and Separated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"; and

d) non-monetary exchanges between entities of the same field in order to facilitate trade with customers or potential customers.

The above-mentioned standard does not have a material impact on the financial statements of the Company.

- Standards issued by the IASB and adopted by the EU as well as amendments to existing standards that have not yet entered into force

The IASB has issued and the EU has adopted the following new standards, amendments to existing standards and new guidance on interpretation that are not yet effective at the date of approval of these financial statements:

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

The Company will begin to apply IFRS 16 for the reporting year beginning on 1 January 2019. The Company chose to use the modified retrospective approach, which means that:

- Comparable information is not being corrected;
- The cumulative effect of the initial application is recognised as retained earnings (or other equity components, as appropriate) at the date of initial application of the adjustment to the opening balance.

The Company does not account the leases in accordance with IFRS 16, if it is a short-term lease (lease term of up to one year), or if the asset subject to the lease by which the lessor transfers the lease to the lessee is of low value (based on the value of the new asset, regardless of the age of the leased asset). The Company's assets of low value include tablets and PCs, small office furniture units and phones. Also, the Company does not account contracts for leases of intangible assets in accordance with IFRS 16.

As at 31 December 2018, the Company has non-cancellable lease commitments in the amount of EUR 209 202 831 (see Annex 24).

According to the preliminary valuation, EUR 209 116 thousand of these liabilities relate to leases that are not non-current leases and leases of low value assets, thereby as of 1 January 2019 the Company will recognise EUR 214 885 thousand as a right of use of an asset and EUR 219 001 thousand as the lease obligations for all of these lease agreements. The implementation of the standard will have an impact on the Company's income statement, reducing Other operating expenses by EUR 37 579 thousand in 2019, increasing depreciation expenses by EUR 35 814 thousand and increasing interest expenses by EUR 1 920 thousand.

In accordance with IAS 17 all lease payments from operating leases were classified as cash flow from principal activity. Implementation of IFRS 16 will increase cash flows from the principal activity by approximately EUR 1 920 thousand and decrease financing cash flows by the same amount, as part of the payment for lease liabilities will be classified as cash flow from financing.

- IFRS 9 "Financial Instruments" - Early repayment elements with negative compensation - adopted by the EU on 22 March 2018 (comes into force for annual periods beginning on or after 1 January 2019);
- Amendments to IAS 19 "Employee Benefits" - Plan Amendment, Curtailment or Settlement - Adopted by the EU on 13 March 2019 (effective for annual periods beginning on or after 1 January 2019);
- Amendments to IAS 28 "Investments in Associates and Joint Ventures" - long-term participation in associates and joint ventures - accepted by the EU on 8 February 2019 (effective for annual periods beginning on or after 1 January 2019);

- Amendments to several standard Improvements to International Financial Reporting Standards (Cycle 2015-2017), as a result of annual IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) improvement project, mainly to eliminate inconsistencies and clarify wording - adopted by the EU on 14 March 2019 (effective for annual periods beginning on or after 1 January 2019);
- IFRIC 23 Interpretation Uncertainty over Income Tax Treatments - adopted by the EU on 23 October 2018 (effective for annual periods beginning on or after 1 January 2019).

The Company has decided not to adopt the new standards, amendments to existing standards and guidance on interpretation before their effective date. The Company foresees that the adoption of these standards and amendments will have no material impact on the financial statements of the Company during the initial period of application, except IFRS 16.

- New standards issued by the IASB and amendments to existing standards, that have not yet been adopted by the EU

The current IFRS versions adopted by the EU do not differ materially from those issued by the International Accounting Standards Board (IASB), with the exception of the following new standards and amendments to existing standards that on 31 December 2018 are not approved for application in the Union (the following effective dates are the dates, when the IASB has adopted the relevant IFRS):

- IFRS 14 "Regulatory Deferral Accounts" (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to initiate the process of accepting this interim standard and to await the final standard;
- IFRS 17 "Insurance Contracts" (effective for annual periods beginning on 1 January 2021, or after).
- Amendments to IFRS 3 "Business Combinations" - definition of business (effective for combined entities, whose acquisition date is on or after the first annual reporting period beginning on or after 1 January 2020, and the acquisition of assets on or after the commencement date of that period);
- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in associates and joint ventures" - sale or investment of assets between an investor and its associate or joint venture, and subsequent amendments (entry into force indefinitely pending completion of the equity method study);
- Amendments to IAS 1 "Financial reporting" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" - definition of "material" (effective for annual periods beginning on or after 1 January 2020);
- Amendments to references to the Conceptual Guidance in IFRS standards (effective for annual periods beginning on or after 1 January 2020).

The Company foresees that the adoption of these standards and amendments will have no material impact on the financial statements of the Company during the initial period of application.

2.1. Financial instruments

Financial assets and financial liabilities are recognised in the statement of the financial position of the Company when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially recognised at fair value. Transaction costs that are directly attributable to the acquisition or issue of a financial asset and financial liabilities (other than a financial asset and financial liabilities at fair value through the income statement) are initially recognised or deducted from financial assets or fair values of financial liabilities.

Financial assets

All financial assets recognised on initial recognition are measured at amortised cost or fair value, depending on the classification of the financial assets.

Classification of financial assets

Debt instruments that meet the following conditions, after initial recognition, are measured at amortised cost:

- the financial asset is held as part of a business model that seeks to hold financial assets for the purpose of collecting contractual cash flows; and
- the terms of a financial asset contract generate cash flows at specified dates that are only principal and interest payments.

Debt instruments that meet the following conditions after initial recognition are measured at fair value through the statement of Other Comprehensive Income (FVTOCI):

- the financial asset is held in a business model that achieves its objective by both collecting the contractual cash flows and selling the financial asset; and
- the terms of a financial asset contract generate cash flows at specified dates that are only principal and interest payments.

By default, all other financial assets after initial recognition are measured at fair value through profit or loss (FVTPL).

Notwithstanding the above, upon initial recognition of a financial asset, the Company may irrevocably choose:

- The Company may irrevocably choose to classify equity instruments at fair value through other comprehensive income, if certain criteria are met.

Equity instruments, at fair value with other comprehensive income

After initial recognition, the Company may irrevocably select (for each instrument separately) certain equity instruments at fair value recognised in other comprehensive income. This classification is not allowed, if the equity instrument is held for trading or if it is a variable consideration received as a result of business combination.

Investments in equity instruments recognised in other comprehensive income are measured initially at fair value adding transaction costs. They are subsequently measured at fair value, with profit or loss arising from changes in fair value, recognised in other comprehensive income in the revaluation reserve. At the time the equity instrument is disposed of, the cumulative gain or loss is not reclassified to the income statement, but it is transferred to retained earnings.

Dividends from those investments in equity instruments are recognised in the income statement in accordance with IFRS 9, unless the dividends clearly represent a return on the investment cost.

Upon initial application of IFRS 9 the Company has classified all investments in equity instruments that are not held for trading, in the category at fair value through other comprehensive income.

Impairment of financial assets

The Company recognises a deduction for expected credit losses on investments in debt instruments that are measured at amortised costs or fair value recognised in other comprehensive income, lease trade receivables, trade receivables, as well as financial guarantee contracts. The expected amount of credit risk losses shall be reviewed at each date of the report to reflect changes in credit risk since the initial recognition of the financial instrument.

Derecognition of financial assets

The Company only derecognises a financial asset when the contractual rights to the cash flows from the asset expire or when it transfers the financial asset and substantially all the risks and rewards of ownership to another entity. If the Company does not transfer or retain substantially all of the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest and related liabilities to the extent that it may be required to pay. If the Company retains substantially all the risks and rewards of ownership of the transferred financial asset, the Company continues to recognise the financial asset and also recognises a secured loan for revenue received.

Financial liabilities

All financial liabilities are initially measured at amortised cost using the effective interest method or at fair value, recognising it in the income statement.

Financial liabilities with evaluation at amortised cost

Financial liabilities other than i) the potential consideration from the acquirer in a business combination, ii) held for trading or iii) initially recognised at fair value through the income statement, after initial recognition, are subsequently measured at amortised cost using the effective interest method.

The effective interest method is the method of calculating the amortised cost of a financial liabilities and allocating the interest expense over the period. The effective interest rate is the rate at which discounted future cash flows or revenue (including any fees and interest paid or received by the parties to the contract that are an integral part of the effective interest rate, transaction costs and any other premiums or discounts) at the expected life of the financial asset or financial liability, the carrying amount of a financial asset or the amortised cost of a financial liability is precisely obtained.

Derecognition of financial liabilities

The Company only derecognises a financial liability when the Company's liabilities are executed, cancelled or terminated. The difference between the book value of a financial liabilities and the consideration paid or payable is recognised in income statement.

2.2. Transactions in foreign currencies

(a) Functional and presentation currency

The items of financial statements of the Company are measured in the currency of the economic environment in which the Company operates (the functional currency). The items of the financial statements are presented in euros (EUR), which is the Company's functional and presentation currency.

(b) Transactions and balances

All transactions in foreign currencies are revalued into euros at the official exchange rate set by the European Central Bank ruling on the date of the relevant transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated to euros at the exchange rates prevailing on the last day of the reporting year. Gained profit or losses are recognised in the income statement for the relevant period.

2.3. Intangible assets and fixed assets

All intangible investments are counted at initial value less accumulated amortisation. Computer software licences, computer software and related implementation costs are recognised as intangible investments and amortised on a straight-line basis over the estimated useful lives of these assets, up to five years.

Intangible investments and fixed assets are presented according to their acquisition value, minus any wear and depreciation accrued. The acquisition value includes expenses that are directly related to the acquisition of the intangible investment or fixed asset. Depreciation of fixed assets is calculated using the straight-line method over the useful life of the asset, to allocate the acquisition cost to its estimated residual value at the end of the useful life period. For other fixed assets and equipment (means of communication and equipment, office supplies and equipment) it shall not exceed two to five years.

Further expenses are included in the balance sheet value of the asset or only recognised as a separate asset when there is a great possibility that the future commercial benefits related to this item will flow in the Company and expenses of this item can be credibly determined. Such costs are written off during the remaining period of the service life of the relevant fixed asset.

Current repairs and maintenance of fixed assets are included in the income statement for the period when they were incurred.

Profit or loss from excluding fixed assets is calculated as the difference between the carrying amount of the fixed asset and the revenue obtained as a result of selling it and included in the relevant profit and loss statement when they have been incurred.

If the balance value of some intangible investment or fixed asset is above the recoverable value thereof, the value of the relevant intangible investment or fixed asset is written off without delay to the recoverable value thereof. The recoverable value is the highest from the fair value of the relevant intangible investment or fixed asset, less sales costs or value of use.

2.4. Long-term financial investments

Long-term financial investments are investments in the equity of other companies.

Investments in associates

Investments in associates are investments in companies, in which the Company has significant influence but has no control over the activities of the other company.

In these separate statements, investments in associates are stated at their acquisition cost.

Other long-term financial investments

Other long-term financial investments are investments in the equity of other companies in which the Company has no significant influence or control.

According to IFRS 9, equity instruments after initial recognition are measured at fair value. The Company chose the approach allowed by IFRS 9 initially recognising the financial asset, to irrevocably choose to reflect equity instruments that are not held for trading or are acquired in a business combination, at fair value through other comprehensive income.

2.5. Operating lease (the Company as the lessee)

An operative lease is defined as a type of lease whereby the lessor retains a significant part of the risks and benefits implied by ownership rights. Lease payments and prepayments (including financial incentives received from the lessor) are included in the profit or loss statement using the linear method for the period of lease.

2.6. Inventories

Stock is presented in the lowest value of the prime cost or net sale value. The net sale value is the selling price of the stock determined during regular operation of the Company, minus variable selling expenses. The prime cost is calculated using the weighted average method.

Purchase costs of inventories include the purchase price, import duties and other taxes and fees, transportation and associated costs, as well as other costs directly related to the delivery of materials and goods. Trade discounts, rebates and similar discounts are deducted in determining the value of inventories.

The amount of inventories is verified by taking an inventory at the end of the year.

2.7. Deferred income

Revenue received before the balance sheet date but relating to the following twelve months (short-term) or after twelve months (long-term) - is included in the deferred income in the balance sheet of short-term or long-term creditors.

Deferred income from congestion management income, once it has been used to finance a specific long-term investment project, is amortised through the progressive recognition of that income in the income statement for the current financial year in accordance with the amortisation/depreciation period of the long-term investment created. Respectively, when the asset is disposed of or excluded, the proceeds are recognised at their residual value.

2.8. Pensions, post-employment benefits

(a) Pension liabilities

The Company makes monthly contributions to a closed, fixed contribution pension plan on behalf of employees. The plan is managed by the Joint Stock Company "First Closed Pension Fund" in which the Company has participation. Contributions to a fixed contribution pension plan does not give the Company any additional legal or practical obligation to make further payments, if the plan does not have sufficient resources to pay all employee benefits for services provided by the employee in current or prior periods. Contributions are made in the amount of 5% (from 1 January 2018 - 6%) of the salary of each member of the pension plan. Contributions to a fixed contribution plan are recognised by the Company at the time when the employee provides the service in exchange for those contributions.

(b) Post-employment benefit liabilities

In addition to the above-mentioned pension plan, the Company provides certain post-employment benefits to employees whose employment conditions meet certain criteria. The liabilities for the benefits are calculated based on the current salary levels and the number of employees who are required to receive payments, the amount of historical termination of labour relations, and actuarial assumptions.

Liabilities recognised in the balance sheet in respect of post-employment benefits are reflected at their present value at the balance sheet date, less any past costs.

Post-employment benefit obligations are recalculated for each reporting year by an independent actuary using the projected unit credit method.

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

The Company uses the projected unit valuation method to estimate the present value of its fixed benefit obligations and the related present and future costs.

According to this method it is considered that each period of service creates an additional unit of entitlement to receive the benefit and the sum of all such units represents the total liability for post-employment benefits.

The Company also uses objective and mutually agreed actuarial assumptions about variable demographic factors (such as staff turnover and mortality rates) and financial factors (such as expected salary increases and certain changes in benefit levels).

Actuarial gains and losses arising from adjustments and changes in actuarial assumptions are recognised in the statement of comprehensive income in the period in which they arise.

2.9 Corporate income tax

Starting from the tax year 2018, the corporate income tax shall be calculated for the distributed profit (20/80 from the net sum to be paid to the shareholders).

The tax rate is 20 percent of the calculated tax applicable base, which is adjusted before the tax rate is applied, by dividing the object value applicable to corporate tax by a coefficient of 0.8.

The corporate tax for distributed profit will be recognised at the time when the shareholder of the Company makes a decision regarding the distribution of profit.

The payment of corporate tax to the Company is deferred until the profits are distributed as dividends or non-operating expenses are paid.

2.10. Provisions

Provisions are recognised when the Company has legal or other reasonable commitments triggered by a certain past event and there is a probability present that the fulfilment of such liabilities would require the outflow of resources containing economic benefits from the Company, and it is possible to sufficiently assess the scope of liabilities. No provisions are made for future operating losses.

Provisions are recognised in the balance sheet by determining the amount of expenditure that would be required to settle the obligation at the balance sheet date as precisely as possible. Provisions are only used for the expenses for which the provision was initially recognised, and they are reversed if a potential outflow of resources is no longer expected.

Provisions are measured based on the present value of the expenses that are expected to be incurred to settle the present obligations, using a pre-tax discount rate that includes the current market value of the cash and the risks specific to the liabilities.

Provisions for unused holiday are made to accurately reflect the Company's liabilities to employees for unused holiday, if there are any. Accruals for unused holiday are calculated monthly in the HORIZON resource accounting system.

2.11. Revenue recognition

The Company's revenue from customers is the value of products sold and services provided as a result of operating activities. The Company only keeps records for contracts with the client in the scope of IFRS 15 if all of the following criteria are met:

a) the parties to the contract have approved the contract (in writing, orally or in accordance with other normal commercial practices) and have undertaken to comply with their respective obligations;

b) the Company may determine the rights of each party regarding the goods or services to be transferred;

c) the Company may establish payment terms for the goods or services to be transferred;

d) the contract is of a commercial nature (i.e. it is expected that the contract will result in a change in the Company's future cash flow risk, schedule or amount); as well as

e) there is a possibility that the Company will charge an indemnity in exchange for goods or services transferred to the customer. When assessing whether it is possible to collect the indemnity amount, the Company only takes into consideration the ability and intention of the client to repay the indemnity in a timely manner.

In accordance with IFRS 15 The Company transfers control of a good or service over time, and thereby carries out its obligation of fulfilment and recognises revenue over time, if one of the following criteria is met:

a) the customer simultaneously receives and consumes the benefits that are assured by the Company's activities in the course of the Company's business;

b) with operation of the Company the asset is created or improved (for example, repairs) and the customer controls the asset at the time the asset is created or improved; or

c) The Company's operation does not constitute an asset that the Company could use as an alternative and the Company has enforceable rights to payment for timely completion.

For each performance obligation that has been discharged over time, the Company only recognises revenue over time if the Company can reasonably measure its progress towards the full implementation of the performance obligation.

The main types of income of the Company are as follows:

(a) Electricity transmission system services

Based on the fact that the customer simultaneously receives and consumes the benefits of the Company's operations in the course of the Company's operations, the Company transfers control of the service over time and thereby implements its performance obligation and recognises the revenue over time.

The Company only recognises revenue from the performance of obligations over the term when control over the service is transferred to the customer, when (or as soon as) the customer decides to use the asset and benefits from it, and the Company can reasonably measure its progress towards the full implementation of their obligations.

Based on the fact that revenues from transmission system services are based on tariffs approved by the Public Utilities Commission, according to IFRS 15. The Company is entitled to receive reimbursement from the customer for an amount that directly reflects the value the customer receives from the Company's timely completion of Company's activities; for practical purposes, the Company may recognise revenue in the amount the Company is entitled to collect.

The Company recognises revenue from the provided transmission system services at the end of each month on the basis of automatically read meter readings.

(b) Congestion and overload management

JSC "Augstsprieguma tīkls" implements transmission system congestion and overload management in accordance with Article 13, Section 4 and Article 13^1, Section 6 of the Electricity Market Law, as well as receives a fee for cross-section restricted capacity auction in accordance with the mutual compensation mechanism and concluded contracts of the transmission system operators.

According to Article 16 of Regulation (EC) No. 714/2009 of the European Parliament and of the Council "On conditions for access to the network for cross-border exchanges in electricity and repealing Regulation (EC) No. 1228/2003" (hereinafter referred to as "Regulation"), any revenues resulting from the allocation of interconnection capacity shall be used for one or more of the following purposes:

a) ensuring the actual availability of the allocated capacity; and/or

b) maintaining or improving interconnection capacity through network investments, in particular in new interconnectors;

c) if the revenues cannot be used effectively for the above purposes, they may - subject to approval by the regulatory authorities of the relevant member states - up to a maximum value to be determined by the mentioned regulatory authorities, be used as revenues to be taken into account by the national regulatory authorities when approving the methodology for calculating network tariffs/or setting network tariffs.

Considering the provisions of the Regulation, revenues received from congestion management which are not used to eliminate overload and congestion in the transmission network are reflected in the balance sheet as deferred income. Once this income has been used to finance a specific long-term investment project, deferred income is amortised through the progressive recognition of that income in the income statement for the current financial year in accordance with the amortisation/depreciation period of the long-term investment created.

Based on the fact that the customer simultaneously receives and consumes the benefits of the Company's operations in the course of the Company's operations, the Company transfers control of the service over time and thereby implements its performance obligation and recognises the revenue over time.

The Company only recognises revenue from the performance of obligations over the term when control over the service is transferred to the customer, when (or as soon as) the customer decides to use the asset and benefits from it, and when the Company can reasonably measure its progress towards the full implementation of their obligations.

In accordance with the principle of reconciliation of revenues and costs, the revenues of congestion management, that are used to eliminate congestion and overload in the transmission network, shall be shown in the income statement according to the amount of costs (resource method for measuring progress) associated with congestion and overload elimination.

(c) Mandatory procurement component income

According to Article 105 of Regulation No. 50 of the Cabinet of Ministers, "Regulations for electricity trade and use" of 21 January 2014, the Company shall charge the Mandatory procurement component (hereinafter also referred to as MPC) from all electricity end users or traders, if the end user has delegated settlements with the company for system services and ancillary services.

The revenues of MPC are determined in accordance with the tariffs set by the Public Utilities Commission and the volumes of electricity transmitted. At the same time, the Company is obliged to make MPC payments to the Public energy trader for the electricity transmitted to the end users.

Given that the Company has no influence over the pricing of the service and does not have the power to determine the price directly or indirectly, MPC revenue is recognised on an agent basis, with revenue recognised in the income statement on a net basis.

(d) Income from electricity/capacity sales

According to Article 11 Section 2 of the Electricity Market Law, the transmission system operator may participate in electricity trading, if the purchase and sale of electricity or capacity is necessary for system balancing, buying ancillary services, covering electricity transmission losses, for the transmission system operator's own consumption or if there is a deviation in the system from a normal operation or there has been an accident.

When participating in the trade of electricity, the transmission system operator shall act in accordance with open, non-discriminatory and market-based procedures, except in the event of deviations from the normal operating system or if there has been an accident. In the event of deviations from the normal operating system or in the event of an accident, the transmission system operator shall act in accordance with the provisions of the Network code.

Based on the fact that the customer simultaneously receives and consumes the benefits of the Company's operations in the course of the Company's operations, the Company transfers control of the service over time and thereby implements its performance obligation and recognises the revenue over time.

The Company only recognises revenue from the performance of obligations over the term when control over the service is transferred to the customer, when (or as soon as) the customer decides to use the asset and benefits from it, and when the Company can reasonably measure its progress towards the full implementation of their obligations.

Revenue from the sale of electricity/capacity is recognised on the basis of acceptance notes and bills, which are invoiced each month for the electricity/capacity delivered during the month in accordance with the contracts entered into with each other.

(e) New construction and renovation of transmission assets

According to Article 13. Section 6 of the Electricity Market Law, the Company shall be responsible for the planning, construction and commissioning of new transmission infrastructure objects during the development of the transmission system. In turn, according to Article $21.^2$ Section 2 of the Electricity Market Law, the transmission system asset owner JSC "Latvijas elektriskie tīkli" finances capital investments in the transmission system assets. Within the framework of the service, the Company, with its personnel resources plans, organises, documents, controls the construction, reconstruction and renovation works in the assets of the recipient of the service - JSC "Latvijas elektriskie tīkli". The service includes the provision of capital investment project management.

Based on the fact that the customer simultaneously receives and consumes the benefits of the Company's operations in the course of the Company's operations, the Company transfers control of the service over time and thereby implements its performance obligation and recognises the revenue over time.

The Company only recognises revenue from the performance of obligations over the term when control over the service is transferred to the customer, when (or as soon as) the customer decides to use the asset and benefits from it, and when the Company can reasonably measure its progress towards the full implementation of their obligations.

Revenue from the construction and renovation of transmission assets is recognised on the basis of mutually agreed monthly acceptance acts and invoices, which are invoiced monthly for the amount of work performed.

2.12. Recognition of costs

Costs are recognised on an accrual basis. Accounting costs include all foreseeable costs and contingent liabilities incurred in the current or prior years, even if they become known between the balance sheet date and the date of preparation of the financial statements, regardless of the date of receipt of the invoice, as the Company's economic transactions are accounted for and presented in the financial statements on the basis of their economic content and nature, not merely their legal form.

Operating expenses and other operating expenses indicated in the income statement are disclosed in the annexes to the financial statements in more detailed terms.

2.13. Non-current and current liabilities

The Company's trade payables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method. Liabilities to suppliers and contractors are stated in the financial statements according to supporting documents and entries in the accounting records in the amount of invoices received from suppliers of the Company but not paid at the end of the reporting period.

Accrued expenses, that have been incurred during the reporting year when the amount of such costs or the date of payment during the reporting period is clearly known, but the invoices have not yet been received from the suppliers, are included in the item "Accrued liabilities".

2.14. Related parties

Company shareholder, members of the Board, members of the Supervisory Board, their close relatives and companies, in which they have significant influence or control, are defined as related parties.

As all the shares of JSC "Augstsprieguma tīkls" are 100% owned by the Republic of Latvia, state-controlled capital companies are also considered related parties.

2.15. Application of significant accounting estimates and assumptions

When preparing financial statements, the Company's management must make estimations and assumptions that affect the valuation of assets and liabilities recorded in the financial statements at the date of preparation of the financial statements, and revenue and expenses recorded for the specific reporting period. The following estimates of the Company's management have a significant impact on the results of the financial statements:

- Based on statistical and analytical information as well as expert forecasts, the Company makes estimates and assumptions regarding revenues and expenses related to the Company's participation in the Inter Transmission System Operator Compensation Mechanism (ITC mechanism) developed by ENTSO-E. The ITC mechanism is a transit mechanism to cover the costs of transit losses of 35 transmission system operators in Europe, with two funds: The Framework Fund and the united European Union TSOs transit flow volume fund (WWT - with and without transit), which varies according to the electricity market situation. The most important factor influencing the estimate are the electricity transit flows affecting the volume of the WWT Fund in all European electricity transmission networks, as well as the price of transit losses in the ITC Member States. The forecast is made in each Member State on the basis of six-monthly loss measurements and the price of the losses. Revenue is projected using the precautionary principle.

The amount of accrued income in December 2018 is EUR 1 873 974. Provisions are made on the basis of settlement statements accepted by the Company, that are not invoiced on 31 December 2018.

- Based on statistical and analytical information as well as estimates made by specialists, the Company makes estimates and assumptions about post-employment benefit obligations as described in the Annex 2.8.

  In the reporting year, the discount rate used to discount post-employment benefit obligations is fixed at 1.52% (in 2017: 1.439%). The discount rate is determined in accordance with the requirements of International Financial Reporting Standards whereby the discount rate should be determined by reference to the market rate of return on high-quality corporate bonds at the balance sheet date; in addition, the discount rate should reflect the time value of money rather than the actuarial or investment risk.

  Following the provisions of the Collective agreement, which provide the annual indexation of employees' wages to inflation, calculating the provision for post-employment benefits in 2019, it is planned to increase the salary of employees by 2.6%, by 2.4% in 2020, and 2.3% thereafter.

Sensitivity analysis for the total post-employment benefit at 31 December 2018, EUR

	Increase	Decrease
Discount rate (+/-1%)	284 677	(235 475)
	10%	-8%
Monthly salary increase (+/- 1%)	278 197	(235 134)
	10%	-8%
Employee turnover rate (+/- 1%)	302 596	(252 556)
	10%	-9%

3. REVENUE

	2018 EUR	2017 EUR
Transmission asset reconstruction and renovation works*	85 791 503	62 732 893
Transmission network service	72 576 114	72 450 638
Sale of balancing electricity	15 379 400	9 651 965
Congestion management on borders**	7 739 340	4 824 708
Liquidation of electrical capacity overload	7 132 778	3 957 408
Electricity transit service	3 109 079	2 706 981
Revenue from reactive electricity	702 995	424 245
Sale of regulating electricity	111 309	928 980
Electricity sales in the ELBAS market	8 718	51 544
Other services	1 315 246	1 132 348
TOTAL REVENUE	**193 866 482**	**158 861 710**

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

* Executing the decision of the PUC Council No. 18 of 30 January 2013 "On certification of Electricity Transmission System Operator," from 1 January 2015 the Company has taken over the maintenance and development of business lines of transmission system assets from JSC "Latvijas elektriskie tīkli" and ensures active construction, rebuilding and renewal of the transmission system (see Annex 7). According to Article 21.[2] of the Electricity Market Law, the transmission system asset owner JSC "Latvijas elektriskie tīkli" finances capital investments in the transmission system assets, which are decided by JSC "Augstsprieguma tīkls".

** In accordance with the Company's accounting policy, the congestion management income is reflected in the income statement according to the amount of costs related to the prevention of congestion in the transmission. In accordance with PUC Council Resolution No. 30 of 6 April 2017, the congestion charge revenue necessary to ensure the Company's profitability in accordance with the methodology is recognised in the income statement.

4. OTHER OPERATING INCOME

	2018 EUR	2017 EUR
Compensation for damages	53 615	50 455
Fines received	40 601	118 851
Sale of current assets and fixed assets	24 616	133 537
EU funding	1 170	35 000
TOTAL OTHER INCOME FROM BUSINESS ACTIVITIES	**120 002**	**337 843**

5. RAW MATERIALS, MATERIALS CONSUMED AND REPAIR COSTS

	2018 EUR	2017 EUR
Purchase of balancing electricity	11 385 742	9 131 295
Electric power transmission losses and technological consumption	9 113 668	6 500 381
Purchase of regulating electricity	3 771 213	982 604
Electricity transit losses	2 835 744	1 782 781
Costs of materials used and repairs	2 428 029	2 469 065
Electricity for self - consumption	332 238	306 904
TOTAL RAW MATERIALS, MATERIALS CONSUMED AND REPAIR COSTS	**29 866 634**	**21 173 030**

6. PERSONAL COSTS

	2018 EUR	2017 EUR
Remuneration for work	11 642 664	10 600 033
Mandatory national social insurance contributions and the benefits defined in the collective employment contract	3 432 619	2 700 893
Contributions to the pension plan	591 589	463 113
TOTAL PERSONNEL COSTS (INCLUDING REMUNERATION TO THE MANAGEMENT OF THE COMPANY)	**15 666 872**	**13 764 039**

incl. Remuneration to the company's board and supervisory board

	2018 EUR	2017 EUR
Remuneration for work	574 902	447 218
Mandatory national social insurance contributions and the benefits defined in the Collective bargaining agreement	137 551	95 656
TOTAL REMUNERATION TO THE MANAGEMENT OF THE COMPANY	**712 453**	**542 874**

Number of employees

	2018	2017
Number of employees at the end of the reporting year	552	544
Average number of employees during the reporting year	548	539

7. OTHER OPERATING EXPENSES

	2018 EUR	2017 EUR
Transmission assets reconstruction and renovation works	85 791 503	62 714 993
Lease of fixed assets (transmission assets)	38 698 823	43 911 141
Electric power overload elimination	10 385 978	4 305 813
Electricity capacity reserve	4 371 017	4 268 388
Telecommunication services	2 833 048	2 675 835
Transport costs	979 451	986 923
IT system maintaining costs	853 999	1 160 400
Premises and territory maintenance costs	291 157	266 241
Local taxes and fees	155 411	153 663
Nature and labour protection costs	128 638	116 704
Miscellaneous operating costs	2 321 903	1 859 417
TOTAL OTHER OPERATING COSTS	**146 810 928**	**122 419 518**

8. FINANCIAL INCOME/(EXPENSES), NET

	2018 EUR	2017 EUR
a) Financial income		
Interest income from credit institutions	19 620	37 787
Total financial income	**19 620**	**37 787**
b) Financial costs		
Interest costs	(418 501)	(23 281)
Fluctuations in currency exchange rates	(2 053)	(709)
Total financial expenses	**(420 554)**	**(23 990)**
FINANCIAL INCOME/(EXPENSES), NET	**(400 934)**	**13 797**

9. INTANGIBLE ASSESTS, FIXED ASSETS

9.1. Intangible assets

	Software EUR	Total EUR
2017		
Net book value at the beginning of the year	286 995	286 995
Acquired	169 133	169 133
Creation of intangible assets	50 587	50 587
Disposals	(48 485)	(48 485)
Excluded accumulated amortisation	48 485	48 485
Amortisation charge	(122 631)	(122 631)
Net book value at 31.12.2017	**384 084**	**384 084**
At 31 December 2017		
Historical cost	633 246	633 246
Creation of intangible assets	50 587	50 587
Accumulated amortization	299 749	299 749
Net book value	**384 084**	**384 084**
2018		
Net book value at the beginning of the year	384 084	384 084
Acquired	196 020	196 020
Creation of intangible assets	4 220 969	4 220 969
Amortisation charge	(150 680)	(150 680)
Net book value at 31.12.2018	**4 650 393**	**4 650 393**
At 31 December 2018		
Historical cost	829 266	829 266
Creation of intangible assets	4 271 556	4 271 556
Accumulated amortization	(450 429)	(450 429)
Net book value	**4 650 393**	**4 650 393**

9.2. Fixed assets

	Technological plants and equipment	Other fixed assets and inventory	Total
	EUR	EUR	EUR
2017			
Net book value at the beginning of the year	3 745	3 453 584	3 457 329
Acquired	-	1 532 450	1 532 450
Disposals	-	(61 950)	(61 950)
Excluded accrued depreciation	-	61 950	61 950
Depreciation	(1 534)	(1 171 143)	(1 172 677)
Net book value at 31.12.2017	**2 211**	**3 814 891**	**3 817 102**
At 31 December 2017			
Historical cost	12 505	6 617 467	6 629 972
Accumulated depreciation	(10 294)	(2 802 576)	(2 812 870)
Net book value	**2 211**	**3 814 891**	**3 817 102**
2018			
Net book value at the beginning of the year	2 211	3 814 891	3 817 102
Acquired	-	1 769 790	1 769 790
Disposals	-	(17 323)	(17 323)
Excluded accrued depreciation	-	15 189	15 189
Depreciation	(1 535)	(1 264 290)	(1 265 825)
Net book value at 31.12.2018	**676**	**4 318 257**	**4 318 933**
At 31 December 2018			
Historical cost	12 505	8 449 207	8 461 712
Accumulated depreciation	(11 829)	(4 130 950)	(4 142 779)
Net book value	**676**	**4 318 257**	**4 318 933**

10. OTHER LONG-TERM FINANCIAL INVESTMENTS

	31.12.2018	31.12.2017
	EUR	EUR
Investments in the capital of associated companies, including:		
JSC “Conexus Baltic Grid”	57 394 972	57 394 382
Investments in the capital of other companies, including:		
JSC “Nord Pool Holding”	1 901 465	1 901 465
JSC “Pirmais slēgtais pensiju fonds”*	1 422	1 422
TOTAL	**59 297 859**	**59 297 269**

Name of the Company	Location	Type of business activity	Shares (interest)
JSC “Conexus Baltic Grid”*	Latvia	Natural gas transmission and storage operator in Latvia	34.36%
JSC “Nord Pool Holding”**	Norway	Organisation of an Electricity exchange	2.0%
JSC “Pirmais slēgtais pensiju fonds”***	Latvia	Management of pension plans	1.9%

*Following the decisions of the Cabinet of Ministers of 5 December and 19 December 2017, in 2017 the Company has acquired 34.36% shares of the Latvian natural gas transmission and storage system operator JSC “Conexus Baltic Grid”. By the resolution of the Shareholders' Meeting of 11 July 2018, (prot. No. 2, §1) the share capital of the Company was increased by making a material investment of 117 shares of JSC “Conexus Baltic Grid”, which, according to the opinion of the Company’s shareholder regarding the value of the investment, are valued at EUR 589. According to the decision of the Shareholders' Meeting of JSC “Conexus Baltic Grid” of 27 April 2018, in the reporting year the Company received dividends in the amount of EUR 4 784 409.

**By decision No. 171 of the Cabinet of Ministers of 19 April 2018, JSC “Augstsprieguma tīkls” is authorised to terminate its participation in JSC “Nord Pool” and acquire 2% (two percent) in JSC “Nord Pool Holding”.

According to the decision of the Shareholders' Meeting of JSC “Nord Pool” of 19 April 2018, in the reporting year the Company received dividends in the amount of EUR 68 098.

*** The Company owns 1.9% of the capital of JSC "Pirmais slēgtais pensiju fonds". The Company is a nominal shareholder, as all the risks and rewards of the Fund are undertaken or acquired by the Company's employees, who are members of the pension plan.

11. INVENTORIES

	31.12.2018 EUR	31.12.2017 EUR
INVENTORIES		
Materials and spare parts	491 767	477 819
TOTAL INVENTORIES	**491 767**	**477 819**

12. TRADE RECEIVABLES, NET

	31.12.2018 EUR	31.12.2017 EUR
Receivables		
Electricity transmission system service	1 567 253	394 694
Other trade receivables	52 236	99 839
Total receivables	**1 619 489**	**494 533**
Electricity transmission system service	(2 053)	(2 053)
Other trade receivables	(15 755)	(13 351)
Total provisions for doubtful and bad debts	**(17 808)**	**(15 404)**
Receivables, net		
Electricity transmission system service	1 565 200	392 641
Other trade receivables	36 481	86 488
TRADE RECEIVABLES, NET	**1 601 681**	**479 129**

13. IMPAIRMENT OF RECEIVABLES

	2018 EUR	2017 EUR
At the beginning of the reporting year	15 404	9 347
Included in the income statement	2 404	6 057
At the end of the reporting year	**17 808**	**15 404**

14. OTHER RECEIVABLES

	31.12.2018 EUR	31.12.2017 EUR
Term deposits	50 000 000	25 000 000
Financial deposit with limited access rights	-	57 394 382
Value added tax not deducted	-	3 365 043
Overpaid taxes (see Note 23), including:	11 512	-
Corporate income tax	11 512	-
Advance payment for connections (see Note 21)	-	613
Other receivables	54 646	44 440
TOTAL OTHER RECEIVABLES	**50 066 158**	**85 804 478**

* Following the decisions of the Cabinet of Ministers of 5 December and 19 December 2017, in 2017 the Company has acquired 34.36% shares of the Latvian natural gas transmission and storage system operator JSC "Conexus Baltic Grid". In accordance with the above-mentioned decisions, in 2017 the Treasury issued a loan to the Company for the purchase of shares. To secure the received loan, in 2017 the Company placed financial resources in the Treasury. In July 2018, the Company repaid the loan issued by the Treasury; accordingly, the Treasury has repaid the placed financial deposit.

15. ACCRUED INCOME

	31.12.2018 EUR	31.12.2017 EUR
Accrued income for the services rendered		
Transmission system services	6 300 085	6 180 342
Transmission assets reconstruction and renovation works	4 889 222	9 844 488
Balancing electricity sales	1 312 407	742 915
Electric power overload elimination	605 760	548 692
Compulsory purchase component	361 841	551 492
Reactive electricity revenue	71 115	28 922
Building maintenance service revenue	46 414	40 610
Additional losses in transformers	23 925	16 277
Regulating electricity	23 619	63 351
Balancing administration service revenue	3 557	3 557
Other services	54 865	68 926
Total Accrued income for the services rendered	**13 692 810**	**18 089 572**
Electricity transit service revenue (ITC)	1 873 974	2 026 955
Other accrued revenue	27 186	92 975
TOTAL ACCRUED REVENUE	**15 593 970**	**20 209 502**

16. CASH AND CASH EQUIVALENTS

	31.12.2018 EUR	31.12.2017 EUR
CASH AT BANK	**56 636 900**	**8 113 170**

17. EQUITY

The share capital of JSC "Augstsprieguma tīkls" as of 31 December 2018 is EUR 63 139 313 (on 31 December 2017: EUR 5 744 342) consisting of 63 139 313 shares (on 31 December 2017: 5 744 342 shares).

Considering the acquisition of JSC "Conexus Baltic Grid" shares in December 2017, with a resolution of the Shareholders' Meeting of 11 July 2018 (prot. No. 2, §1) the share capital of the Company was increased by making a money investment in the amount of EUR 57 394 382 and material investment of 117 shares of JSC "Conexus Baltic Grid", which, according to the opinion of the Company's shareholder regarding the value of the investment, are valued at EUR 589.

The Company determines the amount of profit to be paid out as dividends for the reporting year 2018 in accordance with the requirements of Article 47 of the "Law on State Budget for 2019".

The Company has made payments to the state budget for the use of state capital from the net profit of the previous year:

In 2016 - EUR 155 345;

In 2017 - EUR 299 511;

In 2018 - EUR 247 395.

Reserves consist of retained earnings of the previous period, which, by the decision of the owner, are transferred to other reserves for the development of the Company.

18. NON-CURRENT LIABILITIES

	31.12.2018 EUR	31.12.2017 EUR
Provisions for post-employment benefit liabilities:		
At the beginning of the reporting year	**2 598 729**	**2 406 639**
Current employment costs	227 638	340 252
Revaluations as a result of the actuarial assumptions – replaced in the equity	153 387	173 307
Interest costs	39 235	29 793
Benefits paid	(100 705)	(32 527)
Changes in the lump-sum benefits in accordance with Collective bargaining agreement	-	(318 735)
At the end of the reporting year	**2 918 284**	**2 598 729**
Deferred revenue		
Long-term share of revenue from congestion fee *	87 090 454	85 532 066
Total long-term creditors	**90 008 738**	**88 130 795**

* According to the conditions of Article 16 of Regulation (EC) No. 714/2009 of the European Parliament and of the Council "On conditions for access to the network for cross-border exchanges in electricity and repealing Regulation (EC) No. 1228/2003", congestion charge revenue received, which is not used to relieve congestion within the transmission system, shall be entered in the balance sheet as deferred income.

19. CURRENT BORROWINGS

	31.12.2018 EUR	31.12.2017 EUR
Borrowings*	-	57 394 382
TOTAL BORROWINGS	**-**	**57 394 382**

*Following the decisions of the Cabinet of Ministers of 5 December and 19 December 2017, in 2017 the Company has acquired 34.36% shares of the Latvian natural gas transmission and storage system operator JSC "Conexus Baltic Grid". In accordance with the above-mentioned decisions, the Treasury has issued loans to the Company. The maturity date of the loans was 20 December 2018, at an interest rate of 1.25% per annum. The interest rate is determined based on the twelve-month interest rate on financial resources raised by the Government of the Republic of Latvia on the financial and capital markets or the Treasury's indicative quotation rate effective on the last business day of the previous rate fixation period. In July 2018, the Company repaid the loan issued by the Treasury.

20. CURRENT DEFERRED INCOME

	31.12.2018 EUR	31.12.2017 EUR
Revenue from overload fee	5 041 798	4 495 456
EU co-financing received	921 041	1 032 353
Other current income	-	
TOTAL DEFERRED INCOME	**5 962 839**	**5 527 809**

21. ADVANCES AND OTHER LIABILITIES

	31.12.2018 EUR	31.12.2017 EUR
Advances received for connection fee*	1 310 742	4 469 744
Settlements with employees	602 985	586 661
Other liabilities	3 089 477	3 041 330
ADVANCE PAYMENTS AND OTHER CREDITORS	**5 003 204**	**8 097 735**

*JSC "Augstsprieguma tīkls" provides system participants with necessary connections to the transmission system or increase of the permitted load of existing connections in accordance with the connection rules regarding the fee for system participants, issued by PUC, which is determined by the transmission system operator, according to the PUC calculation method for the calculation of the connection fee.

22. ACCRUED LIABILITIES

	31.12.2018 EUR	31.12.2017 EUR
Accrued liabilities for expenses for services received		
Lease of fixed assets (transmission assets)	3 679 074	6 134 370
Purchase of balancing electricity	943 151	491 751
Mandatory procurement component	361 841	551 492
Electricity capacity reserve maintenance costs	345 960	361 584
Purchase of regulatory electricity	266 736	38 783
Expenses for telecommunications	240 983	68 148
Transmission asset reconstruction and renovation works	133 963	31 503
Creation of intangible investments	65 292	
Use of synchronous compensators	56 219	25 334
Liquidation of electrical capacity overload	26 188	
Information Technology Services	22 424	235 222
Cleaning of power transmission lines	12 830	53 794
Repairs of power transmission poles	-	77 647
Transmission electricity losses and technological consumption	-	22 386
Provisions for other services	109 205	106 674
Total accrued liabilities for expenses for services received	**6 263 866**	**8 198 688**
Accrued cost of unused holidays	569 491	509 094
Accrued bonus costs for previous year results	333 661	263 588
Accrued benefit costs and pension plan contributions	34 303	31 289
Accrued liabilities to compensate the transit losses	2 967	2 452
ACCRUED LIABILITIES	**7 204 288**	**9 005 111**

23. TAXES AND NATIONAL SOCIAL INSURANCE MANDATORY CONTRIBUTIONS

	31.12.2017 EUR	Calculated EUR	Paid EUR	31.12.2018 EUR
Corporate income tax	(589 121)	-	600 633	11 512
Value added tax	(1 831 021)	(14 538 088)	16 083 199	(285 910)
National social insurance mandatory contributions	(382 570)	(4 156 233)	4 133 020	(405 783)
Personal income tax	(225 324)	(2 102 004)	2 112 426	(214 902)
Business risk duty	(195)	(2 361)	2 357	(199)
Electricity tax	(386)	(2 951)	2 934	(403)
TOTAL TAXES	**(3 028 617)**	**(20 801 637)**	**22 934 569**	**(895 685)**
Tax liabilities	(3 028 617)	-	-	(907 197)
Overpaid taxes	-	-	-	11 512

24. OPERATING LEASE AGREEMENTS

According to the concluded lease agreements, the Company has the following non-cancellable lease payment obligations at the end of the reporting year:

	31.12.2018 EUR	31.12.2017 EUR
Real estate lease LIABILITIES		
dUE within one year	87 050	87 050
TOTAL	**87 050**	**87 050**
Transmission system assets lease liabilities		
Due within one year	37 578 581	38 465 693
Due within one to five years	171 537 200	181 806 864
TOTAL	**209 115 781**	**220 272 557**

According to the lease agreement of the transmission system assets as of 30 December 2014, the transmission system assets necessary for the performance of economic activities are leased from JSC “Latvijas elektriskais tīkls”. The long-term asset lease liabilities for 2019-2023 are calculated based on the estimates included in the financial management plan of JSC “Augstsprieguma tīkls” for 2019-2028.

25. FAIR VALUE CONSIDERATIONS

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

This hierarchy requires the use of observable market data, if it is available. When carrying out the revaluation, the Company shall consider the relevant observable market prices, if it is possible.

The objective of measuring the fair value, even if the market is not active, is to determine the transaction price at which market participants would be ready to sell the asset or make a commitment at a given valuation date under current market conditions.

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

The fair value hierarchy level of a financial instrument should be designated as the lowest level, if a significant part of their value is formed of lower level data.

The classification of a financial instrument in the fair value hierarchy is carried out in two steps:

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

2. Classify the financial instrument itself on the basis of the lowest level, if a significant part of their value is formed of lower level data.

Quoted market prices - Level 1

The valuation technique in Level 1 uses unadjusted quoted prices in an active market for identical assets or liabilities, when quoted prices are readily available and the price represents the actual market position for the transactions under fair competition.

Valuation techniques, when using market data - Level 2

In the valuation technique used in Level 2 models, all relevant data, directly or indirectly, is observable from the asset or liability side. The model uses market data, that are not the quoted prices at Level 1, but that are observable directly (i.e., price) or indirectly (i.e., derived from price).

Valuation technique using market data that is not based on observable market data - Level 3

Valuation technique using market data that is not based on observable market data (non-observable market data) are classified in Level 3. Non-observable market data are the data that are not easily available in an active market due to the illiquidity of the market or the complexity of the financial instrument. Level 3 data are usually determined from observable market data of a similar nature, from historical observations or from analytical approaches.

Assets and liabilities that are presented at fair value or that are counted at fair value

The carrying amount of liquid and short-term (up to three months) financial instruments such as cash and cash equivalents, short-term deposits, short-term trade receivables and debts to suppliers and contractors is approximately at their fair value.

Balance sheet item	Book value, EUR	Level 1, EUR	Level 2, EUR	Level 3, EUR
31.12.2017				
Cash and cash equivalents	8 113 170	-	8 113 170	-
Term deposits	10 000 000	-	10 000 000	-
Trade receivables	479 129	-	-	479 129
Financial deposit with limited access right	57 394 382	-	57 394 382	-
Term deposit	25 000 000	-	25 000 000	-
Other financial assets	44 440	-		44 440
Trade payables	9 038 161	-	-	9 038 161
Borrowing	57 394 382	-	57 394 382	-
Other financial liabilities	3 041 330	-	-	3 041 330
31.12.2018				
Cash and cash equivalents	56 636 900	-	56 636 900	-
Trade receivables	1 601 681	-	-	1 601 681
Term deposit	50 000 000	-	50 000 000	-
Other long-term financial investments	1 902 887	-	-	1 902 887
Other financial assets	54 646	-		54 646
Trade payables	13 569 641	-	-	13 569 641
Other financial liabilities	3 089 477	-	-	3 089 477

26. FINANCIAL RISK MANAGEMENT

(a) Turnover risk

External circumstances that could have an unintended effect on the Company's net sales, affecting its ability to meet its current and non-current financial liabilities (solvency), are identified as turnover risks. The economic activity of the Company is exposed to turnover risks such as service tariff and volume of services. Given that, according to Article 9 of the "Law on Public Utilities Regulators", PUC promotes the development of public service providers, and according to Article 20, provides that public service tariffs shall be set at a level that covers the economically justified costs of the public service and ensures the profitability of the public service, the impact of the Company's turnover risks on the Company's liquidity shortage is assessed as low to medium. The Company's turnover risks are managed in accordance with strategic and operational risk mitigation measures specified in the Financial risk management policy, ensuring constant monitoring of the service tariffs against the costs related to the provision of the services.

(b) Cash flow/balance sheet risks

Financial means that potentially expose the Company to a certain degree of risk concentration are mostly cash and trade receivables. Although the Company has a significant concentration of risk with respect to one counterparty or a group of similar counterparties, this risk is considered to be limited, considering that the most important Cooperation partner is the state-owned commercial company JSC "Latvenergo", as well as its group companies. Trade receivables are presented according to the recoverable value. The Company's cash flow/balance sheet risks are managed in accordance with the strategic and operational risk mitigation measures specified in the Financial risk management policy by performing the analysis of receivables every month or at least quarterly. On 31 December 2018, the amount of delayed bills amounted to EUR 1 548 519, which represents 0.8% of the Company's net turnover, of which EUR 1 527 814 was paid in January 2019. Financial risks arising from the Company's cash and deposits with banks are managed in accordance with the Company's Financial risk management policy. According to this policy, in cooperation with banks and financial institutions, such business partners are accepted, whose credit rating or credit rating of the parent bank set by an international credit rating agency is at least at the investment grade level.

The credit ratings of the banks used by the Company according to the bank credit ratings assigned by Moody's and the balances on current accounts and term deposits with these banks were as follows:

Balance sheet item	Credit rating	At 31.12.2018 EUR	At 31.12.2017 EUR
Cash, including:			
Cash in current accounts, company cards	Aa3	-	8 113 170
	Aa2	56 636 900	-
Total cash		**56 636 900**	**8 113 170**
Cash as part of receivables *, including:			
As part of short-term receivables Deposits with a maturity term from 3 months to 12 months, including:			
	Aa3	-	20,000,000
	Aa2	-	5 000 000
	Baa1	50 000 000	
As part of long-term receivables Deposit with a maturity term of over 12 months, including:			
	Aa2	-	10 000 000
Total deposits with a maturity term of over 3 months		**50 000 000**	**35 000 000**

(c) Liquidity risk

The Company complies with prudential liquidity risk management, ensuring that appropriate financial resources are available to it for the settlement of liabilities within the set time periods. The management of the Company expects that it will not have liquidity problems and that the Company will be able to settle accounts with creditors within the set terms.

The Company's management believes that the Company will have sufficient financial resources to ensure its liquidity is not compromised.

(d) Capital risk management

The shareholder of the Company is the Ministry of Finance in the name of the Republic of Latvia (100%) The objective of capital risk management is to ensure the sustainable operation and development of the Company.

In accordance with the separation model of the electricity transmission system operator, that has been implemented in Latvia, the Company leases the assets necessary for the provision of transmission system services from JSC “Latvijas elektriskie tīkli”. Taking the above mentioned into account, the Company's capital structure is characterised by a low equity ratio. Such capital structure does not create any risk to the sustainable development of the Company, as, according to the Electricity Market Law, financing of the Company's capital investments in transmission system assets is provided by JSC “Latvijas elektriskie tīkli” as the owner of electricity transmission system assets.

Within the framework of capital risk management, when making decisions on the investments financed by the Company, the amount of available own financing and borrowings is assessed, as well as the necessity to initiate the shareholders' investment in the share capital of the Company. Considering the acquisition of JSC “Conexus Baltic Grid” shares in December 2017, with a resolution of the Shareholders' Meeting of 11 July 2018 (prot. No. 2, §1) the share capital of the Company was increased by making a money investment in the amount of EUR 57 394 382 and material investment of 117 shares of JSC “Conexus Baltic Grid”, which, according to the opinion of the Company’s shareholder regarding the value of the investment, are valued at EUR 589.

(e) Credit risk

The Company does not use loans to finance its operating activities. Financial means that potentially expose the Company to a certain degree of risk concentration are mostly cash and trade receivables. In accordance with the Accounting policy of the Company, impairment allowance for doubtful debts is calculated at least quarterly, based on the age of the receivables.

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

	31.12.2018 EUR	**31.12.2017 EUR**
Cash and cash equivalents	56 636 900	8 113 170
Trade receivables and other receivables (gross amount) excluding advances and prepayments	1 619 489	494 533
Total	**58 256 389**	**8 607 703**

In addition, the following information regarding credit risk shall be disclosed:

	31.12.2018 EUR	31.12.2017 EUR
Debts that are not overdue	70 970	324 986
Overdue debts		
Up to 3 months	1 527 150	153 839
From 3 to 12 months	5 661	6 294
From 1 to 5 years	11 833	5 539-
More than 5 years	3 875	3 875
TOTAL	**1 619 489**	**494 533**

27. PROSPECTIVE TAX LIABILITIES

The tax authorities may carry out an audit of accounts at any time within three years of the tax year and additionally calculate the tax liabilities and penalties. The management of the Company is not aware of any circumstances that could create material future liabilities.

28. CAPITAL INVESTMENT LIABILITIES

According to Article 13 Section 6 of the Electricity Market Law, the Company as a transmission system operator shall be responsible for the planning, construction and commissioning of new transmission infrastructure objects during the development of the transmission system. In view of the above, the Company implements capital investment projects in transmission system assets in accordance with the ten-year development plan approved by the Public utilities regulation commission.

In accordance with the electricity transmission system operator separation model, the owner of the transmission system assets is JSC "Latvijas elektriskie tīkli".

According to Article 21^2 Section 3 of the Electricity Market Law, the transmission system asset lease agreement of 30 December 2014 between the Company and JSC "Latvijas elektriskie tīkli", JSC "Latvijas elektriskie tīkli" as the owner of electricity transmission system assets provides financing to the capital investments of the Company for the development of the transmission system. Thereby the Company is not exposed to credit risk when carrying out capital investment projects, no capital investment liabilities arises.

In addition to the financing provided by JSC "Latvijas elektriskie tīkli", co-financing from the European Union is attracted to the capital investment projects, including:

- Grant agreement with INEA (Innovation and Networks Executive Agency) concluded in May 2015 for co-financing the project "330 kV ETL connection Kurzemes loks" Phase 3: 330 kV overhead line "Ventspils –Tume - Imanta" co-financing 45% of the eligible costs in the amount of EUR 55 089 000, project is expected to be completed by the end of 2019;
- In May 2015 an agreement was concluded with INEA to receive European Union co-financing for the project "Estonia-Latvia Third Interconnection" of 65% of the eligible costs in the amount of EUR 63 380 070, the project is expected to be completed by the end of 2020;
- In May 2017 an agreement was concluded with INEA to receive European Union co-financing for the project "Construction of 330 kV power line "Riga TEC-2 – Riga HPP"" of

50% of the eligible costs in the amount of EUR 9 990 000, the project is expected to be completed by the end of 2020;

- On 19 March 2019 an agreement was concluded with INEA to receive European Union co-financing for the project "Baltic synchronisation project, Phase 1" of 75% of the eligible costs in the amount of EUR 57 750 000, the project is expected to be completed by the end of 2025.

29. TRANSACTIONS WITH RELATED PARTIES

Related parties are state-owned entities that are controlled, jointly controlled, or substantially influenced by the state. The Company does not have any material transactions and other transactions which, together, but not individually, are material to the Government of the Republic of Latvia, government agencies and similar institutions of local, national or international scope within the scope of the Standard, except for JSC "Latvenergo" and its subsidiaries - the transmission assets owner JSC "Latvijas elektriskie tīkli", the power supply service provider JSC "Latvenergo", the distribution system operator JSC "Sadales tīkls", the public electricity trader JSC "Enerģijas publiskais tirgotājs".

a) Revenue and expenses from transactions with related parties

	31.12.2018 EUR	31.12.2017 EUR
	State controlled companies*	
Income		
Revenue from the sale of electricity, electric capacity maintenance services	5 089 993	4 239 110
Mandatory procurement component	4 031 582	6 358 785
Transport system service	72 300 401	72 417 411
Transmission asset reconstruction and renovation works	85 839 950	62 684 446
Revenue from other services	878 139	798 515
Total revenue from transactions with related companies	**168 140 065**	**146 498 267**

	31.12.2018 EUR	31.12.2017 EUR
	State controlled companies*	
Distributions		
Advance payments for connection usage rights	4 118 381	-
Electricity purchase	17 255 321	9 980 119
Mandatory procurement component	4 068 123	6 373 144
Lease of fixed assets	38 698 823	43 911 141
Communication expenses	3 284 181	3 640 537
Other costs	1 230 317	413 572
Total expenses of transactions with related companies	**68 655 146**	**64 318 513**

b) Balances at the end of the year arising from related company transactions

	31.12.2018 EUR	31.12.2017 EUR
Accounts receivable:		
state controlled companies	12 097 454	18 062 801
Liabilities of creditors:		
state controlled companies	12 067 866	27 411 292

30. RE-CLASSIFICATION OF ITEMS

To improve the comparability of financial statements, the following financial statement items were reclassified in 2018:

	After reclassification 31.12.2017 EUR	Re-classification 31.12.2017 EUR	Before reclassification 31.12.2017 EUR
ASSETS			
Long-term investments			
Investment in associated companies	57 394 382	57 394 382	-
Other long-term financial investments	1 902 887	(57 394 382)	59 297 269
TOTAL LONG-TERM FINANCIAL INVESTMENTS	**59 297 269**	**-**	**59 297 269**

RE-CLASSIFICATION (Continued)

	After reclassification 31.12.2017 EUR	Re-classification 31.12.2017 EUR	Before reclassification 31.12.2017, EUR
LIABILITIES			
Short-term accounts payable			
Taxes and State social security contributions	2 439 496	(589 121)	3 028 617
Corporate income tax	589 121	589 121	-
TOTAL TAXES AND STATE SOCIAL INSURANCE CONTRIBUTIONS	**3 028 617**	**-**	**3 028 617**
CASH FLOW STATEMENT			
Cash flow of the principal activity			
Increase in trade receivables, other receivables and accrued income	20 082 554	57 394 382	(37 311 828)
Cash flow from investment activities			
Received EU funding	-	(2 704 804)	2 704 804
Financial deposit with limited access	(57 394 382)	(57 394 382)	-
Cash flow from financing activities			
Received EU funding	2 704 804	2 704 804	-

31. REMUNERATION OF THE CERTIFIED AUDIT COMPANY

	2018 EUR	2017 EUR
Audit service	7 110	11 900
Consulting service	-	13 800
TOTAL REMUNERATION OF THE CERTIFIED AUDIT COMPANY	**7 110**	**25 700**

32. EVENTS AFTER THE END OF THE REPORTING YEAR

During the period from the last day of the reporting year, no other events that would considerably influence the financial statements of 2018 of the Company have occurred.

* * * * *

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INDEPENDENT AUDITOR'S REPORT

To the shareholder of AS "Augstsprieguma tīkls"

Our Opinion on the Separate Financial Statements

We have audited the accompanying separate financial statements of AS "Augstsprieguma tīkls" ("the Company") set out on pages 19 to 61 of the accompanying annual report, which comprise:

- the statement of financial position as at 31 December 2018,
- profit or loss statement for the year then ended,
- the statement of comprehensive income for the year then ended,
- the statement of changes in equity for the year then ended,
- the statement of cash flows for the year then ended, and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying separate financial statements give a true and fair view of the financial position of AS "Augstsprieguma tīkls" as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

In accordance with the Law on Audit Services of the Republic of Latvia we conducted our audit in accordance with International Standards on Auditing adopted in the Republic of Latvia (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and independence requirements included in the Law on Audit Services of the Republic of Latvia that are relevant to our audit of the financial statements in the Republic of Latvia. We have also fulfilled our other professional ethics responsibilities and objectivity requirements in accordance with the IESBA Code and Law on Audit Services of the Republic of Latvia.

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

Reporting on Other Information

The Company management is responsible for the other information. The other information comprises:

- Information about the Company, as set out on page 3 of the accompanying Annual Report,
- the Management Report, as set out on pages 4-17 of the accompanying Annual Report,

Our opinion on the financial statements does not cover the other information included in the Annual Report, and we do not express any form of assurance conclusion thereon, except as described in the *Other reporting responsibilities in accordance with the legislation of the Republic of Latvia related to other information* section of our report.
In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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

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INDEPENDENT AUDITOR'S REPORT (continued)

Other reporting responsibilities in accordance with the legislation of the Republic of Latvia related to other information

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

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

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

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

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

Auditor's Responsibility for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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INDEPENDENT AUDITOR'S REPORT (continued)

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves a fair presentation.

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

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Inguna Staša
Member of the Board
Certified Auditor of Latvia
Certificate No.145

Riga, Latvia
May 15, 2019