2013

Sustainability and Annual Report

Latvenergo

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In 2013, we are moving towards achievement of the strategic goals

I am pleased to offer you an overview of the operations of Latvenergo Group in 2013. This is the fifth year that the Latvenergo Group Sustainability Report is published in accordance with the reporting standards defined in the GRI (Global Reporting Initiative) Guidelines. Over the time, the scope of information disclosed has been expanded and the year 2013 was not an exception.

Last year was remarkable because the energy sector in Latvia, the European Union and the world has been undergoing a certain change of attitude and seeing efforts to re-evaluate development achieved so far. There are several reasons for this. Concisely, one can see that many countries are looking back, evaluating what has been achieved in the previous period, sometimes even over the course of several years or decades. The choir of warnings is getting louder, pointing out that the electricity industry has grown overeager for artificial assistance, ways of subsidising ever newer types of energy, thereby increasing the burden of electricity costs that is put on the shoulders of energy users. At the same time, major traditional generation facilities, which have operated efficiently using technologies proven over the years, are left without due attention.

Nearly everywhere in the European Union, there is a challenge of balanced market development: on the one hand, there are attempts to diversify energy generation; on the other hand, nobody wants to burden customers with the financial cost of this development. This situation is not alien also in Latvia. On a number of occasions in 2013, experts and the general public occasionally brought up the matter of why all electricity users, including households and holders of major production facilities, shall bear the burden of increased electricity bills due to unpredictably increasing development project costs. In 2013, a solution was sought on a national level to halt the increase of this burden, so that implementation of mandatory electricity procurement would not impair the economy and the public welfare. The state will be working to balance its care for the consumer with reinforcing the confidence of entrepreneurs who have invested in business development.

In 2013, we have invested in a number of crucial areas:

- we completed the reconstruction of Riga TEC-2,
- we have continued improving our electricity market services for customers in the Baltics,
- we have successfully issued bonds and enhanced our corporate governance.

One of the major events in the energy industry of Latvia was the commissioning of the Riga TEC-2 second power unit in late 2013, which we may consider as a conclusion of our combined heat and power plant capacity modernisation. Today, with 2,569 MW of installed electrical capacity, for the first time in the history of the state energy sector, we are self-sufficient and capable to generate all the necessary electricity. Since we operate in a market, of course, we should calculate whether it is economically beneficial for us to generate electricity by ourselves, or to purchase it on the exchange – a decision guided by the market conditions at the time. Now, our reconstructed Riga combined heat and power plants are ideally suited for sustaining this flexible approach – an essential priority in a market environment. Following the reconstruction, the Riga TEC-2 has 832 MW of electrical capacity and, together with the water boilers, 1,124 MW of thermal capacity. In addition, CO_2 emissions per unit of energy generated have been diminished, and efficiency has been boosted. As a result, this generation facility is capable of providing Riga with heat, as well ensuring base load capacity and electricity supply security not just in Latvia but in the entire Baltics.

Since 2007, not just the Baltic region but also all of Europe has undergone considerable changes in the energy sector. The Baltic States are gradually opening their electricity markets, and Latvenergo Group has been highly successful in securing its market leadership during this period. What role do the Riga combined heat and power plants play in this line of events?

Firstly, without the reconstructed Riga TEC-2, Latvenergo Group today could not be proud of leadership on the Baltic electricity market. Secondly, Riga combined heat and power plants are indispensable due to their flexibility in responding to gas and electricity price changes on the market: depending on the market conditions, as electricity suppliers we can evaluate our tactics and make decision on what is more economically

profitable – to generate electricity or to purchase it on the exchange. The reconstructed Riga TEC-2 is the only source of base load capacity in Latvia that can cover most of the state's consumption in situations when imported electricity is unavailable. Moreover, the Riga TEC-2 is a limiting factor for uncontrolled increase of the prices of imported electricity – electricity importers are unable to force us to purchase electricity at a price that exceeds the electricity generation costs at Riga combined heat and power plants, because otherwise we would generate the necessary energy ourselves.

In 2013, development of transmission and distribution networks continued: the amount of investments were increased by 35% reaching EUR 157.6 million. Investments in transmission and distribution networks represent 70% of the total Latvenergo Group investments in 2013. Investments are made in reconstruction and modernisation of distribution networks in order to improve service quality and technical parameters according to the customer needs. This year, the Sadales tīkls AS Development Plan until 2023 was created, laying the groundwork for investments in network modernisation and increased operational reliability in the coming years. Active effort is also put in reinforcement of transmission network, primarily by constructing the *Kurzeme Ring*, which will significantly increase the electricity supply reliability in the Western part of Latvia and ensure effective integration with the Sweden-Lithuania interconnection. The total investment in transmission assets in 2013 equalled EUR 68.9 million, including EUR 51.0 million towards construction of the *Kurzeme Ring*.

In 2013, most of Latvenergo Group electricity output (59%) came from renewable energy sources. To maintain its high position in green energy generation, it is essential that the reconstruction and maintenance of Daugava HPPs generation facilities are performed. By 2022, it is planned to invest more than EUR 200 million in reconstruction of Daugava HPPs hydropower units, ensuring their operation for the next 40 years.

Gradual liberalisation of the electricity market in the Baltics continued in 2013. Since 1 January 2013, the Estonian electricity market is opened to all customers and the Lithuanian market – to all corporate customers. Along with the gradual liberalisation of the Baltic electricity market, Latvenergo Group carries out focused sales activities to strengthen its current position on the Baltic electricity retail market. The total retail electricity supply in 2013 was 7,954 GWh, ensuring Latvenergo Group the position of the largest electricity supplier in the Baltics, with a 32% market share.

In a highly competitive environment, we have expanded our operations and increased the market share in Estonia and Lithuania. Electricity supplied outside Latvia accounts for more than 1/4 of total retail electricity supply or 2,081 GWh, which is 674 GWh higher than the amount supplied by competing electricity suppliers in Latvia.

In 2013, electricity products in Estonia and Lithuania were successfully marketed under the new trading brand *Elektrum*. The products are available on the internet, ensuring quick and easy conclusion of electricity trade agreements. To attract new customers while retaining the current ones, Latvenergo Group paid particular attention to development of products and services in 2013. In preparation for liberalisation of the electricity market in Latvia, a diverse range of *Elektrum* electricity products was developed, acquainting the household customer segment with them in early 2014.

Our contribution to the development of the Group also includes explaining the operation of the electricity market to the public, as the experience of other countries shows that market liberalisation in the household segment often leads to misunderstandings, requests for simplified information, constant dialogue involving the public and those who make decisions. It is important to ensure that information is uniform and easy to grasp. Electricity trade in the Baltics and Scandinavian countries is conducted through the Nord Pool Spot (NPS) exchange platform, and each customer or entrepreneur may check electricity prices in the NPS member states online. Operation of exchange and market mechanisms is not possible without a unified and highly branched system of electricity connections – interconnections on state and regional levels.

Transmission system operators in Latvia and Estonia are developing the project for a new interconnection between Latvia and Estonia, which will allow harmonizing the electricity prices in the Baltics. Interconnections will develop: the interconnections between Estonia and Finland already have a capacity of 1,000 MW; an interconnection between Lithuania and Sweden with a capacity of 700 MW will follow; another 1,000 MW interconnection between Lithuania and Poland is tentative. These interconnections will provide inflow of cheaper electricity from Scandinavia into our region, reducing the average price within the region.

Our task and only opportunity in developing balanced electricity solutions is to make the right investment at the right time and in the right amount. At Latvenergo Group, any activity before its implementation is evaluated from the point of business as well as ethics, because only rational, fairly structured investments can bring profits to a company, a shareholder and to the public at large. Therefore, we continue to improve our corporate governance in accordance with internationally recognised governance practice. 2013 was the first full-year when an independent Audit Committee operated as a supervisory body within Latvenergo Group. The Committee comprises three members who are independent specialists not connected to the Group operations. In addition to the regular Audit Committee duties (supervision of the financial reporting process, internal control and risk management system efficiency, internal audit and external auditor activities), in 2013, the Audit Committee supervised the implementation of the Fraud Risk Management Plan, initiated an evaluation of internal audit quality and also provided comments and recommendations on the operation of the internal audit and the external auditor, as well as on the fraud risk management.

Our activities have brought us recognition in the eyes of professionals – in 2013, Latvenergo Group received a number of important awards and recognitions. For the fifth consecutive year, Latvenergo AS has been acknowledged as the most valuable company of Latvia on the *TOP 101 most valuable Latvian companies* list created by the *Kapitāls* magazine in cooperation with Prudentia IBS, the NASDAQ OMX Riga exchange, and Lursoft IT SIA. The 2013 survey underscores the value of Latvenergo AS corporate governance, transparency, and the quality of disclosed information.

NASDAQ OMX Riga AS annually rewards exceptional performance on the securities market and contributions to its development. In 2013, the award was presented to Latvenergo AS, the first wholly state-owned company to successfully issue public bonds on the Baltic exchange regulated market, proving that the capital market is able to ensure funding to transparent companies with good corporate governance.

The Latvian Company reputation list 2013 organised by the *Dienas Bizness* newspaper in cooperation with the Nords Porter Novelli SIA listed Latvenergo AS as the leader in the electricity, gas and water supply category. The reputation growth of the company was secured by improvement of corporate governance, participation on the free electricity market and corporate social responsibility activities.

These awards are an appreciation of the work that demonstrates the many facets of our operations, and we are pleased that professionals acknowledge these achievements. However, it is no less important that name of the Group is noted in an overall operational assessment – one that is received from each of our customers in practical communication and associatively. Being close to our customers, understanding their desires and being ready to provide high-level services is both an immense, constant workload and a professional duty and high privilege at the same time.

May we succeed!

Dr. sc. ing. **Āris Žīgurs,**
Chairman of the Management Board
of Latvenergo AS

Latvenergo Group profile

Prepared in accordance with the GRI (Global Reporting Initiative) Guidelines G3.1 Application Level B+

1.1 Reporting Principles

1.1 Reporting Principles

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> Report is prepared in accordance with the GRI requirements, constantly improving the information disclosed

Since 2009, the Latvenergo Group (hereinafter also referred to as the Group) Sustainability Report is published in accordance with the reporting standards specified in the GRI (Global Reporting Initiative) Guidelines. Over time, the amount of information disclosed is expanded and the disclosure process is improved. Sustainability Report for 2013, as well as for the previous year, is prepared in accordance with Level B+ requirements of the GRI Guidelines G3.1.

The information on the Latvenergo Group profile (1.1 – 4.17) and 45 performance indicators has been fully disclosed in the Sustainability Report.

The scope of disclosed information includes 11 energy sector-specific indicators (marked EU) that are disclosed in accordance with the requirements of the GRI Electric Utilities Sector Supplement. The disclosed performance indicators were selected by evaluating their importance in the context of sustainable development and significance in cooperation with stakeholders.

The Profile section contains general information on the Group, its strategy, governance, management and operating segments, while the information on management approach to environmental matters, labour practices and decent work, product responsibility, society and economic responsibility, as well as on key performance indicators within these areas, is disclosed in the Performance indicators section.

The Sustainability Report discloses information on Latvenergo Group and its core business operations – generation and supply of electricity and thermal energy, electricity distribution and management of transmission system assets. The geographic scope of Latvenergo Group activities covers the Baltics.

Latvenergo Group performed a study in four stages in order to determine the extent and key issues of information that should be disclosed in the report. At the first stage, the information disclosed in the report of the previous year was revised taking into account the changes in Latvenergo Group operations and feedback from stakeholders, also including matters related to the report of the previous year. At the second stage, key performance indicators were identified. At the third stage, the significance of these indicators in the context of sustainable development of Latvenergo Group and conformance to the needs and expectations of the identified stakeholders were assessed. Finally, the key performance indicators were discussed, verified and updated through internal discussions with managers responsible for the respective areas.

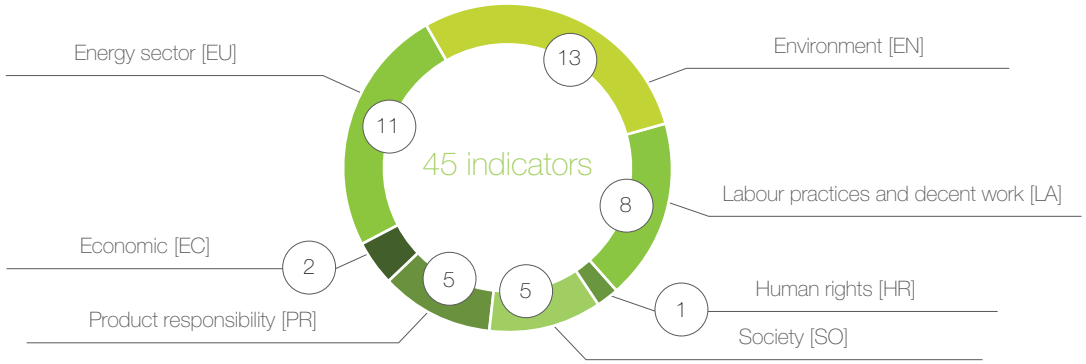
Having evaluated the scope of information disclosed so far, in the report for 2013, additional information on the Group environmental protection expenditures (EN30), water discharge (EN21) and participation in public policy development and lobbying (SO5) is provided.

GRI report application level criteria

Report application level	C	C+	B	**B+**	A	A+
Profile Disclosures	Report on: 1.1 2.1 - 2.10 3.1 - 3.8, 3.10 -3.12 4.1 - 4.4, 4.14 - 4.15	Report Externally Assured	Report on all criteria listed for Level C plus: 1.2 3.9, 3.13 4.5 - 4.13, 4.16 - 4.17***	**Report Externally Assured**	Same as requirement for Level B	Report Externally Assured
Management Approach	Not Required		Management Approach Disclosures for each indicator Category		Management Approach Disclosures for each indicator Category	
Performance Indicators & Sector Supplement Performance Indicators	Report fully on a minimum of any 10 Performance Indicators, including at least one from each of: social, economic and environment.*		Report fully on a minimum of any 20 Performance Indicators, at least one from each of: economic, environment, human rights, labour, society and product responsibility.**		Respond on each core and Sector Supplement indicator with due regard to the materiality Principle by either: a) reporting on the indicator or b) explaining the reason for its omission.	

* Performance Indicators may be selected from any finalised Sector Supplement, but 7 of the 10 must be from the original GRI Guidelines
** Performance Indicators may be selected from any finalised Sector Supplement, but 14 of the 20 must be from the original GRI Guidelines
*** GRI Profile Disclosures 4.2, 4.3, 4.9 and 4.10 are not applicable to Latvenergo Group

GRI Performance and Sector Supplement indicators disclosed in the report



The information comprised in the report has been obtained from internal information systems, where data collection and quality are under full control of the Group. Implemented internal control systems ensure the credibility of data. Furthermore, to achieve a comparative evaluation of the Group development across its operating segments, the data in the report are disclosed on a multi-year perspective. Data measurement methods have not been changed significantly compared to the previous reports. Collection methods of the reported data have been specified. Three data collection methods were used:

- measurement – the data were measured precisely;
- estimate – the data were estimated approximately on the basis of assumptions;
- calculation – the data were obtained using calculations.

The information included in the report is addressed to all stakeholders of Latvenergo Group. A summary of the information included in the Sustainability Report in accordance with the GRI Guidelines is provided in the annex. All indicators included in the report are fully disclosed. For the third consecutive year, an independent external audit has been performed on the Group Sustainability Report. As in the previous year, the Independent Auditor's Review on the Sustainability Report 2013 has been provided by Ernst & Young Baltic SIA.

All Sustainability Reports of the Group are publicly available on the international Sustainability Disclosure Database of GRI, as well as on the Latvenergo website – http://www.latvenergo.lv. E-mail address for questions and suggestions related to the Sustainability Report: sustainability@latvenergo.lv.

1.2 Group Profile

1.2 Group Profile

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Latvenergo Group is the largest power supply utility in the Baltics

Latvenergo Group is the largest power supply utility in the Baltics operating in generation and supply of electricity and thermal energy, provision of electricity distribution services and management of transmission system assets.

Latvenergo Group comprises the parent company Latvenergo AS and six subsidiaries as at the end of 2013. All shares of Latvenergo AS are owned by the Republic of Latvia and held by the Ministry of Economics of the Republic of Latvia.

In order to improve the transparency of administration of electricity procurement process, new subsidiary Enerģijas publiskais tirgotājs AS was established on 25 February 2014. The subsidiary has over taken the mandatory procurement administration functions from Latvenergo AS as of 1 April 2014.

Latvenergo AS is a shareholder in two associated companies – Nordic Energy Link AS and Pirmais Slēgtais Pensiju Fonds AS. At the end of 2013, the assets of Nordic Energy Link AS were sold to transmission system operators in Estonia and Finland and thus the economic activity of Nordic Energy Link AS will be discontinued. Latvenergo AS also has a shareholding in Rīgas siltums AS (0.005%).

More information about the operating segments and customers of Latvenergo Group is disclosed in the Section 1.7 "Description of Operating Segments".

Latvenergo AS shareholding in subsidiaries and associated companies

	Country of operations	Type of operation	Participation share
Latvenergo AS	Latvia	Generation and supply of electricity and thermal energy	–
Sadales tīkls AS	Latvia	Electricity distribution	100%
Latvijas elektriskie tīkli AS	Latvia	Transmission system asset management	100%
Enerģijas publiskais tirgotājs AS	Latvia	Administration of electricity mandatory procurement process	100%
Elektrum Eesti OÜ	Estonia	Electricity supply	100%
Elektrum Latvija SIA (subsidiary of Elektrum Eesti OÜ)	Latvia	Electricity supply	100%
Elektrum Lietuva UAB	Lithuania	Electricity supply	100%
Liepājas enerģija SIA	Latvia	Electricity and thermal energy generation and supply	51%
Nordic Energy Link AS	Estonia	Electricity transmission	25%
Pirmais Slēgtais Pensiju Fonds AS	Latvia	Pension plan management	46.3%*

* Latvenergo Group shareholding – 48.15%

Latvenergo Group company contacts

	Registered office	Website
Latvenergo AS	Pulkveža Brieža iela 12, Riga, Latvia, LV-1230	http://www.latvenergo.lv/
Sadales tīkls AS	Šmerļa iela 1, Riga, Latvia, LV-1160	http://www.sadalestikls.lv/
Latvijas elektriskie tīkli AS	Dārzciema iela 86, Riga, Latvia, LV-1073	http://www.let.latvenergo.lv/
Enerģijas publiskais tirgotājs AS	Pulkveža Brieža iela 12, Riga, Latvia, LV-1010	http://www.eptirgotajs.lv/
Elektrum Eesti OÜ	Liivalaia 45, 10145 Tallinn, Estonia	http://www.elektrum.ee/
Elektrum Latvija SIA	Pulkveža Brieža iela 12, Riga, Latvia, LV-1010	–
Elektrum Lietuva UAB	A.Goštauto g. 40B, Vilnius LT- 01112, Lithuania	http://www.elektrum.lt/
Liepājas enerģija SIA	Ludviķa iela 15, Liepaja, Latvia, LV-3401	http://www.liepajasenergija.lv/

2013

GENERAL FACTS
100% shares are state-owned
Vertically integrated power supply utility
4,512 employees

FINANCIAL PERFORMANCE		
Revenue	MEUR	1,099.9
Net profit	MEUR	46.1
Assets	MEUR	3,575.4
Investments	MEUR	224,9
Credit rating	*Moody's*	Baa3 (stable)

SALES FIGURES		
Retail electricity supply	GWh	7,954
Market share in the Baltics	%	32
Customers	thousands	~ 900
Thermal energy supply	GWh	2,517

TECHNICAL PARAMETERS		
Installed electrical capacity	MW_{el}	2,569
Installed thermal capacity	MW_{th}	1,857
Distribution		
line lenght	km	94,705
transformer capacity	MVA	5,809
Transmission		
line lenght	km	5,275
transformer capacity	MVA	8,543

VISION

Latvenergo Group as one of the leading and primary customer-chosen providers of quality power supply services and innovative solutions in the Baltic States

MISSION

To ensure high quality, safe and environmentally friendly energy generation and supply in order to meet customer needs, promoting an increase in the long-term value and sustainable growth of the Group

VALUES

RESPONSIBILITY
We are reliable – we take personal responsibility for each task to be performed

EFFICIENCY
We act professionally and achieve the goals we set by using resources rationally

OPENNESS
We are responsive and sincere, we promote the exchange of experience, welcome new ideas and change

1.3 Group Strategy

1.3 Group Strategy

1.2

Accomplishments of 2013 show successful progress towards achievement of strategic goals

The key strategic goals and organization development tasks until 2016 are defined in the Strategy of Latvenergo Group approved at the end of 2012. The strategy is designed taking into account the European Union (EU) energy sector regulations and the objectives established therein, as well as the Baltic business environment and its foreseeable changes.

The most significant development trends in the Baltic energy sector are liberalisation of the electricity market and its integration into the Nordic market, as well as greenhouse gas emission reduction, increase in the role of renewable resources and promotion of energy efficiency.

Electricity market liberalisation and integration into the Nordic market

In 2009, the European Commission in collaboration with the heads of states of the Baltic Sea region approved the Baltic Energy Market Interconnection Plan (BEMIP) aiming at integration of the Baltics into the EU energy market.

Pursuant to the BEMIP, the Baltic electricity market is gradually opening and merging with the Nordic electricity market. The process also implies the establishment of the Nord Pool Spot power exchange bidding areas in the Baltic States and construction of the interconnections – the Estonia-Finland interconnection *EstLink-2* was brought in operation in early 2014, and construction of the Lithuania-Sweden interconnection is scheduled for completion in 2016.

European Energy 2020 strategy

The *Energy 2020* strategy proposes reduction of greenhouse gas emissions and increase of energy efficiency by 20% compared to 1990, as well as increase of the share of renewable energy up to 20% of the total energy consumption. These targets are defined as legally binding for the EU Member States within the framework of the EU legislative process. The defined targets affect the electricity generator options for investment in electricity generation sources, the growing role of renewable energy resources in energy generation and price formation, and the energy consumption changes due to energy efficiency.

Strategic goals of Latvenergo Group and progress towards their achievement

In view of the energy sector development trends, Latvenergo Group has set the following strategic goals for the period until 2016, with significant activities performed towards their achievement in 2013:

- **Strengthening of the market position in the Baltics** to become a permanent and equal electricity retail participant in all three Baltic States, maintaining an economically justified market share and increasing the number of customers by focusing on small and medium-sized enterprises and households. In 2013, due to focused electricity trade activities, Latvenergo Group has 32% market share in the Baltic electricity retail market, maintaining its electricity supplier leadership in the Baltics. The number of customers in Lithuania and Estonia exceeds 20 thousands and retail electricity supply in the neighbouring countries increased by one third reaching 2,081 GWh. Overall, Latvenergo Group supplied 7,954 GWh of electricity in retail;
- **Diversification of electricity generation sources,** which provides that economically justified and profitable investment opportunities that ensure energy source diversification and have low emission intensity must be chosen at restoration of generation capacities and development of new projects. This goal also includes improvements to the safety of the existing generation capacities and extension of their useful life. In late 2013, the Riga TEC-2 second power unit (installed electrical capacity – 420 MW_{el}, thermal capacity – 270 MW_{th}) was commissioned; the new unit replaces the old ones that have been in operation for more than 30 years, thus improving energy supply safety, enhancing energy generation efficiency parameters and fulfilling environmental requirements for the maximum allowed NO_x and CO emission threshold values in flue gases. The state of the art equipment also significantly reduces the amount of CO_2 produced per unit of energy generated. Along with the commissioning of the second power unit of Riga TEC-2, Latvia possesses the base-load in order to fully cover Latvian electricity consumption in situations where the electricity import price is higher than the variable costs of combined heat and power plants. Furthermore, within the framework of the Daugava hydropower plants (HPPs) hydropower unit reconstruction programme, in 2013, an agreement was concluded on reconstruction of Plavinas HPP hydropower units No. 1 and No. 3, that have not been overhauled yet. The programme is primarily aimed at ensuring safe, efficient, sustainable and competitive operation of the Daugava HPPs plants within the overall Baltic energy system and on the electricity market;
- **Balanced development of networks,** which provides for uninterrupted energy supply and prioritises investment in objects with foreseeable long-term demand for network services, along with increased quality of electricity supply. Balanced development of distribution networks also includes ensuring planned maintenance and further modernisation. In 2013, the amount of investments in network assets were increased by 35% and reached EUR 157.6 million representing 70% of Latvenergo Group total investments. The development plan for Sadales tīkls AS until 2023 has been developed in 2013, laying out a roadmap for investments in modernising and increasing operational safety of the network in the coming years according to the needs of customers. Active efforts are also underway to reinforce the transmission network – primarily by constructing the NORDBALT-02-330kV *Kurzeme Ring*, which is set to increase the safety of electricity supply in the Western part of Latvia and ensure effective integration with the Sweden-Lithuania interconnection.

To achieve the strategic goals, Latvenergo Group implements its disposable resources, processes and competencies in a manner set out in the organisation development tasks and principles of corporate governance. In its activities Latvenergo Group complies with the principles of corporate social responsibility integrated in the strategy, policies, standards and systems. Latvenergo Group conducts responsible energy generation and follows good governance practices in collaboration with stakeholders voluntary conducting activities that are focused on sustainable economic growth, environmental and public welfare improvement.

Challenges in the coming years

- Due to electricity market opening, the entrance of new competitors and increasing competition is expected, thus challenging Latvenergo Group to maintain its market share in the Baltics. The full opening of the Baltic electricity market is expected to open completely in 2015, along with the market opening for households in Latvia and Lithuania.
- In early 2014, since the launch of *EstLink-2*, the interconnection capacity between Sweden and Estonia increased to 1000 MW, ensuring further integration of the Baltics into the Nordic energy market. An interconnection between Lithuania and Sweden (700 MW) is scheduled for completion in 2016. Along with the completion of the interconnection, the price of electricity in the Baltics will be determined by electricity demand and supply in the Nordic Countries.

1.4 Group Governance

1.4 Group Governance

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We constantly improve corporate governance in line with internationally recognised practices

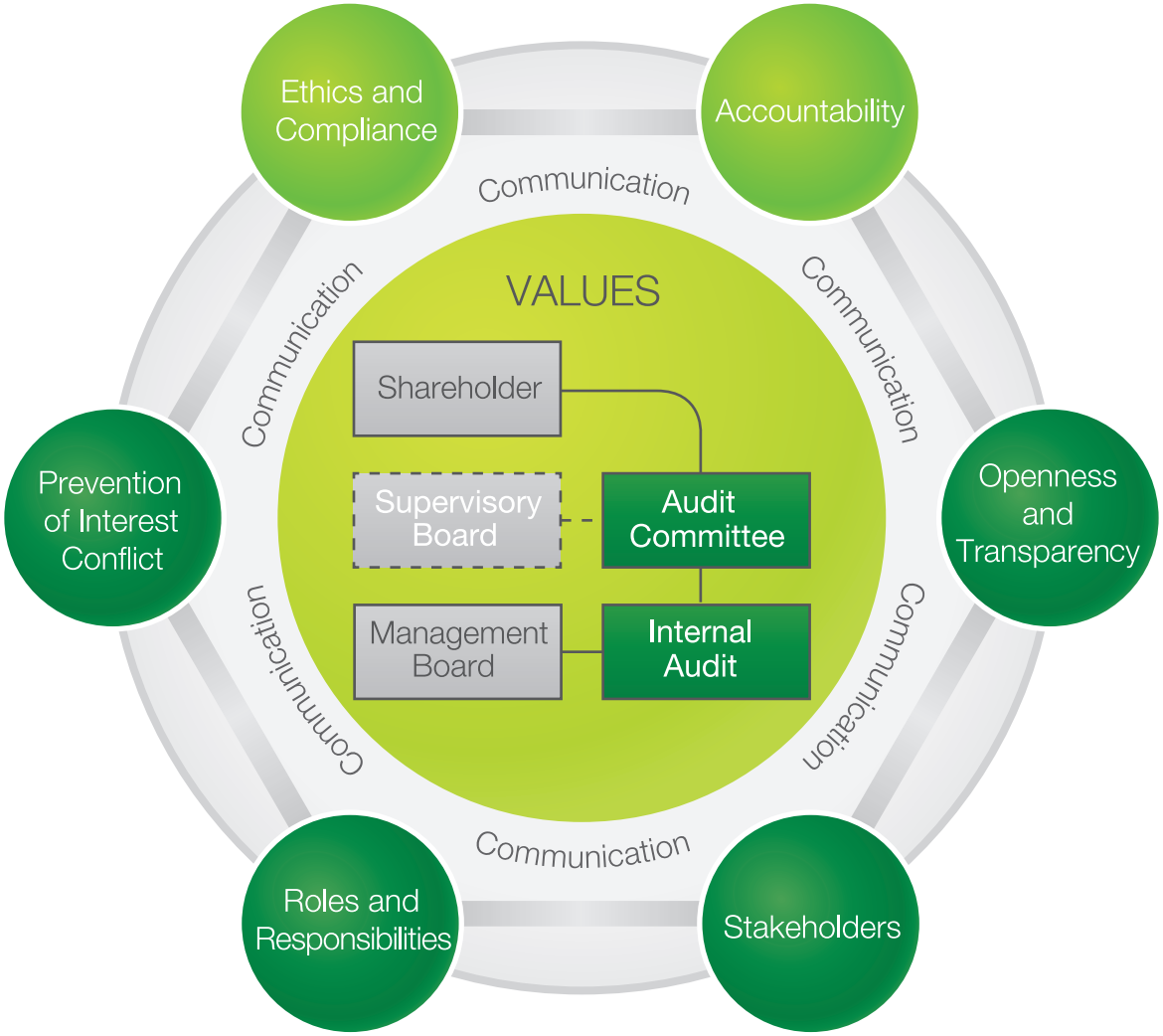
Latvenergo Group improves constantly its corporate governance in accordance with the internationally accepted governance practices. 2013 is the first full-year, when an independent Audit Committee operates as a supervisory body of Latvenergo Group. It is expected that in the future the Supervisory Board will be reinstated as the supervisory body in state-owned companies. In 2009, following the requirements of the Law on State and Municipality Capital Shares and Capital Companies, the Supervisory Board of Latvenergo AS was abolished assigning the supervisory functions to the Shareholders' Meeting.

Under the on-going Latvenergo Group strategy until 2016, the key elements of the Group governance principles (that apply to governance and supervisory bodies and are under special attention of the Group) are described in the Corporate Governance model of Latvenergo Group. Development and strengthening of these principles are preconditions for a successful implementation of Latvenergo Group strategy and for maintenance and increase of the value of the Group.

Shareholder

All shares of Latvenergo AS are owned by the Republic of Latvia and held by the Ministry of Economics of the Republic of Latvia. The interests of the Shareholder at the Shareholders' Meeting are represented by the State Secretary of the Ministry of Economics or by his authorized representative. The Shareholders' Meetings are convened in accordance with the requirements and in the terms prescribed by the Law on State and Municipality Capital Shares and Capital Companies. According to the Energy Law, Latvenergo AS is an object of national importance, and its shares may not be privatised or alienated.

Corporate Governance Model



Main duties of the Latvenergo AS Shareholders' Meeting are:

- constant supervision of the Management Board activities;
- appointment and revocation of the Management Board members, as well as determining their remuneration;
- appointment and revocation of the Audit Committee members, as well as approval of their remuneration;
- supervision of the compliance of the company operations with legislation, its Articles of Association and the decisions of the Shareholders' Meeting;
- approval of transactions between the company and a Management Board member or an auditor;
- approval of the annual report of the company;
- decision-making on the profit distribution of the company profit for the preceding year.

13 Shareholders' Meetings were held in 2013. The most important decisions made in 2013 were to approve the Annual Report 2012, to appoint the Auditor, to increase the share capital, to establish a subsidiary Enerģijas publiskais tirgotājs AS and to discontinue the shareholding in Nordic Energy Link AS.

Supervisory Board

In 2009, pursuant to the requirements of the Law on State and Municipality Capital Shares and Capital Companies, the Supervisory Board was abolished in all state-owned companies, including Latvenergo AS, transmitting supervisory functions to the Shareholders' Meeting.

The Supervisory Board has been retained as a supervisory body at fully-owned Latvenergo AS subsidiaries Elektrum Eesti OÜ and Elektrum Lietuva UAB, which operate outside the territory of Latvia and thus are not subjects to the regulations of the Republic of Latvia. Supervisory functions at these subsidiaries are ensured by three Supervisory Board members, who at the same time are members of the Management Board of Latvenergo AS. Supervisory functions in Liepājas enerģija SIA, where the equity share of Latvenergo is 51%, are carried out by a Supervisory Board of 6 persons, half of whom are representatives of Latvenergo AS. The activity of the Management Board of Sadales tīkls AS and Latvijas elektriskie tīkli AS is supervised by the Shareholders' Meeting, whose interests are represented by the Management Board of Latvenergo AS.

The Concept of Managing State-Owned Capital Shares, approved on 4 June 2012 by the Cabinet of Ministers of the Republic of Latvia, in addition to other requirements, in future prescribes reinstatement of supervisory boards in large and very large state-owned companies, including Latvenergo AS and Sadales tīkls AS. The reinstatement of the Supervisory Board is desirable because it would improve the compliance of Latvenergo Group governance with good corporate governance practice.

Management Board

The Management Board of Latvenergo AS consists of five members. Upon evaluation of the necessary competencies, experience and expected sphere of responsibility, they are elected by the Shareholders' Meeting for a term of three years. The Management Board operates in accordance with the Articles of Association and the Rules of the Management Board approved at the Shareholders' Meeting. Meetings of the Management Board are conducted to manage the operation of the Group and to make decisions promptly. 60 meetings of the Management Board were convened in 2013.

Main duties of the Management Board of Latvenergo AS are:

- management and representation of the company;
- supervision and management of the company affairs;
- accounting for the business activities of the company as well as its accounting compliance with the law;
- management of the company property.

The Management Board is accountable to the Shareholder and Members of the Management Board have a joint responsibility for the appliance of all applicable laws and regulations, execution of the decisions made at the Shareholders' Meeting and the financial activity of the Group. Members of Latvenergo AS Management Board do not own shares in the associated companies of the Group. In addition, the Management Board of Latvenergo AS carries out the functions of the Shareholder in the wholly-owned subsidiaries.

Audit Committee

To improve the corporate governance of Latvenergo Group, since December 2012, an independent Audit Committee operates in Latvenergo AS. The Committee is accountable on its operations and fullfilment of duties to the Shareholders' Meeting of Latvenergo AS. Having evaluated the necessary competencies and professional experience, the Shareholders' Meeting elected three members of the Audit Committee. All members of the Audit Committee are experienced and independent and are not involved in the operational activities of the Group. Members of the Audit Committee are appointed for a three-year term.

Nine meetings of the Audit Committee were convened in 2013. In addition to the regular Audit Committee duties, which imply supervision of financial reporting process, internal control and risk management system efficiency and work of the internal audit and the external auditor, in 2013, the Audit Committee of Latvenergo AS has considered matters on the implementation of the annual Fraud Risk Management Plan and evaluation of the Internal Audit quality. The Audit Committee also has provided comments and recommendations on the operation of internal audit and external auditor as well as on the fraud risk management.

Internal Audit

The Internal Audit is an independent unit engaged in internal control of Latvenergo AS and all of its wholly-owned subsidiaries. Its activities are monitored and operational plan is approved by the Audit Committee. For the operation of the Internal Audit, complete independence and guaranteed access to all kind of information are ensured.

The purpose of the Internal Audit is to evaluate and assist in improving the risk management, internal control systems and corporate management processes of the Group, assessing:

- veracity and completeness of management and financial information, means of data identification and classification;
- compliance of the Group activities with legislation and internal regulations;
- adequacy of internal regulations and their consistency with the needs of internal control;
- efficient and productive use of resources, reliable control and protection against losses.

The Internal Audit Director on a quarterly basis reports to the Audit Committee about the audits performed and the status of implementation of audit recommendations.

Management Board of Latvenergo AS

Āris Žīgurs

Chairman of the Management Board 1

Zane Kotāne

Member of the Management Board 2

Arnis Kurgs

Member of the Management Board 3

Uldis Bariss

Member of the Management Board 4

Māris Kuņickis

Member of the Management Board 5

Āris Žīgurs

Chairman of the Management Board

Date appointed: 16. 11. 2012
Expiration of the term: 15. 11. 2015

Āris Žīgurs (48) has more than twenty years of business experience. In 2010, as a result of a competitive recruitment procedure, Ā. Žīgurs was elected as the Chairman of the Management Board of Latvenergo AS. Before his employment at Latvenergo AS, for fifteen years Ā. Žīgurs had worked as the President and Chairman of the Management Board at a Riga thermal energy supply company Rīgas Siltums AS. His prior experience also includes the position of the Commercial Director of the Heat Management at former Latvenergo VAS, as well as work at municipal companies. In 1988, Ā. Žīgurs graduated from the Faculty of Engineering at the Latvia University of Agriculture. In 2004, he was awarded a Master Degree in Business Administration (MBA) from the Riga Technical University (RTU) Riga Business School. In 2009, Ā. Žīgurs received a Doctor of Science degree in engineering in the energy sector at RTU. At the Baltic Institute of Corporate Governance Ā. Žīgurs acquired an executive education programme for professional board members in 2010 and participated in an executive education programme "Chairman's Certificate" in 2013. Ā. Žīgurs is a Member of the Board of Directors at the Union of the Electricity Industry of Europe (EURELECTRIC), as well as the Vice-President of the Latvian National Committee of the World Energy Council.

Zane Kotāne

Member of the Management Board

Date appointed: 16. 11. 2012
Expiration of the term: 15. 11. 2015

Zane Kotāne (36) has more than fifteen years of experience in fulfilling various finance-related duties at a number of Latvian and international companies. Before her employment at Latvenergo AS, Z. Kotāne had been the Head of the Unit for Business Analysis and Reporting at the Commercial Department of AirBaltic Corporation AS. After eight years of working at an international audit and consulting company, specialising in finance and risk management, which included two years of valuable experience in Hungary, she became a financial director at an international investment group and worked there for five years. In 1997, Z. Kotāne graduated from the Stockholm School of Economics in Riga with a Bachelor degree in Economics and Business Administration. In 2011, she acquired the executive education programme for professional board members at the Baltic Institute of Corporate Governance and now she has taken up Master studies in Business Administration (EMBA) at the RTU Riga Business School.

Arnis Kurgs

Member of the Management Board

Date appointed: 16. 11. 2012
Expiration of the term: 15. 11. 2015

Arnis Kurgs (46) is an experienced lawyer who has been active in his profession for more than twenty years. Since 1995, A. Kurgs has been employed at Latvenergo AS, handling legal affairs. Since 2006, he has been active on its Management Board. Prior to his employment at Latvenergo AS, he had also worked as a legal advisor for the Ministry of Maritime Affairs, the Riga City Council and the Saeima. A. Kurgs has received a construction technician qualification at the Malta Technical School. In 1993, A. Kurgs graduated from the Faculty of Law of the University of Latvia. In 2005 and 2006, he continued his education at the professional Master study programme of law at the School of Business Administration Turība. In 2010, he acquired the executive education programme for professional board members at the Baltic Institute of Corporate Governance.

Uldis Bariss

Member of the Management Board

Date appointed: 16. 11. 2012
Expiration of the term: 15. 11. 2015

Uldis Bariss (48) has over twenty-year business experience at the largest companies in Latvia. Since 2005, U. Bariss has been a Member of the Latvenergo AS Management Board, handling various business functions, including finance and business management. Previously (from 2002 to 2005), U. Bariss worked in positions related to projects, finance and business optimisation at the company. Before employment at Latvenergo AS, he had worked for Lattelekom SIA for nine years, being in charge of finances. U. Bariss received a Master degree in economics at the University of Latvia in 2004. In 2008, he graduated from the Executive Master of Business Administration (EMBA) at the Stockholm School of Economics in Riga, while in 2010, he acquired the executive education programme for professional board members at the Baltic Institute of Corporate Governance.

Māris Kuņickis

Member of the Management Board

Date appointed: 16. 11. 2012
Expiration of the term: 15. 11. 2015

Māris Kuņickis (34) has over ten-year experience in business, including seven years in corporate management. Before the employment in the Management Board of Latvenergo AS, commenced by M. Kuņickis in 2010, he was the Director of the Riga Municipality Agency Rīgas Gaisma. His work experience at Rīgas Gaisma began as early as 2000, taking him through a number of positions related to technology and development. In 2002, M. Kuņickis received a Bachelor degree and an Engineer degree at the Riga Technical University, Faculty of Power and Technical Engineering. In 2005, it was followed by a Master degree at the University of Latvia, Faculty of Physics and Mathematics. In 2011, he was appointed as a Member of the Board at the Latvian Association of Power Engineers and Energy Constructors. In 2013, he completed the executive education programme for professional board members at the Baltic Institute of Corporate Governance and became a Substitute Member of the Board of Directors at the EURELECTRIC.

Audit Committee

Torben Pedersen

Chairman of the Audit Committee

Date appointed: 05. 12. 2012
Expiration of the term: 04. 12. 2015

T. Pedersen (64) has acquired an international experience as an audit partner at Arthur Andersen from 1994 to 2001 and at Deloitte from 2001 to 2010. T. Pedersen is an expert of investor environment requirements for large companies and has been a Board Member of the Danish Chamber of Commerce in Lithuania. T. Pedersen graduated from the Aarhus Business School in Denmark, where he received a Master Degree in economics and audit. Additionally, in Denmark T. Pedersen has received a Chartered Accountant qualification.

Inita Hāne

Member of the Audit Committee

Date appointed: 05. 12. 2012
Expiration of the term: 04. 12. 2015

I. Hāne (35) is the Chief Financial Officer at Prime Holding SIA, previously – the Senior Manager at PriceWaterhouseCoopers SIA, and also has audited the financial statements of Latvenergo AS, therefore she is acquainted with the operation of the company. I. Hāne has acquired a Bachelor Degree in public relations at Vidzeme University and graduated from the BA School of Business and Finance with a Master Degree in finance. I. Hāne is a member of the Association of Chartered Certified Accountants and has received a Certified Internal Auditor (CIA) certificate.

Svens Dinsdorfs

Member of the Audit Committee

Date appointed: 05. 12.2012
Expiration of the term: 04. 12. 2015

Since 2006, S. Dinsdorfs (37) is the CFO and Management Board member of ELKO Grupa AS and has successfully implemented the bond issuance of ELKO Grupa AS. Previously, S. Dinsdorfs was the CFO of Sirowa Riga AS. He has also been the Vice President in Strategic Development Matters and the Director of Business Control at Air Baltic AS from 1998 until 2004. S. Dinsdorfs graduated from the Stockholm School of Economics in Riga with a Bachelor Degree in finance and economics and further received a Master Degree at Stockholm School of Economics.

Roles, Responsibilities and Accountability

The roles, responsibilities and accountability of the governance and supervisory bodies are largely determined by legislation. To ensure efficient supervision and governance of the Group operation, roles, responsibilities and accountability of governance and supervisory bodies are additionally described in internal documents of the Group. The main internal regulations are the Articles of Association of each company and Rules of governance and supervisory bodies.

Ethics and Compliance

Latvenergo Group follows high ethical principles in professional activity and ensures compliance of its operation with the requirements of laws and regulations. By following these terms, the governance and supervisory bodies of the Group set the pattern and promote the appliance of ethical norms and compliance with regulations strengthening the control environment proactively. These norms are explained and updated continuously, and their appliance is constantly controlled.

Group supports fair business practice, follows the rules of fair competition and does not engage in transactions that restrict competition, are corruptive or discriminative. Contractual partners of Latvenergo Group are also encouraged to follow similar ethical principles, and upon conclusion of agreements are asked to certify that the cooperation will be based on fair business cooperation principles. Seminars and explanatory measures devoted to communicating the Code of Ethics of Latvenergo Group are also organised for business partners, promoting common understanding of applicable ethical norms. The ethical guidelines of Latvenergo Group for cooperation with contractual partners are published on the Latvenergo website under *Tenders and offers/ Procurement procedures.*

Prevention of Conflict of Interest

In accordance with the Law on Prevention of Conflict of Interest in Activities of Public Officials, Members of the Management Board of state-owned companies have the status of state officials. The law restricts the activity of Management Board members outside their authority in order to prevent personal or material interest in holding the respective office. Management Board members must submit a declaration for public officials on income received, positions held, transactions concluded, business activities and other information.

During the execution of duties, governing and supervisory bodies of the Group ensure the appliance of principles regarding the prevention of conflict of interest. The goal of the management is to promote awareness of situations with a potential conflict of interest by providing explanations, training and control. The management of the Group companies strives to establish preventive and detective controls for prevention of situations with a conflict of interest.

In order to prevent situations with a conflict of interest, types of conflict of interest and activities that shall be performed have been defined in the Code of Ethics of Latvenergo Group.

To identify circumstances that may lead to conflicts of interest and to take the necessary measures to prevent a conflict of interest situation ahead of time, Latvenergo Group uses annual Conflict of Interest Declarations, which are evaluated and monitored.

Openness and Transparency

The transparency principle applies both to the transparency of governance principles of Latvenergo Group (including duties, responsibility and remuneration) and to the transparency and explanation of financial and operational results.

Transparency of Latvenergo Group governance principles is ensured by publishing the Latvenergo AS Corporate Governance Report (in accordance with the requirements of NASDAQ OMX Riga AS) as well as by ensuring the availability of information on the website and in the Sustainability Report, which, as of 2009, is prepared in accordance with the requirements of GRI Guidelines, which also prescribe transparency of the information in the areas related to the environment, employees, work environment, society, and product and economic responsibility. The Sustainability Report published by Latvenergo Group is the only audited sustainability report in Latvia.

Transparency of the financial and operational results of Latvenergo Group is ensured by publishing the Annual Report of the Group, which, as of 2002, is prepared in accordance with the International Financial Reporting Standards adopted by the EU. Interim financial reports, prepared in accordance with the requirements of the Financial Instrument Market Law, are published quarterly. The financial reports and other information that is relevant to the investors and cooperation partners are published on Latvenergo website, section *Investors.* Latvenergo AS has received the *Stock Exchange Annual Award 2013* for exceptional performance on the securities market and contribution to its development, attesting the transparency of the Group operations and good corporate governance

Management Board Remuneration Policy

The applicable legislation of Latvia – the Law on State and Municipality Capital Shares and Capital Companies and Regulations of the Cabinet of Ministers issued on the basis of the law – specify uniform regulation on remuneration for members of the management boards at state-owned companies, including the rights to receive compensation for additional duties performed at the company.

The monthly salary of the Chairman of the Management Board-CEO is linked to the average monthly salary of employees in the public sector in Latvia over the preceding year, which is published in the Official Statistical Bulletin issued by the Central Statistical Bureau of the Republic of Latvia, multiplied by a ratio specified according to criteria that describes the company (turnover, assets, number of employees). As of 18 January 2013, the ratio for the Chairman of the Management Board of Latvenergo AS does not exceed 10 (2012: 6). While the total remuneration for a Member of the Management Board-Chief Officer may not exceed 90% of the total remuneration of the Chairman of the Management Board-CEO.

Once a year, upon approval of the Annual Report, the Shareholders' Meeting may decide on paying a bonus to the Members of the Management Board for successful performance and fulfilment of goals set for the company. The bonus may not exceed the amount of a montlhly salary of the Member of the Board. Members of the Management Board who are recalled of their position before the expiration of the term may be entitled to severance payment, the amount of which may not exceed two months' remuneration. The severance payment is not paid if a Member of the Management Board is discharged due to gross abuse of authority, neglect of duty or inadequate performance, as well as in cases where harm has been done to the company.

Material benefits stipulated in the Latvenergo AS Collective Bargaining Agreement apply to the Management Board members, including monthly payments into the Pension Fund in a 5% amount of the monthly salary. The remuneration policy does not provide the option to pay the remuneration in the form of shares or share options. In 2013, the total remuneration of the Chairman of the Management Board of Latvenergo AS Ā. Žīgurs is EUR 106,319, to the Members of the Management Board: Z. Kotāne – EUR 95,367, M. Kuņickis – EUR 95,645, A. Kurgs – EUR 95,481 and U. Bariss – EUR 95,991.

Dividend Policy

The disbursement of dividends of Latvenergo AS is regulated by the Law on State and Municipality Capital Shares and Capital Companies of the Republic of Latvia and the Cabinet of Ministers Regulation No. 1471 of 15 December 2009 on the Procedure how to Determine and Transfer to the State Budget the Share of the Profit Payable for the Use of State Capital issued on its basis.

Pursuant to the legislation mentioned above, 90% of the net profit remaining in Latvenergo AS possession is payable in dividends for 2013. In the following years the share payable in dividends is going to decrease – dividends for 2014 shall be paid in the amount of 80%. Pursuant to the Concept of State Capital Share Management, the applicable long-term dividend policy will be differentiated in accordance with the goals of the company.

Stakeholders

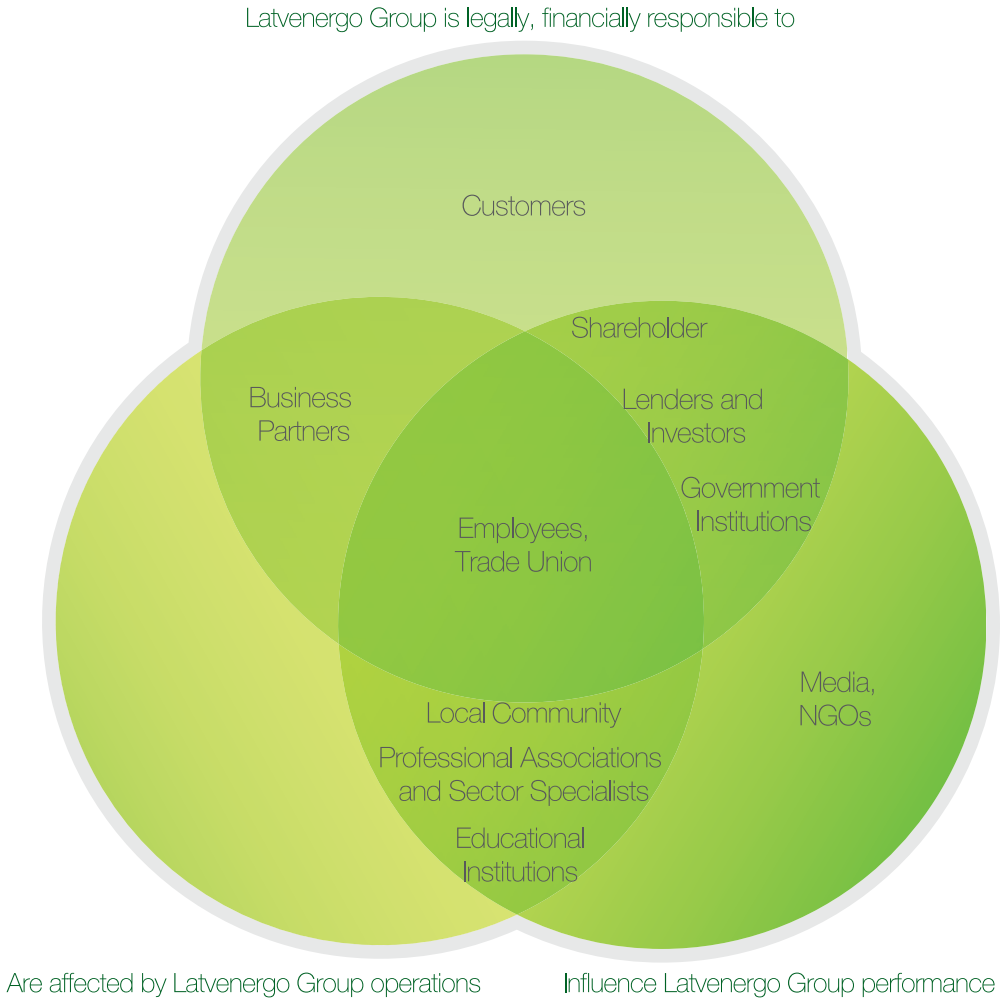
Latvenergo Group is one of the largest power supply utilities in the Baltics. Its range of socially and economically important services and the scale of its operation determine Latvenergo Group interaction with a wide range of stakeholders and the responsibility arising therefrom.

In internal and external discussions, consultations and seminars Latvenergo Group has identified its stakeholders and according to the mutual impact and responsibilities of the Group they are grouped in the Stakeholder map. Identification and grouping was carried out taking into account the voluntary AA1000 Stakeholder Engagement Standard that sets the pattern of the best practice for quality stakeholder engagement, both at a strategic and operational level.

Stakeholder identification and engagement are essential for sustainable development of Latvenergo Group. The Group engages with stakeholders on the basis of the following principles:

- responsibility and awareness of its impact on society and environment;
- materiality assessment of jointly significant issues;
- inclusivity of stakeholders in addressing topical issues;
- responsiveness on stakeholder opinion.

Latvenergo Group Stakeholders



Cooperation between Latvenergo Group and its stakeholders takes place on various levels:

- consult – identification of current issues;
- negotiate – collective discussions;
- involve – exchange of opinions while acting independently;
- collaborate – joint decision making and action.

Stakeholder	Representatives	Material issues	Engagement methods	Level of engagement
Business partners	Current and potential suppliers and service providers	Clear and transparent criteria for procurement tenders that ensure equal competitive conditions to all suppliers.	Within the framework of cooperation, Latvenergo Group regularly surveys its business partners identifying the areas that require improvement.	Involve
Customers	Current and potential customers – households and business customers	Electricity tariffs, products and prices of related services; Service quality; Customer satisfaction with service and available information; Payment options; System services.	In joint meetings, conferences, customer service centers, via direct correspondence or the Internet, by phone and via other communication channels Latvenergo Group provides information about its products and services, studies customer needs, discusses and addresses material issues. Latvenergo Group seeks to increase customer satisfaction. Customer opinion is identified annually by conducting customer satisfaction studies and surveys.	Involve
Educational institutions	Schools, colleges, universities, professors, students	Educational programmes corresponding to labour market requirements; Electrical safety issues.	With educational activities and interactive websites Latvenergo Group complements educational content of the state, educates children on electricity and electrical safety issues and provides internship opportunities for students. Students from the Riga Technical College improve regularly their theoretical knowledge and practical skills in the Educational Centre of Sadales tīkls AS. Theoretical and practical trainings of specialists are carried out in cooperation with Latvia University of Agriculture and Riga Technical University. In cooperation with student associations, the Group regularly organizes and participates in career development events and announces graduate thesis and scholarship competitions.	Collaborate
Employees, trade union	Current and potential employees, trade union *Enerģija*	The Collective Bargaining Agreement; Safe and healthy work environment; Rights and responsibilities of the employer and employess; Productivity, motivation, competencies, remuneration and welfare of employees.	Principles defined in Latvenergo Group Human Resources Management Policy, the system of performance management and regular internal communication promote employee engagement, responsibility, productivity and loyalty. Latvenergo Group on a regular basis carries out employee surveys and quarterly assessment of the job duty performance. During the annual personnel development discussions, employees with the employer discuss the achievement of annual objectives and further activities in order to improve the competences. Representatives of the Group and its companies communicate regularly (13 meetings in 2013) with the trade union representatives on mutually material issues.	Negotiate and involve
Government institutions	Ministry of Economics of the Republic of Latvia, PUC, CC and other government institutions	Development of the energy sector policies in Latvia and the EU and regulatory provisions; Compliance with laws and regulations and improvement of the regulatory environment; Electricity tariffs and their components.	Regular and close cooperation is maintained with institutions that oversee the operations of Latvenergo Group within the statutory framework. Ministry of Economics is responsible for development and implementation of the energy sector policy, establishing development principles for the sector and elaborating regulatory provisions on operations. Latvenergo Group experts participate in the development of energy sector policy documents and legislative acts. The Public Utilities Commission (PUC) is entitled to issue administrative acts binding to the providers of public services. Thus, cooperation with PUC is aimed at supervision of the conditions for public service provision and improvement of the regulatory environment. Latvenergo Group constantly provides information to the PUC on the operation and financial results of the Group. The Competition Council (CC) focuses on facilitating fair competition and ensuring the transparency of service provision.	Consult and involve
Lenders and Investors	Lenders, investors, Moody's investors Service	Latvenergo Group financial results and material events; Compliance with the terms of agreements.	Latvenergo Group ensures regular exchange of information about the financial results and performance of the Group, thus ensuring the attraction of the necessary funding. Interim financial reports are published quarterly.	Consult and collaborate
Local community	Residents of Latvia, local governments	Latvenergo Group Corporate Social Responsibility (CSR) activities; Environmental protection, generation facility modernisation and infrastructure projects; Provision of Latvenergo Group services and problem solving; Mandatory procurement public service obligation fee.	The Group communicates with the society and involves it in resolving current issues. In 2013, the Group has carried out explanatory measures related to the mandatory procurement process and opening of the electricity market in Latvia. Latvenergo Group has carried out 12 public discussions about the impact of planned modernisation of generation facilities and infrastructure objects on the environment and residents. The Group supports a wide range of social responsibility activities (preservation of industrial and documentary heritage, energy efficiency, environmental protection etc.). Latvenergo Group cooperates with local governments regarding such issues as power supply, modernisation of the Group facilities and implementation of social support activities to reduce the economic impact of tariffs on socially vulnerable groups.	Consult, negotiate and involve
Media, non-governmental organizations	Television, radio, press, public benefit organizations, human rights organizations, consumers' associations	Latvenergo Group operations, corporate governance; Current issues of energy sector policies in Latvia and the EU; Mandatory procurement process and public service obligation fee; Latvenergo Group CSR activities.	Latvenergo Group collaborates with national and regional media, in press conferences, press releases, on the Group website and on social platforms providing the latest updates on the Group operations. In meetings and seminars with media representatives The Group discusses in depth issues that are significant for the energy sector, for Latvenergo Group and for the media. Applying statutory procedures, Latvenergo Group supports non-governmental organizations (NGOs) whose activities are focused on development of society and rights of individuals, and provides them information on the Group operations in meetings and through other forms of communication.	Consult, involve

Stakeholders (sequel)

Stakeholder	Representatives	Material issues	Engagement methods	Level of engagement
Professional Associations and Sector Specialists	See below "Associations, Organizations and Unions"	Policies and regulatory environment of energy sector in the EU and Latvia. Development tendencies and innovations in the energy sector.	In order to represent its interests in formation of policies and the regulatory environment, the Group delegates its representatives to participate in various national associations and professional organizations, as well as in international organizations and unions. Discussions on energy sector development and regulatory environment are carried out.	Consult and involve
Shareholder	Ministry of Economics of the Republic of Latvia	Latvenergo Group strategy, governance, investments and performance results.	Cooperation with the Shareholder takes place on a regular basis and is conducted according to the requirements prescribed by laws and regulations.	Collaborate

Associations, Organisations and Unions

By delegating representatives to the national associations and professional organisations as well as to international organisations and unions, Latvenergo Group obtains up-to-date information about the current events and essential issues in the energy sector, as well as ensures the protection of its interests in development of international and national policy documents and formation of the regulatory environment.

National associations and professional organisations

Association, professional organisation	Reasons for participation
Employers' Confederation of Latvia (ECL)	ECL ensures representation of the employers' interests in the legislation drafting process in the areas of employment rights and occupational safety. Latvenergo Group participates in the Council of Energy Sector Experts. The cooperation with ECL comprises handling issues related to the improvement of occupational health and safety conditions and implementation of projects related to the employment rights and corporate social responsibility.
Institute for Corporate Sustainability and Responsibility, Latvian Advisory Council	Participation in the council systematically increases the understanding of corporate sustainability and responsibility issues, providing reliable measurements of sustainability as well as skills in applying international practice. Latvenergo Group participates in the Latvian Sustainability Index conducted by the Institute for Corporate Sustainability and Responsibility following an internationally recognized methodology for the evaluation of corporate sustainability and responsibility.
Latvian Association of Power Engineers and Energy Constructors (LAPEEC)	Participation in LAPEEC provides Latvenergo Group with the opportunity to participate in the assessment and development of regulations and standards of the electrical power engineering and energy construction, organisation of personnel certification and training programmes, promotion of renewable energy resources use in electricity generation, solving of issues related to vocational education in the sector, conducting of scientific research and organisation of scientific-technical events.
Latvian Association of Heat Supply Companies	The association provides topical information on sector development trends and represents interests of the Group in national and local level-government institutions regarding centralised heat supply and cogeneration issues and elecricity generation from renewable energy resources.
Latvian Association of Large Dams	Participation in the association ensures exchange of information about technical, economic and environmental aspects of dams and hydro-technical structures, innovations and safety solutions.
Latvian Chamber of Commerce and Industry (LCCI)	LCCI facilitates representation of the Latvenergo Group interests in the legislative process related to business in general and to energy sector-specific policy document and legislative act development in Latvia.
World Energy Council, Latvian National Committee (WEC LNC)	Latvenergo Group representatives actively participate in operations of WEC LNC, particularly regarding the issues related to the State energy politics and strategy. In October 2013, representatives of the Group took part in the 22nd WEC Congress in South-Korea. Participation in the WEC LNC provides the opportunity to receive current information about the research, extraction, transport, transformation and efficient use of energy resources both on national and international scale.

International organisations and unions

International organisation, union	Reasons for participation
Baltic Development Forum (BDF)	Current issues regarding the Baltic Sea region development strategy, strengthening of competitiveness and cooperation, are addressed and discussed in the Baltic Development Forum, involving decision makers and experts of the region. Latvenergo Group cooperates and engages in information exchange with the institutions and companies of the Baltic Sea region, as well as in the creation of a dialogue between the European Union (EU) and Russia on development of a common energy market. In 2013, Latvenergo AS was the gold patron of BDF Annual Summit in Riga, which brought together about 600 politicians, entrepreneurs and industry experts of the region.
Baltic Institute of Corporate Governance (BICG)	Along with the participation in the institute, the management of Latvenergo Group gains deeper knowledge about the best governance practices and shows readiness of the Group to implement these practices. In 2013, Āris Žīgurs, the Chairman of the Management Board-CEO of Latvenergo AS, participated in BICG executive education programme "Chairman's Certificate" in Stockholm.
Organization for Economic Cooperation and Development (OECD), Business and Industry Advisory Committee (BIAC)	Representation on the BIAC allows Latvenergo Group to participate in discussion and adoption of internationally important decisions that concern business development. The BIAC is involved in shaping OECD policies and provides members with current information about the business development initiatives of the OECD. On 30 May 2013, the Council of Ministers of the Organization for Economic Cooperation and Development invited Latvia to commence negotiations on accession to the OECD. Participation in the OECD will facilitate improvement of the investment climate in Latvia and potential upgrading of the state's credit rating.
The Union of the Electricity Industry EURELECTRIC	EURELECTRIC represents the energy sector interests on an international scale in order to enhance the competitiveness of the EU. Participation of Latvenergo Group representatives is on a contract basis ensured by the Latvian Association of Power Engineers and Energy Constructors, which is a member of EURELECTRIC. Participation in EURELECTRIC gives Latvenergo Group access to topical information on energy sector issues and access to drafting of the EU policy documents, legislation, EURELECTRIC research and position statements. On 2 June 2013, the EURELECTRIC Board of Directors approved the new organisational structure of EURELECTRIC, where Latvenergo Group representatives are also delegated.

Commitments to External Initiatives

In addition to the provisions of the applicable legislation Latvenergo Group applies requirements of the following external standards LVS EN ISO 14001:2004, LVS EN ISO 9001:2009, LVS OHSAS 18001:2007. Compliance with the requirements of the standards is audited and certified by the certification company Det Norske Veritas Latvia SIA. Also, in its business activities Latvenergo Group in collaboration with stakeholders voluntarily integrates activities to improve social welfare and environment, observing principles of social responsibility in compliance with the ISO 26000 voluntary standard.

1.5 Group Management

1.5 Group Management

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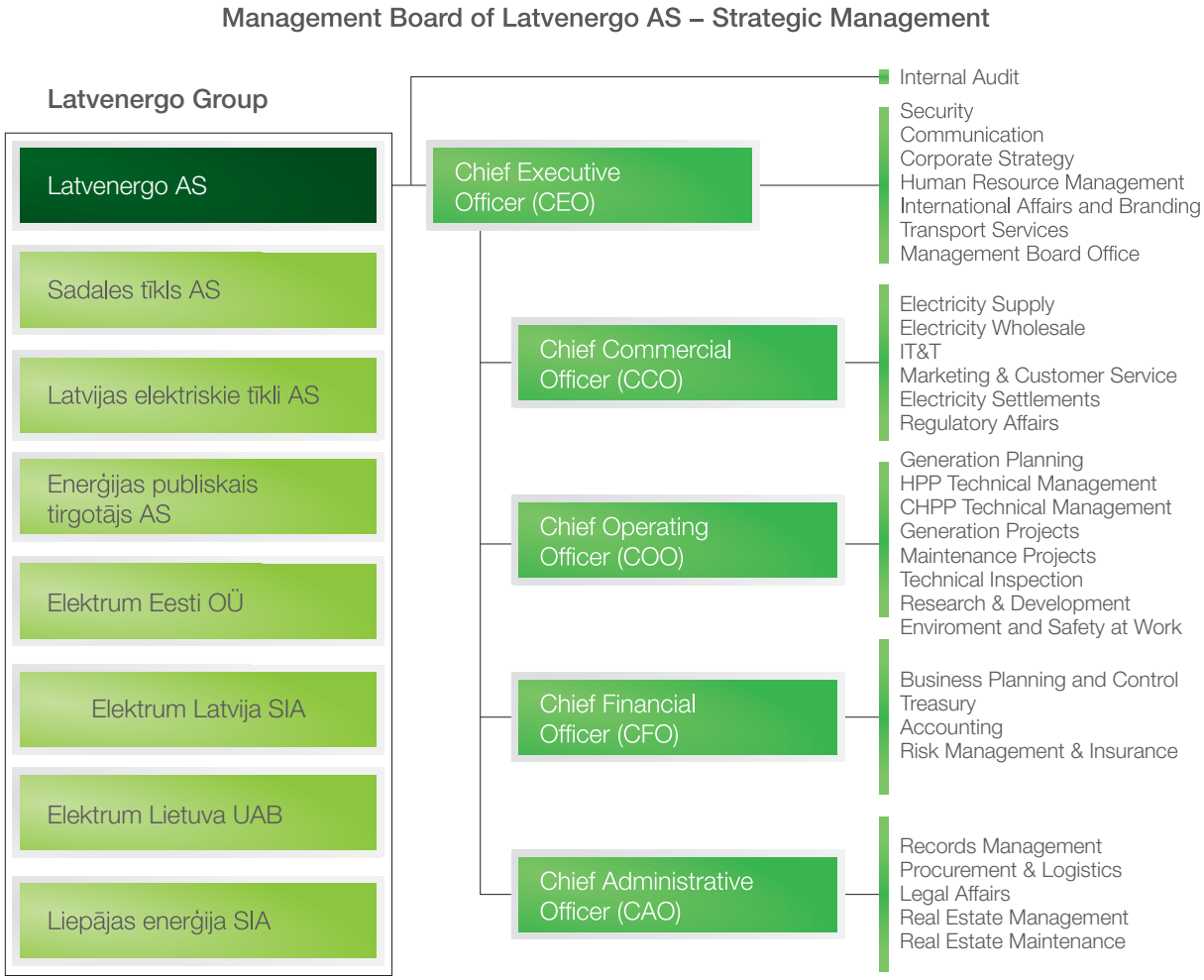
The Group management model contributes to effectiveness of goal achievement and sustainable development

The management model of Latvenergo Group is developed according to the best practice, separating the strategic and operative management and determining joint and individual accountability. The strategic management of Latvenergo Group is implemented by the Management Board, and its main tasks are to define the strategic direction of the Group, its development plans, goals and policies. In turn, Chief Officers conduct the operational management of Latvenergo AS, including the achievement of the goals defined by the Management Board, the implementation of the strategy and policies, as well as other everyday duties according to the delegation of the Management Board.

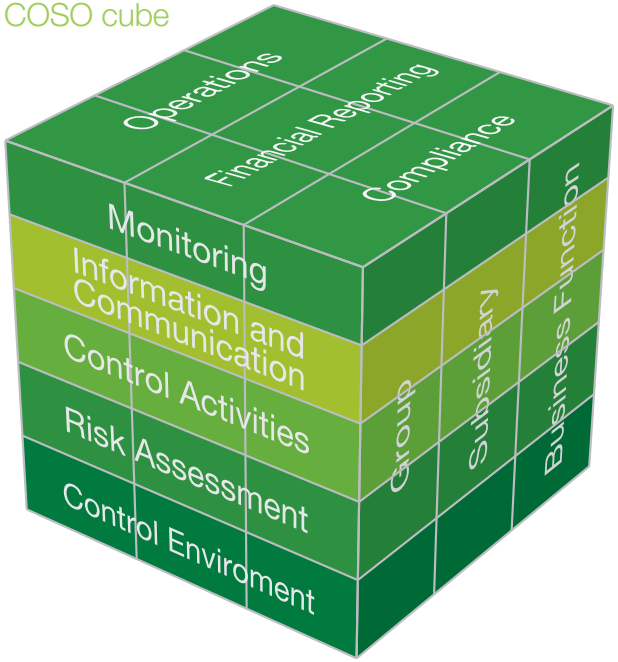
The areas of accountability of the Chief Officers are clearly defined and subordinated functions and oversight of administrative decisions within the framework of these functions have been separated. Therefore, Chief Officers are individually accountable for the operational activity of his or her subordinated functions to the CEO, also ensuring the cooperation between divisions and the adoption of resolutions according to the strategy of the Group. While the CEO for the operational activity of his subordinated functions is accountable to the Management Board. Considering the previous experience and knowledge of the Group operation, these duties are carried out by the Members of the Management Board of Latvenergo AS:

- **Āris Žīgurs –** Chief Executive Officer (CEO)
- **Uldis Bariss –** Chief Commercial Officer (CCO)
- **Māris Kuņickis –** Chief Operating Officer (COO)
- **Zane Kotāne –** Chief Financial Officer (CFO)
- **Arnis Kurgs –** Chief Administrative Officer (CAO)

Organizational Structure of Latvenergo Group Management



COSO cube



In order to ensure successful oversight and efficiency of the Group operation, the management has introduced and continuously improves the integrated internal control system that is based on the principles developed by COSO (Committee of Sponsoring Organizations of the Treadway Commission). This system is made up of 5 main elements, the implementation of which leads to achieving the goals of the internal control – efficiency of the Group operations, credibility of the financial reporting, and compliance with the laws and regulations governing its operation.

By mutually integrating these principles, the management is able to monitor the operations of the Group, at the same time focusing on further development and achievement of the set goals. The presence of an effective internal control system ensures the accessibility and credibility of information and creates confidence regarding the ability of the Group to manage risks and changes.

Control Environment

The core elements of the control environment are the Group vision, mission, values, development strategy, organizational structure, delegation of duties, as well as the management philosophy and operating style.

The goal of the Group vision, mission and strategy is to create a common understanding of development goals within the Latvenergo Group. The organizational structure of Latvenergo Group is built according to the Latvenergo Group strategy and it is arranged according to the functional principle. The goal of such structure is to promote the creation of specialization and competencies within a company or business function, thereby stimulating adoption of responsible and fast decisions, as well as the rational use of resources. In turn, the management philosophy and operating style reflect the attitude of Latvenergo Group towards work and developments that are relevant to the Group both in the country and in the energy sector. The values of Latvenergo Group are responsibility, efficiency and openness. The values determine actions of each employee in relation to our customers, colleagues, partners and society. A more detailed description of the vision, mission and values of the Group is given in the Section 1.2 "Group Profile".

Risk Assessment

The activity of Latvenergo Group is characterized by responsible and active attitude towards risks by implementing and continuously improving the risk management system that provides regular, credible and comprehensive information on the relevant risks of the Group and the corresponding risk eliminating measures. The goal of the risk management is to ensure implementation of the development strategy and achievement of the goals of the Group, minimizing the influence of adverse events.

The risk management system includes the risk identification, impact assessment, planning and implementation of elimination measures. Information on the most relevant risks to the Group and their evaluation is constantly updated, introducing changes where necessary. Evaluation of relevant business risks and actualization of long-term risks of the following year is carried out simultaneously with the development of the next year budget.

Risks that are identified within the risk management process and influence the operation of Latvenergo Group, are classified in five material risk types:

- **strategic risks –** comprise the most significant uncertainties which derive from operations of the Group and could adversely affect opportunities to achieve the strategic goals. These risks are under direct control of Latvenergo Group and they are managed by consistently monitoring the progress of goal achievement;
- **legal environment risks –** resulting from factors of the regulatory environment that could negatively impact operations of the Group or its ability to meet goals. The legal environment risks are beyond the control of Latvenergo Group;
- **safety risks –** implies risk factors, which occurrence cause damage or loss of assets or, by an increased threat from third parties, interfere the operation of the Group and thereby may lead to financial losses;
- **external risks –** implies uncertainties resulting from changes in supply and resource markets with a significant impact. These factors, including the impact of competitor, customer, partner operations on the Group ability to attain its goals, appear regardless of the Group operation;
- **operational risks –** comprise contingencies and uncertainties, which may appear during operational processes of the Group.

Latvenergo Group is aware of the increase of complexity and unpredictability of risks caused by environmental changes and connection with developments in other sectors, countries and geopolitical regions. Therefore, risk management is constantly improved, and its elements are implemented in a unified system.

Control Measures and Activities

To ensure the compliance of Latvenergo Group operation with laws and regulations, as well as the Group vision, mission, values and development strategy, the management has developed and constantly improves certain control measures in the form of internal documents, work groups and reports. The main internal control documents are policies that cover several companies of Latvenergo Group. The most significant policies implemented in Latvenergo Group are: Code of Ethics; Corporate Governance Policy; Environmental Policy; Human Resources Management Policy; Corporate Social Responsibility Policy; Investment Funding Policy.

In addition to policies, Latvenergo Group also develops and maintains other internal control documents – procedures, regulations, orders, methodologies, job descriptions, rules for organizational units, etc. The management promotes a constant improvement of policies and internal control documents, aligning them with changes in legislation requirements, industry tendencies and business processes.

The Management Board of Latvenergo AS approves the Fraud Risk Management Plan of Latvenergo Group for each calendar year. Within the framework of this plan, the Fraud and Corruption Risk Management Policy was developed in 2013, specifying the principles and methodology for managing and evaluating the fraud and corruption risk.

In order to ensure efficient operation management and decision-making, working groups are created of delegated representatives who have various know-how, skills and competencies. Thus the exchange of opinions and knowledge among employees as well as increased employee motivation and engagement in decision-making are created.

Also, to ensure the fulfilment of the long-term strategy goals of Latvenergo Group, annual goals of the Group are developed and their fulfilment is monitored. Functions and subsidiaries of Latvenergo AS are also involved in the goal development process, defining their objectives according to the goals of the Group. Furthermore, individual objectives of employees are set in accordance with the objectives of the respective organisational unit, ensuring that employees at all levels are involved and understand the objectives set.

To provide the management of Latvenergo Group with the most up-to-date information on the Group activity, regular internal reports are created and the accuracy, credibility and comparability of the collected information are ensured.

Information and Communication

The management of Latvenergo Group pays a particular attention to provide employees with information. The main channels of information exchange and communication are intranet, staff newsletter *Latvenergo vēstis* (Latvenergo News), internal record keeping systems, electronic communication (e-mail), internal databases, employee forums, seminars, etc. The internal opinion survey is conducted along with employee development interviews and competence evaluation, thus ensuring the feedback. Within the framework of information exchange and communication, the management focuses on the selection of issues for communication, primarily discussing issues that are relevant at a given time, as well as regularly communicates long-term, annual and quarterly plans.

Monitoring

Through constant improvement of the Group governance system, the monitoring of the management performance is carried out by the Audit Committee and the Internal Audit and reviewed by an external auditor. All these institutions are independent in their operation.

Information on the necessity of updating the integrated internal control system, implementation of the goals of the previous period, results of internal and external audits and implemented corrective and preventive measures is periodically collected. The integrated internal control system is assessed and proposals for the next period are made based on the analysis of the information.

Supervisory bodies

Institution	Objective	Monitoring fields and tasks	Reporting
Auditor	To verify the credibility and accuracy of information and the compliance of financial statements with the IFRS	To perform audit of financial statements and evaluate the reasonableness of accounting policies and management accounting estimates used in their preparation	Once a year, after the finalization of the consolidated financial statements, the Auditor reports to the Shareholders' Meeting
Audit Committee	To oversee the preparation process of the Group financial reports and the operation of the internal control systems, thus stimulating transparency in the company	To monitor the financial statement preparation process, efficiency of the internal controls and risk management system, operations of the Internal Audit and the Auditor and implementation of the Fraud Risk Management Plan	At least once a year, the Audit Committee reports to the Shareholders' Meeting regarding its activity and the performance of its tasks
Internal Audit	To evaluate and assist governance institutions and organizational units in improvement of the efficiency of risk management, internal control and corporate governance processes	To evaluate the efficiency of internal control, risk management and corporate governance processes, develop recommendations for their improvement and monitor their implementation	Every quarter, the Internal Audit Director reports to the Audit Committee on performed audits and the implementation status of recommendations made by the Internal Audit

Awards

In 2013, Latvenergo Group received a number of important awards and recognitions, confirming the value of its business sustainability, carefully thought-out energy generation and supply, safety at work, environmental protection, cooperation with stakeholders, customer service and other well-organised processes and results.

Most valuable company in Latvia

For the fifth year in a row, Latvenergo AS has been acknowledged as the most valuable company of Latvia on the *Top 101 Most Valuable Companies of Latvia* list created by the *Kapitāls* magazine in cooperation with Lursoft IT SIA, Prudentia IBS and the NASDAQ OMX Riga exchange. According to the study, the value of Latvenergo AS in 2013 was LVL 792.2 million. Compared to the previous year, the 2013 study praised the corporate governance of Latvenergo AS, transparency and quality of information disclosed (86 out of 100 points).

Platinum category in Latvian Sustainability Index

In 2013 Latvenergo AS received the Platinum (highest) category from the Latvian Sustainability Index, which assesses the sustainability of companies based on international requirements in all aspects of corporate social responsibility. Latvenergo AS has participated in the Index for four years and was awarded the Silver category in 2010 and 2011 and Gold in 2012.

At the closing ceremony of the Sustainability Index, Latvenergo AS received a *Family-Friendly Company Certificate* from the Ministry of Welfare of the Republic of Latvia for the second time.

Baltic Market Awards 2013

NASDAQ OMX Riga AS annually rewards exceptional performance on the securities market and contribution to its development. This year award recipient was Latvenergo AS, the first fully state-owned company that has successfully issued public bonds on the regulated Baltic exchange market, acknowledging that the capital market is able to provide funding to transparent, well-governed companies.

Corporate reputation leader in the electricity, gas and water supply sector

The Latvian Company reputation list 2013 organised by the *Dienas Bizness* newspaper in cooperation with Nords Porter Novelli SIA listed Latvenergo AS in the 6th place, its highest ranking so far (up from 15th in 2012), granting the leading position in the electricity, gas and water supply sector. The company's reputation growth was secured by improving corporate governance, participation on the free electricity market and corporate social responsibility activities.

Latvenergo – "TOP 500 Corporate Group" and one of the largest taxpayers of the state

Latvenergo AS received a nomination during the *Top 500 Corporate Group* ceremony organized by the *Dienas Bizness* newspaper and Lursoft IT SIA as the largest, most profitable and most viable corporate group in Latvia, with the largest long-term investments in 2012. For the second year, Latvenergo AS was second on the list in terms of company turnover.

The ceremony also included congratulations from the State Revenue Service for Latvia's largest taxpayers. Latvenergo AS was one of the largest tax-payers to the state budget in 2012.

A safe company with a favourable work environment

In 2013, the second year in a row Latvenergo AS received the main award of *Determination and Awarding of the Safe Company Confirmation Symbol* in competition organised by the Employers' Confederation of Latvia. Latvenergo AS received the award for the long-term implementation of safe workplace and training environment strategy applicable to all of its employees.

The Most Attractive Employer

In a survey of employees and employment seekers conducted in November 2013 by the CV Market Latvia career portal, Latvenergo AS was recognised as the 2013 most attractive employer in Latvia. This is the third time that Latvenergo AS receives the recognition, due to its stable business, low employee turnover and social activities for employees.

In January 2014, for the second year in a row Latvenergo AS was rated as the 2013 most attractive and popular employer in Latvia in a survey conducted by online staffing company CV–Online Latvia. The main reasons reported by those willing to work at Latvenergo AS include the stability and visibility of the company, good image and reputation, motivating work environment, good career development prospects and modern and innovative business.

1.6 Corporate Governance Report/ Report of the Audit Committee

Corporate Governance Report

We comply with the corporate governance principles of NASDAQ OMX Riga AS

The Management Board of Latvenergo AS has evaluated the compliance of the company with the *Principles of Corporate Governance and Recommendations on their Implementation* approved by NASDAQ OMX Riga AS on 1 June 2010. These principles prescribe the requirements with respect to the Shareholders' Meeting, the Management Board and the Supervisory Board as well as disclosure of information, internal control and risk management and remuneration policy of governing bodies.

Upon evaluating both the governance system of the company and its compliance with the principles in 2013, the Management Board of Latvenergo AS confirms that the company in all key material aspects has complied with all the principles of corporate governance, apart from those relating to the restrictions under the Law on State and Municipality Capital Shares and Capital Companies, which, along with other requirements, provides that no supervisory board is established for state capital companies.

Latvenergo AS Corporate Governance Report 2013 is publicly available on the Latvenergo website http://www.latvenergo.lv and the website of NASDAQ OMX Riga http://www.nasdaqomxbaltic.com. Detailed information on compliance with the corporate governance principles is presented in the Section 1.4 "Group Governance" and 1.5 "Group Management" of the Latvenergo Group Sustainability and Annual Report 2013.

From overall 83 NASDAQ OMX Riga corporate governance principles, 61 are complied fully, 22 are not applicable to company operations.

Report of the Audit Committee

The Audit Committee of Latvenergo AS operates under the Commercial Law and Financial Instruments Market Law of the Republic of Latvia and the Rules of the Audit Committee approved by the Shareholder. No restrictions have been imposed on our actions, and representatives of Latvenergo AS have ensured us with availability of the necessary information. We have informed the members of the Management Board of our opinions and related suggestions based on the work of the Audit Committee.

In 2013, the activities of the Audit Committee were focused on the following issues that have an impact on operations of the Group:

- supervision of the Fraud risk management plan implementation;
- monitoring of Internal audit and auditor operations;
- review of accounting treatment compliance with the IFRS.

Having assessed the information and processes reviewed during the financial year 2013, nothing has come to our attention that make us to believe that internal controls of Latvenergo AS do not provide a reliable basis for the preparation of the 2013 Annual Report.

We submit the summary of our assessment to the Shareholders' Meeting of Latvenergo AS on the date of approval of Consolidated Annual Report 2013.

Torben Pedersen,
Chairman of the Audit Committee

Inita Hāne,
Member of the Audit Committee

Svens Dinsdorfs,
Member of the Audit Committee

1.7 Description of Operating Segments

1.7 Description of Operating Segments

The activity of Latvenergo Group is organised along three operating segments: generation and supply, distribution and management of transmission system assets.

The generation and supply segment comprises electricity and thermal energy generation operations, conducted by Latvenergo AS and Liepājas enerģija SIA, as well as electricity supply (retail and wholesale) operations in the Baltics carried out by Latvenergo AS, Elektrum Eesti OÜ and Elektrum Lietuva UAB.

> The Group has three operating segments: generation and supply, distribution and management of transmission system assets

The distribution segment provides electricity distribution services in Latvia. Services are provided by Sadales tīkls AS – the largest distribution system operator in Latvia.

The management of transmission system assets segment is ensured by Latvijas elektriskie tīkli AS – the company that owns the transmission system assets and conducts their maintenance, construction and lease to the transmission system operator Augstsprieguma tīkls AS.

[EU1] [EU2] [EU3]

1.7.1 Generation and supply

Generation and supply is the largest operating segment of the Group in terms of both turnover (66%) and asset value (42%). Activities within this segment include supply of generated and procured electricity to retail customers in the Baltics, wholesale activities (mostly on the Nord Pool Spot exchange), and generation and supply of thermal energy for district heating purposes in Liepaja and Riga.

Major part of the generation and supply segment revenues are unregulated, while the tariff-regulated operational revenues comprise revenues from:

- thermal energy generation;
- mandatory procurement administration, ensured by Latvenergo AS, which performs the functions of the public trader;
- electricity supply to households until the full opening of the electricity market in Latvia.

In 2013, the total amount of electricity supplied in retail and wholesale (including auxiliary consumption of electricity) constituted 9,757 GWh. Most of the electricity generated in 2013 (82%) was supplied to retail customers. Latvenergo Group is the largest electricity supplier in the Baltics with a 32% market share.

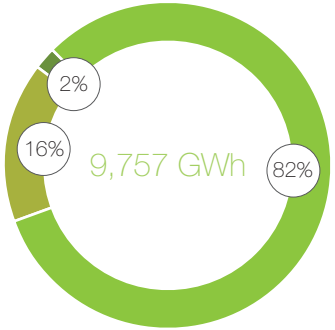
The energy used for electricity supply is mainly generated at Latvenergo Group generation facilities. In 2013, the facilities of Latvenergo Group generated 4,854 GWh, which represents 50% of total electricity supply. In 2013, 1,247 GWh of electricity were purchased from other generators in Latvia (a 22% increase year on year) within the mandatory procurement, 2,118 GWh were procured on the Nord Pool Spot electricity exchange and 1,538 GWh in bilateral transactions with electricity wholesalers and electricity generators in the Baltics. Electricity purchased from generators in the Baltics was procured in order to to limit the price risk.

> Integrated generation and supply allows strengthening the market position in the Baltics

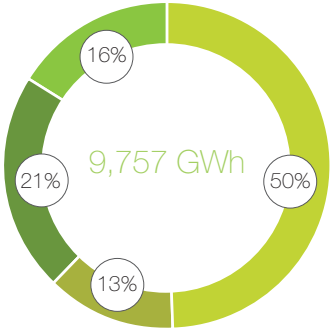
In addition, the generation capacities of Latvenergo Group ensure such ancillary electricity services as provision of emergency capacity reserves and supply of regulating electricity to transmission system operators, as well as supply of balancing electricity.

Riga TEC-2 second power unit. Photo: A. Zihičs.

Latvenergo Group electricity balance sheet 2013



- Retail electricity supply
- Wholesale electricity supply
- Electricity for own use



- Gross electricity generation
- Electricity procured within the mandatory procurement process
- Electricity procured on the Nord Pool Spot
- Electricity procured in bilateral transactions

Latvenergo Group electricity balance sheet (2009 – 2013)

	Unit	Method	2009	2010	2011	2012	**2013**
Retail electricity supply	GWh	m/c	6,659	7,620	8,980	8,287	**7,954**
Wholesale electricity supply*	GWh	m/c	1,206	1,414	2,283	1,886	**1,588**
Electricity for own use	GWh	m/c	151	174	173	177	**215**
TOTAL	**GWh**		**8,016**	**9,208**	**11,436**	**10,350**	**9,757**
Gross electricity generation	GWh	m/c	4,872	5,869	5,285	5,077	**4,854**
Electricity procured within the mandatory procurement process	GWh	m/c	633	692	754	1019	**1,247**
Purchased electricity*	GWh	m/c	2,511	2,647	5,397	4,254	**3,656**
TOTAL	**GWh**		**8,016**	**9,208**	**11,436**	**10,350**	**9,757**

* including ancillary electricity services and electricity wholesale operations to reduce the price risk;
m – measured, e – estimated, c – calculated

Kegums HPP. Photo: M. Ignats.

Generation

Riga TEC-2 – state-of-art and the most efficient combined cycle power plant in the Baltics

Latvenergo Group possesses balanced electricity generation capacities, comprising hydropower plants and reconstructed, highly efficient combined heat and power plants. In late 2013, the Riga 2nd combined heat and power plant (Riga TEC-2) second power unit (electrical capacity – 420 MW_{el}, thermal capacity – 270 MW_{th} in cogeneration mode) was commissioned, finalising the reconstruction of power units of the Riga TEC-2, which is now the most advanced and efficient combined-cycle heat and power plant in the Baltics.

In total, Latvenergo Group provides about 80% of the total electricity output in Latvia and about 70% of the total thermal energy output in Riga. Most of the electricity and thermal energy is generated at three Daugava hydropower plants (HPPs) and two Riga combined heat and power plants (CHPPs). Energy is also generated by generation facilities in Liepaja biomass CHPP, Aiviekste HPP, Ainazi wind power plant (WPP) and Kegums boiler house.

At the end of 2013, the total installed electrical capacity of generators operating at the facilities of Latvenergo Group was 2,569 MW_{el} exceeding 85% of the total installed electrical capacity of power plants in Latvia. While the installed thermal capacity of Latvenergo Group thermal energy generation facilities was 1,857 MW_{th}. The changes in installed electrical and thermal capacities are due to the finalisation of the Riga TEC-2 second power unit reconstruction project, reconstruction of the Ainazi WPP, and commissioning of a biomass boiler house in Liepaja in late 2013.

The facilities of Latvenergo Group generated 4,854 GWh of electricity and 2,566 GWh of thermal energy in 2013.

Installed electrical capacity of generation facilities (2009 – 2013)

	Unit	Method	2009	2010	2011	2012	**2013**
Daugava HPPs	MW_{el}	e	1,511	1,536	1,536	1,536	**1,536**
Riga CHPPs*	MW_{el}	e	806	806	806	806	**1,025**
Liepaja plants	MW_{el}	e	–	4	4	6	**6**
Small plants	MW_{el}	e	1	1	1	1	**2**
TOTAL	**MW_{el}**		**2,319**	**2,347**	**2,347**	**2,349**	**2,569**

* installed capacity in condensation mode;
m – measured, e – estimated, c – calculated

Installed thermal energy capacity of generation facilities (2009 – 2013)

	Unit	Method	2009	2010	2011	2012	**2013**
Riga CHPPs	MW_{th}	e	1,724	1,840	1,840	1,840	**1,617**
Liepaja plants	MW_{th}	e	427	431	198	208	**236**
Small plants	MW_{th}	e	4	4	4	4	**4**
TOTAL	**MW_{th}**		**2,155**	**2,275**	**2,042**	**2,052**	**1,857**

m – measured, e – estimated, c – calculated

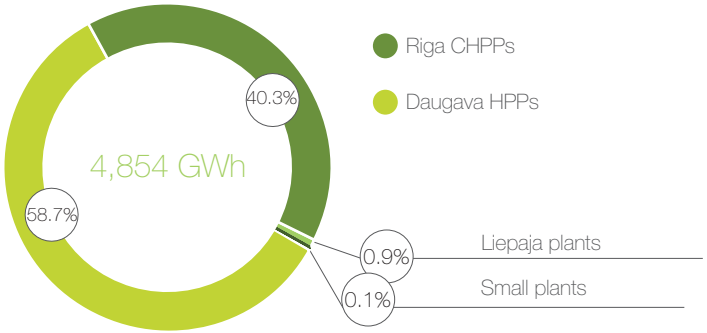
Riga TEC-2 second power unit. Photo: A. Zihičs.

Electricity generation (2009 – 2013)

	Unit	Method	2009	2010	2011	2012	**2013**
Daugava HPPs	GWh	m	3,391	3,445	2,823	3,627	**2,852**
Riga CHPPs	GWh	m	1,476	2,402	2,425	1,409	**1,957**
Liepaja plants	GWh	m	–	18	33	37	**43**
Small plants	GWh	m	5	4	4	4	**3**
TOTAL	**GWh**		**4,872**	**5,869**	**5,285**	**5,077**	**4,854**

m – measured, e – estimated, c – calculated

Electricity generation in 2013

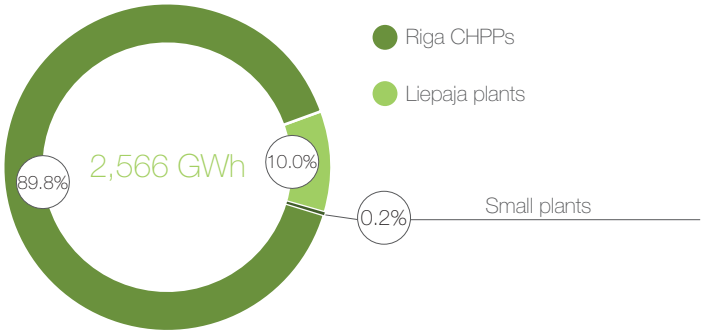


Thermal energy generation (2009 – 2013)

	Unit	Method	2009	2010	2011	2012	**2013**
Riga CHPPs	GWh	m	2,366	2,673	2,315	2,446	**2,305**
Liepaja plants	GWh	m	312	321	248	261	**257**
Small plants	GWh	m	6	6	5	5	**5**
TOTAL	**GWh**		**2,684**	**3,000**	**2,568**	**2,712**	**2,566**

m – measured, e – estimated, c – calculated

Thermal energy generation in 2013



Daugava hydropower plants

Daugava HPPs provide an environmentally friendly way of electricity generation because they operate on water – a renewable energy resource. In 2013, three Daugava hydropower plants generated 2,852 GWh of electricity, comprising 59% of the total electricity output of Latvenergo Group.

Although the installed capacity of generation facilities at hydropower plants is high, their ability to generate electricity depends on the water inflow in the river Daugava. Outside the flooding season, Daugava HPPs operate in the cascade mode to cover the peak loads. Thus it is possible to accumulate water and generate electricity when demand is high and prices increase (i.e. during the day-time peak hours).

While during the flooding season, which lasts for about one or two months, Daugava HPPs operate at full capacity. The inflow of water during the spring flooding exceeds inflow during low water periods (winter and summer) more than 10 times. During this period, Latvenergo Group is able to cover the entire customer demand for electricity as well as to export the excess.

In 2013, the output of Daugava HPPs matched the long-term average electricity generation volume.

Daugava HPPs construction chronology

Kegums HPP, built in 1936–1939 and renovated in 1945–1947, is the oldest hydropower plant on the river Daugava. The initial installed capacity of the plant was 72 MW_{el}. The total current capacity of Kegums HPP is 240 MW_{el}, with 168 MW_{el} installed in 1979 by adding three new hydropower units.

Plavinas HPP is the largest hydropower plant in the Baltics in terms of installed capacity. The power plant entered into service in 1968 with ten hydropower units – at that time their total capacity was 825 MW_{el}. A scheduled reconstruction of six

hydropower units was carried out from 1991 to 2001, as a result of which the installed capacity of the plant reached 869 MW_{el}. The reconstruction process of the hydropower units continued from 2007 to 2010, and three hydropower units were upgraded, increasing the installed capacity of the plant to 894 MW_{el}. As a result of reconstruction of the hydropower units, their capacities and efficiency ratios have been increased, thus also increasing the amount of energy generated from renewable sources.

Riga HPP entered into service in 1974 and has 6 installed hydropower units with a total capacity of 402 MW_{el}. Plavinas HPP and Riga HPP can also operate in synchronous compensator mode (regulating voltage in high-voltage electric networks), which allows the transmission system operator to ensure specified voltage quality.

Investments

Latvenergo Group continues to gradually overhaul the old hydropower units at Daugava HPPs. 12 of the 23 hydropower units have already been modernised.

The reconstruction is expected to improve the hydroturbine parameters (efficiency ratios and installed capacity), increasing the amount of power output from renewable energy sources. The reconstruction will also ensure reliable and sustainable operation of the Daugava HPPs within the entire power supply system.

The process of the hydropower unit reconstruction might be completed in 2022 and it is expected that the total costs of non-overhauled hydropower unit reconstruction will exceed EUR 200 million. The reconstruction of hydropower units will ensure their continued operation for the next 40 years. Within the framework of the Daugava HPPs hydropower unit modernisation programme, in 2013, an agreement was concluded on reconstruction of Plavinas HPP hydropower units No. 1 and No. 3. Reconstruction is scheduled to commence in spring 2015 and complete by spring 2017.

The total investments in Daugava HPPs assets in 2013 constituted EUR 9.0 million. Major part of it was invested in the Daugava HPPs hydropower unit reconstruction programme (EUR 4.5 million) and several hydraulic structure safety projects, the most important of which was the renewal of the bridge girders for the portal crane and reinforced concrete support structures at the Plavinas HPP.

Installed electrical capacity of generation facilities at Daugava HPPs (2009 – 2013)

	Unit	Method	2009	2010	2011	2012	**2013**
Kegums HPP	MW_{el}	e	240	240	240	240	**240**
Plavinas HPP	MW_{el}	e	869	894	894	894	**894**
Riga HPP	MW_{el}	e	402	402	402	402	**402**
TOTAL	**MW_{el}**		**1,511**	**1,536**	**1,536**	**1,536**	**1,536**

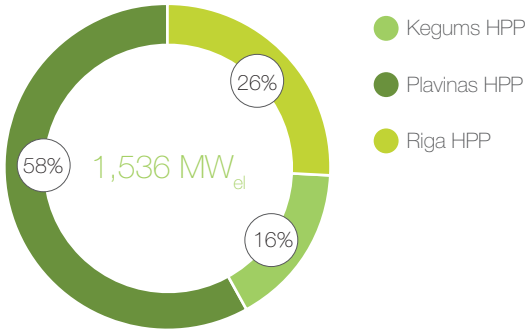
m – measured, e – estimated, c – calculated

Electricity generation at Daugava HPPs (2009 – 2013)

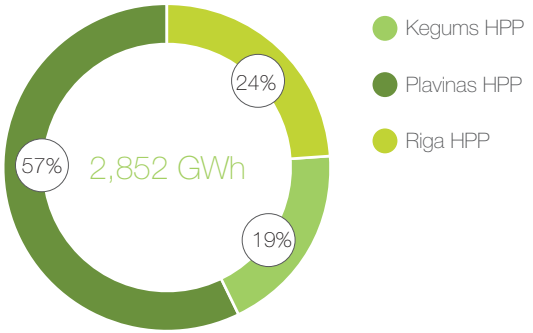
	Unit	Method	2009	2010	2011	2012	**2013**
Kegums HPP	GWh	m	668	621	532	702	**532**
Plavinas HPP	GWh	m	1,931	1,991	1,621	2,067	**1,640**
Riga HPP	GWh	m	792	833	670	858	**679**
TOTAL	**GWh**		**3,391**	**3,445**	**2,823**	**3,627**	**2,852**

m – measured, e – estimated, c – calculated

Installed electrical capacity of generation facilities at Daugava HPPs in 2013



Electricity generation at Daugava HPPs in 2013



Riga combined heat and power plants

The Riga combined heat and power plants (Riga CHPPs) are run mostly to cover the demanded thermal capacity and they predominantly operate in cogeneration mode. Thus, generation of electricity at the combined heat and power plants depends largely on thermal energy consumption, which respectively depends on climate conditions (i.e. ambient air temperature) and duration of the heating season, as well as on the electricity market situation.

Along with the completion of the Riga TEC-2 reconstruction project, the electrical capacity of Riga TEC-2 reached 832 MW_{el} and electricity in this plant may also be generated in condensation mode, which is a significant factor from the perspective of power supply reliability. The availability of Riga TEC-2 capacities in condensation mode also ensures the limitation of the imported electricity price when electricity transmission capacities are insufficient (mostly during the summer).

The primary fuel used by the Riga CHPPs is natural gas, which is the environmentally friendliest of all fossil fuels used for energy generation. Seeking to ensure the reliability of thermal energy supply (for situations when there is an emergency cut-offs of natural gas supply), the Riga CHPPs store a back-up fuel reserves. Currently diesel is the back-up fuel at Riga TEC-1 and fuel oil – at Riga TEC-2. In 2014, Riga TEC-2 is also scheduled to transition from fuel oil to diesel as the back-up fuel.

In 2013, Riga CHPPs generated 1,957 GWh of electricity – 39% more than the previous year. The increased output was due to testing of the Riga TEC-2 second power unit and a relatively high electricity prices on the Nord Pool Spot power exchange in mid-2013. In 2013, the amount of electricity generated at the Riga CHPPs represented 40% of the total electricity output of Latvenergo Group. Thermal energy output at Riga CHPPs decreased by 6% in 2013 and was 2,305 GWh due to higher average ambient air temperature in Riga during the heating season (October-April), which, according to the data provided by the Central Statistical Bureau of the Republic of Latvia, was +1.7 °C in 2013 (2012: +1.2 °C). Thermal energy generated by Riga CHPPs is supplied to the Riga heating supply company at the regulated tariff.

Riga CHPPs construction chronology

Riga TEC-1 was built in 1954–1958 and fully reconstructed – in 2005. Two gas turbines, one steam turbine and three water boilers for centralised heating are exploited in the power plant.

The installed electrical capacity at Riga TEC-1 is 144 MW_{el}, whereas its thermal capacity is 493 MW_{th}.

Riga TEC-2 is the largest combined heat and power plant in Latvia. It was launched in 1973. The reconstruction of Riga TEC-2 was initiated in 2006, the first power unit was commissioned in late 2008 and the second power unit was commissioned in late 2013, thus finalising the reconstruction of combined heat and power plants of the Group. Along with the commissioning of the Riga TEC-2 second power unit, the exploitation of inefficient and environmentally unfriendly power units, commissioned during 1972 – 1979, has been suspended. Currently Riga TEC-2 has become the most efficient and up-to-date combined cycle power plant in the Baltics.

Two combined-cycle gas turbine (CCGT) units and five water boilers are currently exploited at Riga TEC-2. Upon the commissioning of the second power unit, the electrical capacity of Riga TEC-2 in cogeneration mode reaches 832 MW_{el}, while the total thermal energy capacity of the two power units reaches 544 MW_{th} in cogeneration mode. The full thermal energy capacity of Riga TEC-2, including the boilers, is 1,124 MW_{th}.

Investments

The second power unit of Riga TEC-2 was commissioned in late 2013, replacing the obsolete cogeneration capacities from the 1970s with a state-of-the-art equipment, increasing the electrical capacity by about 200 MW_{el}. Since the commissioning of the new power unit, the Riga combined heat and power plants have been able to guarantee the base-load capacity and almost fully cover entire Latvian electricity consumption. The project has finalised the reconstruction of power units at Riga TEC-2 – one of the largest and most important investment projects in the history of Latvia and Latvenergo Group. The construction costs of the Riga TEC-2 second power unit were EUR 320 million.

It should also be noted that the implementation of the project will ensure compliance with regulations for the maximum allowed threshold values of NO_x and CO emissions in flue gas: NO_x – 50 mg/m^3, CO – 100 mg/m^3 at 15% O_2 content in the flue gas.

The total investments in the Riga CHPPs assets in 2013 constituted EUR 32.3 million, including EUR 8.8 million within the general contractor agreement for the Riga TEC-2 power unit reconstruction project.

Electricity generation at Riga CHPPs (2009 – 2013)

	Unit	Method	2009	2010	2011	2012	**2013**
Riga TEC-1	GWh	m	567	669	655	328	**406**
Riga TEC-2	GWh	m	909	1,733	1,770	1,081	**1,550**
TOTAL	**GWh**		**1,476**	**2,402**	**2,425**	**1,409**	**1,957**

m – measured, e – estimated, c – calculated

Thermal energy generation at Riga CHPPs (2009 – 2013)

	Unit	Method	2009	2010	2011	2012	**2013**
Riga TEC-1	GWh	m	845	909	788	976	**772**
Riga TEC-2	GWh	m	1,521	1,764	1,527	1,470	**1,533**
TOTAL	**GWh**		**2,366**	**2,673**	**2,315**	**2,446**	**2,305**

m – measured, e – estimated, c – calculated

Liepaja plants

Latvenergo AS holds 51% of shares of Liepājas enerģija SIA. The company ensures generation, transmission, distribution and supply of thermal energy in the city of Liepaja, as well as generation of electricity in cogeneration mode.

In late 2013, a biomass boiler house with 30 MW_{th} thermal capacity was commissioned as part of the Liepaja generation facilities. Thus, at the end of 2013, the total installed thermal capacity at Liepaja plants reached 236 MW_{th} and the electrical capacity – 6 MW_{el}. Co-funding in the amount of EUR 5.8 million was attracted from the European Union (EU) Cohesion Fund for the biomass boiler house construction project. The boiler house operates on wood chips, a renewable fuel, and it is planned to generate 90 GWh of thermal energy per year, which represents about 35% of the thermal energy output of Liepaja facilities.

In 2013, the Liepaja plants generated 257 GWh of thermal energy and 43 GWh of electricity.

Over the five-year period, heat distribution losses in Liepaja are significantly reduced (2009: 26.2%; 2013: 15.4%). In the following years, transmission and distribution network reconstruction will continue, thus decreasing heat losses.The technical improvements performed in 2013, i.e. reconstruction of heat sources and heating networks, allowed to reduce the district heating tariff in Liepaja city by 4.5% as of 1 December 2013.

The development plan of Liepājas enerģija SIA includes the shutdown of two gas boiler houses and construction of a heating main to switch consumers over to the new 30 MW biomass boiler house. Implementation of the project involves EU Cohesion Fund co-funding in the amount of EUR 0.4 million.

Small power plants

Generation facilities within the energy system of Latvenergo Group also include two small power plants – Ainazi WPP, with a capacity of 1.0 MW_{el}, and Aiviekste HPP, with a capacity of 0.8 MW_{el}. In 2013, wind turbines were replaced at Ainazi WPP within its reconstruction.

Thermal energy is generated at Kegums boiler house. Its installed thermal energy capacity is 4 MW_{th} and the boiler house is fuelled by woodchips.

The small plants generated 3 GWh of electricity in 2013, or approximately 0.1% of the total electricity generated by Latvenergo Group. Kegums boiler house supplied 5 GWh of thermal energy in 2013.

Liepaja biomass boiler house. Photo: V. Pelns.

Electricity supply

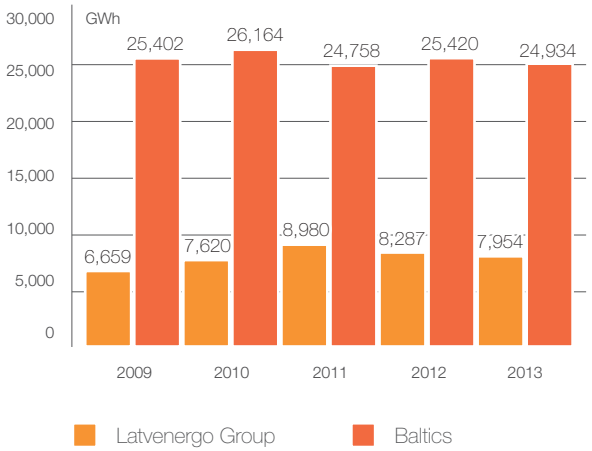
More than 25% of retailed electricity were supplied in Estonia and Lithuania

In 2013, Latvenergo Group has successfully retained its leadership in electricity supply. Latvenergo Group market share constitutes 32% of the overall Baltic electricity market, which consumes a total of nearly 25,000 GWh.

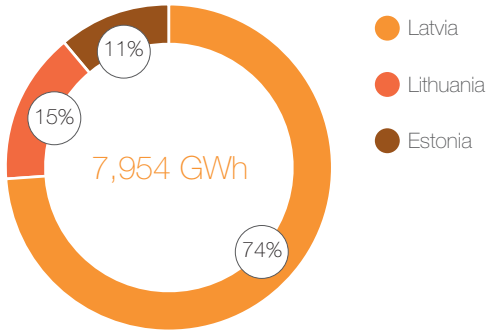
In 2013, Latvenergo Group supplied 7,954 GWh of electricity to retail customers in the Baltics (8,287 GWh in 2012). The lower electricity supply is explained by reduced consumption in Latvian industrial sector.

As a result of focused trade activities, Latvenergo Group managed to recoup its loss of market share in Latvia, despite a stiff competition expanding operations and market presence in both Estonia and Lithuania. The amount of electricity supplied outside Latvia represents more than 1/4 of the total retail electricity supply, reaching 2,081 GWh – 674 GWh more than the supply of competing electricity suppliers in Latvia.

Retail electricity supply in the Baltics (2009 – 2013)



Retail electricity supply in the Baltics 2013



Latvenergo Group retail electricity supply in Latvia was 5,873 GWh (market share – 81%), in Lithuania – 1,187 GWh (12%), and in Estonia – 894 GWh (11%). Almost 80% or the major part of the retail electricity supply was supplied on the open electricity market, while approximately 20% were supplied at the regulated electricity tariff in Latvia.

Overall, the generation and supply segment of Latvenergo Group had about 897.8 thousand customers in 2013: about 869.4 thousand in Latvia, 4.5 thousand in Lithuania and 23.9 thousand in Estonia.

In 2013, electricity was supplied at the regulated tariff to 845.7 thousand customers in Latvia, of which 842.5 thousand were households and approximately 3.2 thousand – legal entities eligible to receive the universal service.

Households represent 96% of the total number of customers, the industrial sector represents 1% and other customers (commercial sector, state and municipal institutions, etc.) – 3%.

Electricity product development

In 2013, in order to attract new customers and keep the current ones, particular attention was paid to product and service development. In the beginning of 2013, the Electricity Product Development Unit was established to develop and maintain a competitive portfolio of electricity products and ancillary services for the Baltic customers – both business customer and households.

Preparing for the electricity market opening to households in Latvia, a range of *Elektrum* electricity products was developed and it was presented to the households in the beginning of 2014. As regards the business customers, who have been purchasing electricity on the open market for more than a year, products were developed specifically for small and medium-sized companies.

The new *Elektrum* trademark was also employed successfully to sell electricity products in Estonia and to legal entities in Lithuania. The products are available via the *elektrum.ee* and *elektrum.lt* portals, ensuring quick and easy conclusion of an electricity trade agreement online. Customers can select the most suitable electricity product based on criteria such as consumption profile and connection type.

In 2013, continuing cooperation with the insurance company Balta AAS, the energy risk insurance (ERI) was offered to customers on the electricity market in Latvia.

The ERI product was improved in 2013, adding indemnification for electricity disruptions within a customer territory; also, up to a certain threshold, indemnity is evaluated and paid without requiring approval from Sadales tīkls AS, thereby speeding up the process.

As before, ERI provides insurance for all technological equipment, tools, stock, goods and other movable property. In September 2013, cooperation was initiated with the Lithuanian insurance company Lietuvos draudimas UAB, offering ERI to customers in Lithuania and expanding its availability on the Baltic scale.

Regulatory Environment in the Baltics

Electricity supply can be subdivided into unregulated and regulated electricity market segments.

In compliance with the terms of the public trader license, Latvenergo AS is obliged to ensure the supply of electricity at the regulated tariff to qualifying customers in Latvia. In addition, the public trader license obliges Latvenergo AS to purchase electricity from electricity generators in Latvia who have a granted right to generate electricity for the mandatory procurement under electricity purchase tariffs specified in the applicable legislation. The purpose of this support scheme is to promote efficient cogeneration of electricity and the use of renewable energy sources (at wind power plants, small hydropower plants, biomass and biogas plants). The excess costs of mandatory procurement are covered by all end users of electricity in Latvia, in proportion to their electricity consumption. The mandatory procurement public service obligation fee is recalculated annually, based on the actual mandatory procurement expenses for the preceding year. The mandatory procurement public service obligation fee is approved by the Public Utilities Commission.

To limit the increase of the mandatory procurement public service obligation fee for electricity users in Latvia, on 6 November 2013, the *Saiema* (the Parliament of the Republic of Latvia) adopted the Subsidised Energy Tax (SET) Law, pursuant to which, the SET will be in effect for a four-year period as of 1 January 2014. Income from the SET will be used as a budget subsidy for reduction of the mandatory procurement public service obligation fee. The relevant state budget target programme for 2014 is specified in the Law on the State Budget 2014 and the Law on the Medium-Term Budget Framework for 2014, 2015, 2016.

On 6 November 2013, in a final reading the Saeima of the Republic of Latvia adopted amendments to the Electricity Market Law, stipulating that, as of 1 April 2014, the public trader functions (excl. electricity supply to captive users) instead of Latvenergo AS shall be performed by a new subsidiary of Latvenergo AS. To comply with the provisions of this law, Latvenergo AS subsidiary Enerģijas publiskais tirgotājs AS was established on 25 February 2014.

Full opening of the Baltic electricity market is scheduled in 2015, upon opening of electricity market for households in Latvia and Lithuania.

[EU4]

1.7.2 Distribution

Distribution is the second largest operating segment of Latvenergo Group in terms both of revenue (25%) and asset value (35%). Operation of this segment is characterised by provisioning of distribution services at regulated tariffs to approximately 860 thousand customers. The distribution service is provided by Sadales tīkls AS – the largest distribution system operator in Latvia. Sadales tīkls AS is also the owner of the distribution system assets, with an electricity distribution network that covers approximately 99% of the territory of Latvia. Sadales tīkls AS has received an operating licence, which is valid until 30 June 2027. The Public Utilities Commission develops the tariff calculation methodology and approves distribution service tariffs. The distribution system operator ensures an equal access to the distribution network, which is one of the prerequisites for promoting competition in the electricity market of Latvia.

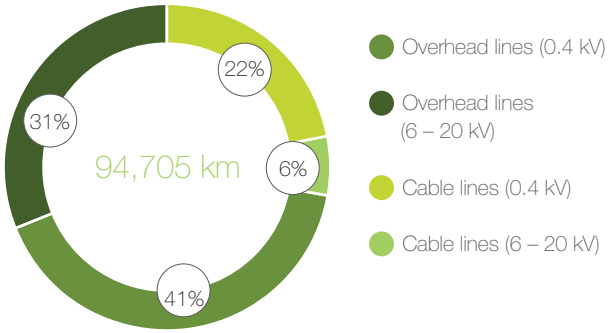
We invest to improve the distribution service quality according to the needs of customers

The distribution system assets owned by Sadales tīkls AS ensure the power flow from electricity transmission system and electricity generators connected to the distribution network to the electricity consumers, which are connected to a low-voltage (0.4 kV) or medium-voltage (6 – 20 kV) power lines. The total length of low-voltage and medium-voltage lines is 94,705 km as at the end of 2013. The distribution system operator has 29,275 distribution network transformers and 26,391 transformer substations with a total installed capacity of 5,809 MVA.

In 2013, the amount of electricity distributed (6,447 GWh) remained at the level of the previous year, whereas the amount of electricity received in distribution networks, compared to 2012, decreased by 1% to 6,808 GWh due to reduced electricity distribution losses. The amount of electricity received in distribution networks from the connected electricity generators increased by 26% reaching 1,139 GWh, which is mostly related to construction of new generation connections.

Activities aimed at reducing electricity distribution losses and technological and economic consumption continued in 2013: electricity consumption was monitored closely, electricity meters for control were installed at distribution transformer substations replacing old electricity meters. In 2013, the relevant figure fell to 361 GWh – 16% less than in 2012. Over the period from 2009

Length of electricity distribution lines in 2013



Distributed electricity and losses (2009-2013)

	Unit	Method	2009	2010	2011	2012	**2013**
Distributed electricity	GWh	m/c	6,143	6,380	6,199	6,468	**6,447**
Electricity distribution losses, technological and internal consumption	GWh	m/c	484	460	447	432	**361**
TOTAL	**GWh**		**6,627**	**6,840**	**6,646**	**6,900**	**6,808**
Electricity losses	%	m/c	6.9%	6.4%	6.4%	5.9%	**5.0%**

m – measured, e – estimated, c – calculated

Electricity received in distribution network (2009-2013)

	Unit	Method	2009	2010	2011	2012	**2013**
From transmission network	GWh	m/c	6,217	6,320	6,019	5,993	**5,670**
From small generators	GWh	m/c	410	520	627	907	**1,139**
TOTAL	**GWh**		**6,627**	**6,840**	**6,646**	**6,900**	**6,808**

m – measured, e – estimated, c – calculated

to 2013, the electricity distribution losses and technological and economic consumption have been reduced by 123 GWh (25%), thus reducing the total percentage of losses from 6.9% to 5.0% – the historically lowest ratio, which is also the best in the Baltics. Electricity distribution losses as a percentage of total electricity received in the network is an important indicator of the distribution segment efficiency (see also the EU12 indicator). In the coming years, further activities are planned to reduce the electricity distribution losses.

Maintenance of distribution networks includes large-scale repairs, while renewal includes considerable annual investments in order to improve the quality of distribution services, reduce the duration of scheduled and unscheduled power outages due to damages, and ensure an adequate voltage quality.

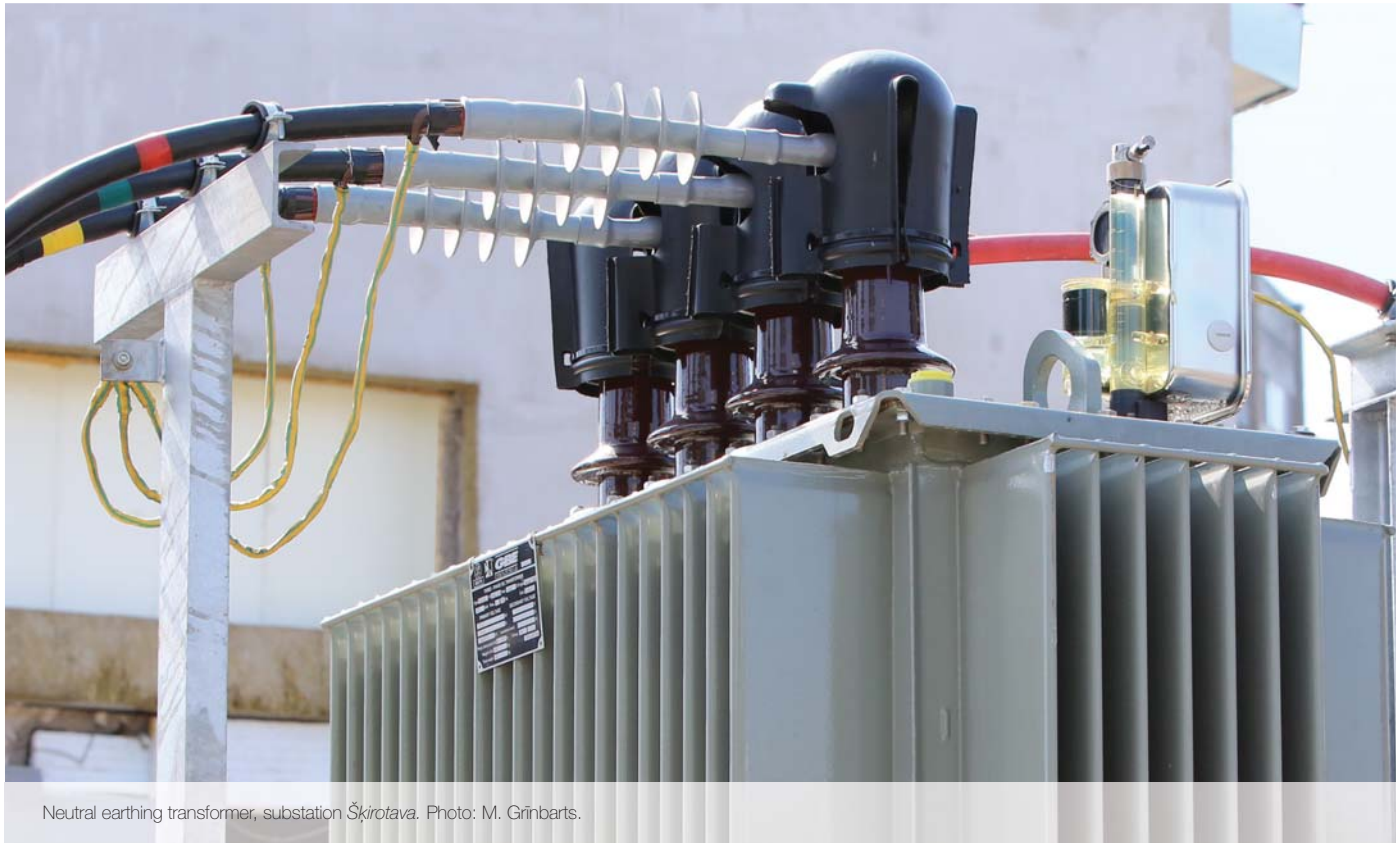
Compared to previous years, the number of power poles replaced was much higher due to increased scope of the scheduled network maintenance and emergency recovery from damages caused by adverse weather conditions. Other maintenance activities remained at prior levels.

Sadales tīkls AS continued its cooperation with municipalities in 2013 – regular meetings with representatives of municipalities took place to discuss planned distribution asset reconstruction and modernisation projects as well as different reliability improvement programmes.

Distribution network maintenance (2009 – 2013)

	Unit	Method	2009	2010	2011	2012	**2013**
Defect identification in overhead lines	km	m	11,735	10,265	10,100	10,253	**9,361**
Defect identification at distribution nodes and substations	number	m	3,141	2,773	3,014	2,870	**2,882**
Repair of distribution nodes and substations	number	m	2,248	1,517	1,472	1,267	**1,294**
Poles replaced	number	m	27,442	27,114	25,617	28,379	**33,677**
Wires adjusted	w/km	m	3,236	3,497	3,748	3,472	**3,137**
Overhead cable suspension (AMKA)	km	m	387	400	428	509	**639**

m – measured, e – estimated, c – calculated



Neutral earthing transformer, substation *Šķirotava*. Photo: M. Grīnbarts.

Investments

The amount of investments in 2013 was increased by 7% reaching EUR 88.6 million (2012: EUR 83.2 million). Investments in the reconstruction and modernisation of distribution networks were made in order to improve service quality and technical performance according to customer needs.

In 2013, the Development Plan of Sadales tīkls AS until 2023 was developed, laying the groundwork for investments in modernising the network and enhancing operational safety in the coming years.

In 2013, within the framework of investment programme, Automation Programme and Cable Programme in the medium voltage network were continued. The Automation Programme included connection of remotely controlled circuit breakers and fault location indicators, allowing to promptly receive information about electricity supply disruptions within electricity networks quickly thus ensuring more responsive recovery of electricity supply. Within the framework of the Cable Programme, medium voltage overhead lines were replaced with cable lines, potentially reducing the number of power supply disruptions due to adverse weather. 162 km of medium voltage cable lines were constructed in 2013 (144 km in 2012).

Besides the Cable Programme, distribution network reconstruction and construction works included dynamic replacement of medium voltage and low voltage lines, reconstruction works at transformer substations (improving voltage quality at 3,465 customer sites), and construction of 7,335 new connections.

Investments (2009 – 2013)

	Unit	Method	2009	2010	2011	2012	**2013**
Investments	MEUR	c	74.4	37.3	65.2	83.2	**88.6**

m – measured, e – estimated, c – calculated

Reconstruction and construction (2009-2013)

	Unit	Method	2009	2010	2011	2012	**2013**
Overhead lines constructed (0.4 kV)	km	m	70	62	60	64	**17**
Cable lines constructed (0.4 kV)	km	m	475	307	643	852	**995**
TOTAL low-voltage power lines	**km**	**m**	**545**	**369**	**703**	**916**	**1,012**
Overhead lines constructed (6 – 20 kV)	km	m	176	169	262	149	**305**
Cable lines constructed (6 – 20 KV)	km	m	98	64	61	212	**126**
Cable lines constructed (6 – 20 KV) – Cable Programme	km	m			16	144	**162**
TOTAL medium-voltage power lines	**km**	**m**	**274**	**233**	**339**	**505**	**593**
Transformer substations reconstructed	number	m	358	437	617	388	**577**
Connections constructed	number	m	7,509	5,906	6,968	6,944	**7,335**

m – measured, e – estimated, c – calculated

[EU4] 1.7.3 Management of transmission system assets

We continue investments in the major transmission network project – *Kurzeme Ring*

The transmission system asset management segment represents about 5% of Latvenergo Group revenue and 12% of its asset value. Transmission asset management functions are performed by Latvijas elektriskie tīkli AS. Operation of the segment includes construction, maintenance and rental of transmission assets (330 kV and 110 kV electricity transmission lines, substations and distribution points) to the transmission system operator – Augstsprieguma tīkls AS.

On 30 January 2013, the Public Utilities Commission (PUC) made a decision on certification of the electricity transmission system operator (TSO). In accordance with the decision, Augstsprieguma tīkls AS must take over the functions of constructing and maintaining the transmission system assets from Latvijas elektriskie tīkli AS by 30 January 2015, as well comprising transfer of employees. Latvijas elektriskie tīkli AS continues managing the transmission assets, i.e. financing and rental of transmission assets to Augstsprieguma tīkls AS.

At the end of 2013, the total length of electricity transmission lines was 5,275 km (along the circuit), of which 76% were 110 kV and 24% – 330 kV lines. Fifteen 330 kV substations are used to ensure the operation of the transmission network, with a total autotransformer capacity of 3,575 MVA, and one hundred and twenty-two 110 kV substations with a total installed transformer capacity of 4,968 MVA.

Length of power transmission lines (2009 – 2013)

	Unit	Method	2009	2010	2011	2012	**2013**
330 kV	km	m/c	1,250	1,250	1,250	1,250	**1,265**
110 kV	km	m/c	4,010	4,010	4,006	4,010	**4,010**
TOTAL	**km**		**5,260**	**5,260**	**5,256**	**5,260**	**5,275**

m – measured, e – estimated, c – calculated

Number of transformer substations, transformers, installed capacities (2009 – 2013)

	Unit	Method	2009	2010	2011	2012	**2013**
Substations (330 kV)	number	m	15	15	15	15	**15**
Autotransformers (330 kV)	number	m	21	21	21	22	**23**
Installed capacity of autotransformers (330 kV)	MVA	m/c	3,200	3,200	3,200	3,325	**3,575**
Transformer substations (110 kV)	number	m	119	119	119	121	**122**
Transformers (110 kV)	number	m	243	243	243	244	**246**
Installed capacity of transformers (110 kV and 10 kV booster transformers)	MVA	m/c	4,698	4,806	4,829	4,902	**4,968**

m – measured, e – estimated, c – calculated

Investments

In accordance with the Baltic Electricity Market Interconnection Plan (BEMIP), which aims to integrate the Baltic States into the European Union energy market, it is planned to create interconnections between the Baltics and Sweden, Finland and Poland. Efficient operation of these interconnections requires also the development of the internal power supply infrastructure in the Baltic States, ensuring higher electrical capacity within the Baltic transmission network.

Consequently, in 2009, the most significant on-going investment project *Kurzeme Ring* was launched in order to enhance the reliability of electricity transmission within the Kurzeme region. The total length of the transmission ring is expected to be around 343 km. The *Kurzeme Ring* project is to be completed in three stages:

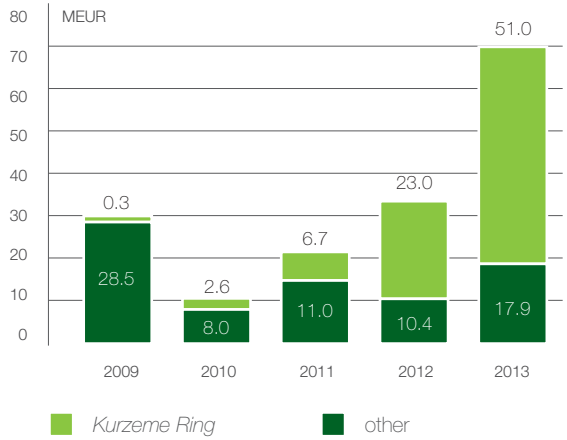
- **the first stage –** distribution facilities of 330 kV have been reconstructed at substations *TEC-1* and *Imanta* in 2012. In 2013, upon completion of a new 330 kV cable line between the substations *TEC-1* and *Imanta*, the construction of the *Riga Ring* in the total length of 14 km has been completed;
- **the second stage –** reconstruction of the existing 110 kV power transmission line between Grobina and Ventspils, by strengthening it with a 118 km long 330 kV overhead line, is scheduled for completion by the mid-2014 along with expansion of the *Grobiņa* 330 kV substation, construction of new 330 kV switching substation at *Ventspils* substation and reconstruction of *Aizpute* and *Alsunga* 110 kV substations;
- **the third stage –** provides the reconstruction of the existing 110 kV overhead line connection Ventspils–Dundaga–Tume–Riga until 2018, thus reinforcing it with a 330 kV overhead (approximately 211 km) line.

The total construction costs of the *Kurzeme Ring* project are estimated at EUR 200 million, including EUR 94,2 million for the execution of the first and second stage of the project. The project is co-funded through the European Energy Programme for Recovery covering up to half of the project construction costs. A half of the environmental impact assessment cost of the project is co-financed through the Trans-European Transport and Energy Network programme.

In 2013, the PUC approved a 10-year electricity transmission network development plan, noting a new intersystem connection – *Estonia-Latvia third interconnection* – as a future electricity transmission infrastructure project essential for the entire Baltic region. The 330 kV interconnection will increase the available throughput between the Latvian and Estonian energy systems. The planned length of the new 330 kV interconnection line in Latvia will be about 190 km, and it is scheduled for completion by late 2020; the construction costs of the project are estimated at EUR 100 million. The Decision of the European Commission to grant co-funding within the framework of the European transport and energy networks (for an environmental impact assessment and position planning for the power line – scheduled for completion in 2015) was also secured in 2013.

In 2013, the total investments in transmission system assets amounted to EUR 68.9 million (2012: EUR 33.4 million), including EUR 51.0 million for the *Kurzeme Ring* construction project (2012: EUR 23.0 million). Other significant projects implemented in 2013 included construction of 330/110 kV connections at Riga TEC-2 generation facilities, construction of the *Mežaparks* 110/10 kV substation, and replacement of 330 kV autotransformer No. 1 at the *Brocēni* 330 kV substation. Reconstruction of 330 kV electricity transmission lines between Plavinas HPP and the *Aizkraukle* substation and reconstruction of switchgear at 110 kV substations *Gulbene* and *Olaine* were also initiated.

Investments in transmision system assets (2009 – 2013)



Kurzeme Ring. Photo: E. Liepiņš.

Latvenergo Group Performance Indicators

Prepared in accordance with the GRI (Global Reporting Initiative) Guidelines G3.1 Application Level B+

2.1 Environment

2.1 Environment

Management Approach

As any industrial activity, energy generation, transmission and distribution also impact the environment. Concern for the environment is one of the foundations for sustainable development of Latvenergo Group. Our efforts, of both making investments and ensuring the proper maintenance of equipment, are focused on environmentally friendly activities, reducing or eliminating environmental risks.

Environmental protection key principles of Latvenergo Group are defined in the Environmental Policy. One of the primary Environmental Policy issues is the reduction of the impact on climate change in accordance with the initiatives and decisions of the European Parliament and the Council. The key principles of the Environmental Policy that characterize the environmental philosophy of the Group and its attitudes towards the environment are:

- reducing the pollutant emissions;
- using natural resources efficiently;
- taking care of the preservation of biodiversity;
- regularly and openly informing the society and stakeholders about environmental activities;
- acting in an environmentally-friendly way and urging the society and partners to act similarly.

In addition to the requirements set in national regulations, Latvenergo Group maintains the Environmental Management System in accordance with the requirements of LVS EN ISO 14001:2004 standard.

Latvenergo Group is proud of its achievements in generating electricity from renewable energy sources, its goal-oriented actions, and environmentally-friendly technologies. In 2013, 59% or 2,869 GWh of the total of electricity generated (36% of the amount of electricity sold in retail) were generated from renewable energy resources. 41% of electricity was generated at combined heat and power plants, which are fuelled by natural gas – a relatively environmentally friendly resource.

To strengthen the position of Latvenergo Group as one of the environmentally friendliest power supply utilities in Europe, environmental matters and the environmental protection performance of the Group are addressed actively. In 2013, the Riga TEC-2 reconstruction project was finalised, replacing the old power units that had been in operation for more than 30 years. Due to its high efficiency, the reconstructed power plant ensures low CO_2 and other pollutant (NO_x, CO) emissions per unit of energy generated. Finalising the construction of the Riga TEC-2 second power unit, testing and adjustment works were performed in 2013, resulting in increase of natural resource consumption and higher emissions of pollutants at generation facilities, which lead to a deviation from the rates at normal plant operating conditions.

> Selection of advanced technologies and environmentally friendly actions is a constant priority of the Group

In 2013, other important investment projects were implemented not only to improve technology but also to reduce the environmental impact of generation processes and facilities:

- commissioning of a biomass boiler house in Liepaja, operating on woodchips – a local renewable energy source;
- Daugava HPPs hydropower unit reconstruction programme was continued, concluding a new agreement to reconstruct two hydropower units and replacing transformers at the Plavinas HPP.

Other significant environmental activities of Latvenergo Group in 2013 included:

- cleaning of the fuel oil sludge storage section at Riga TEC-2 and disposal of hazardous waste;
- creation of a nitrogen conservation system for Riga TEC-2 water boilers, preventing formation of conservation discharge;
- construction of a storage area for power transformers with environmentally safe equipment storage conditions;
- conclusion of the environmental impact assessment for the 3rd stage of the *Kurzeme Ring* investment project (Tume – Riga section) upon receipt of a positive opinion from the Environment State Bureau;
- initiation of an environmental impact assessment for the *Estonia – Latvia third interconnection* investment project;
- research on migratory fish migration and natural replenishment possibilities in the Daugava basin commenced in cooperation with experts from Latvia and other countries;
- continued activities to reduce electricity losses (2009: 6.9%, 2013: 5.0%).

To raise employee awareness and understanding of efficient use of natural resources and appliance of environmental protection legislation, the annual initiative to highlight the most environmentally friendly site was continued. In 2013, after an evaluation of physical consumption of resources and the amount of waste processed, "The Greenest site" travelling prize was awarded to the Kandava department of Sadales tīkls AS.

Stork. Photo: *LETA*.

[EN1] Materials used by weight or volume/ [EN3] Direct energy consumption by primary energy source

Latvenergo Group uses renewable energy sources (water, wind, wood) and also fossil fuel (primarily natural gas and other types of fuel in smaller amounts) for generation of electricity and thermal energy. In 2013, renewable energy sources accounted for 35% of the total consumption of energy resources. Other energy resources were mostly fossil fuel.

Generation of electricity and thermal energy has different ratios of renewable to fossil energy in the balance of primary energy sources. In 2013, 50% of the primary energy sources used in thermal energy generation were renewable energy sources and 50% – natural gas, an environmentally friendly fossil fuel. The high ratio of renewable energy sources was ensured primarily by generation of electricity at Daugava HPPs. Renewable energy sources represent 4% of the total primary energy resource consumption for thermal energy generation. Woodchips are used for thermal energy generation at Kegums boiler house and Liepaja generation facilities – a biomass-fired cogeneration plant and a biomass-fired boiler house commissioned in November 2013.

Consumption of primary energy resources (2009 – 2013)

	Unit	Method	2009	2010	2011	2012	**2013**
Water, wind*	TJ	m/c	12,239	12,416	10,177	13,072	**10,278**
Natural gas	TJ	m/c	15,937	22,006	21,618	17,364	**20,168**
Wood	TJ	m/c	65	57	49	147	**522**
Others (diesel fuel, fuel oil, coal)	TJ	m/c	1	15	6	1	**1**

* the amount of resources evaluated as the amount of energy generated using these resources (3.6GJ=1MWh)
m – measured, e – evaluated, c – calculated

Direct energy consumption by primary energy source for electricity generation (2009 – 2013)

	Unit	Method	2009	2010	2011	2012	**2013**
Water, wind*	TJ	m/c	12,239	12,416	10,177	13,072	**10,278**
Natural gas	TJ	m/c	6,451	12,620	11,388	6,746	**10,253**
Wood	TJ	m/c	–	–	–	14	**59**

* the amount of resources evaluated as the amount of energy generated using these resources (3.6GJ=1MWh)
m – measured, e – evaluated, c – calculated

Direct energy consumption by primary energy source for thermal energy generation (2009 – 2013)

	Unit	Method	2009	2010	2011	2012	**2013**
Natural gas	TJ	m/c	9,487	9,386	10,231	10,618	**9,915**
Wood	TJ	m/c	65	57	49	133	**463**
Others (diesel fuel, fuel oil, coal)	TJ	m/c	1	15	6	1	**1**

m – measured, e – evaluated, c – calculated

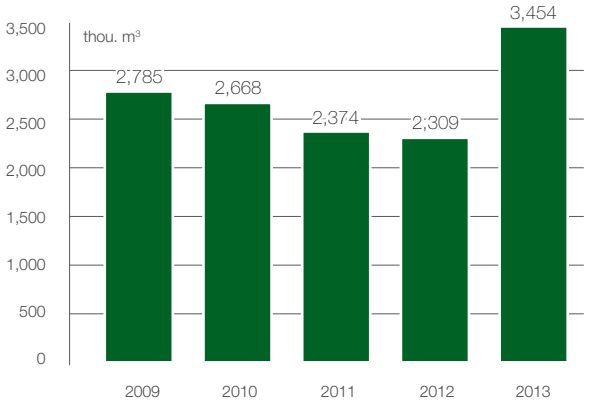
[EN8] Total water withdrawal by source

Latvenergo Group uses water resources mainly to ensure generation processes. A relatively small amount of water is used for various internal needs and for provision of potable water to residents and other external consumers.

The water consumption balance sheet of Latvenergo Group includes surface, underground and supply system water. In 2013, water used for operational needs amounted to 3,454 thousand m^3, including 3,266 thousand m^3 of surface water, 123 thousand m^3 of underground water and 65 thousand m^3 of supply system water.

The largest consumer of surface water resources is Riga TEC-2, which in 2013 consumed 3,260 thousand m^3 of water (compared to 2,082 thousand m^3 in 2012) for operational needs. Increased consumption of water resources was mostly due to testing and adjustment works at the Riga TEC-2 second power unit, consuming 633 thousand m^3 of water in the process, and due to 39% increase of electricity output at Riga combined heat and power plants. The largest consumer of underground water is Riga TEC-1, which consumed 24 thousand m^3 of underground water to feed the heating networks.

Total water withdrawal (2009 – 2013)



Whitefishes. Photo from research institute BIOR photo archive.

[EN14] Strategies, current actions, and future plans for managing impacts on biodiversity

Care for preserving biodiversity and mitigation of the environmental impact of its activities are among the key principles of the Latvenergo Group Environmental Policy. In its operations, the Group plans and implements measures that are aimed to preserve biodiversity. The main initiatives in this field are the protection of white storks, replenishment of fish resources and reinforcement of the Daugava riverbanks.

Bird protection

Latvenergo Group cooperates with the Latvian Ornithological Society (LOS) to address bird protection and research issues. Particular attention is paid to the issue of protecting the white stork. For its third year, Latvenergo Group jointly with LOS have been implementing the White stork monitoring project to gather information on white stork populations in Latvia, and the results confirm that large number of birds of this specially protected species (approximately 10,000 pairs) nest in Latvia. Poles of communication lines and power lines are the most frequent sites chosen by these birds for nesting. In 2013, 7,832 (more than 70%) stork nests were found on electricity line poles. To comply with the safety requirements of electricity supply and reduce the number of white stork deaths on electricity transmission lines, 649 potentially dangerous nests were removed from electricity line poles in 2013 upon approval from environmental authorities. During the nesting period of storks, the birds are disturbed very rarely – only when the safety of electricity supply or people are endangered.

The implementation of the *Kurzeme Ring* project in 2013 also included cooperation with LOS in order to reduce the potential impact of the project on specially protected bird species.

Fish resource replenishment and reinforcement of the Daugava riverbanks

To comply with the applicable legislation, Latvenergo Group makes annual contributions to replenish fish stocks (2013: EUR 864.2 thousand) and invests in reinforcement of the Daugava riverbanks and maintenance of protective engineering structures (EUR 1,209.4 thousand in 2013).

These funds are earmarked both for artificial replenishment of fish stocks and for works to maintain the protective structures and reinforce the riverbanks, thereby mitigating the impact of Daugava hydropower plants on fish resources and deformation of the Daugava riverbanks. 794.5 thousand salmon and brown trout smolts and fries and 839.2 thousand pikeperch, whitefish and vimba fries, along with 6.0 million pike and lamprey larvae have been released into the Daugava River basin in 2013.

In 2013, Latvenergo Group continued its cooperation with the *Mēs zivīm* (We to fish) society. In May 2013, artificial spawning nests were placed in the Kegums HPP reservoir to stimulate the replenishment of common fish species within the Daugava River basin. A survey of migratory fish migration and natural replenishment possibilities in the Daugava basin was initiated in cooperation with local and foreign experts. The results of this survey will be used in planning other scientifically sound activities to protect fish resources in the Daugava River. To increase public awareness of fish protection activities, a booklet was released in 2013, titled “Protection and replenishment of fish resources in the Daugava River basin”.

[EN15] Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk

One of the environmental protection concerns for Latvenergo Group is the preservation of biodiversity. The following species of fish and birds on the International Union for Conservation of Nature (IUCN) Red List are affected by Latvenergo Group operations:

- white stork *(Ciconia ciconia)*;
- salmon *(Salmo salar)*;
- sea trout *(Salmo trutta)*;
- lamprey *(Lampetra fluviatilis)*.

The level of risk for these species is least concern.

[EN16] Total direct and indirect greenhouse gas emissions by weight/ [EU5] Allocation of CO_2 emissions allowances or equivalent, broken down by carbon trading framework

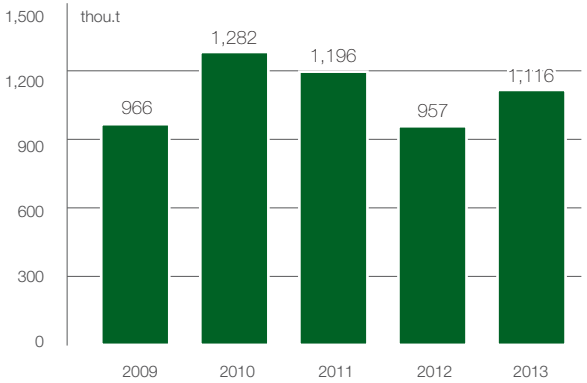
Greenhouse gas-induced climate change is one of the most pressing global environmental issues. Modernization of Latvenergo Group facilities, replacing older and less efficient facilities with such that comply with the Best Available Techniques reference documents, is a significant investment in the reduction of climate change and meeting the set goals.

In 2013, the combustion facilities of Latvenergo Group emitted 1,115,576 t of CO_2 – 158,663 t more than in 2012 – mostly due to the testing and adjustment works at the Riga TEC-2 second power unit and increased (by 39%) electricity output at Riga combined heat and power plants. The above-mentioned testing and adjustment works caused emissions of 121,619 t of CO_2, which was included in the total.

CO_2 emission volume includes emissions from facilities that are part of the European Union Emissions Trading System (combustion facilities with a rated thermal input above 20 MW) and from those that are not part of the system (11,303 t CO_2). The CO_2 emission volume also includes indirect CO_2 emissions related to ensuring of the energy generation process. Latvenergo Group does not produce any other types of direct greenhouse gas emissions.

The Phase III of the EU emissions trading system (EU ETS) has started in 2013. Compared to the previous procedure, the new regulations grant free emissions allowances only to thermal energy generation. The number of allowances granted is also gradually reducing – 80% of the necessary allowances granted in 2013 and until 2020 gradually reducing to 30% of the amount necessary. Riga TEC-1 and Riga TEC-2 received 2,595,925 allowances and Liepaja generation facilities – 348,404 allowances for the period from 2013 – 2020. One allowance is equivalent to one tonne of CO_2 emitted.

CO_2 emissions (2009 – 2013)

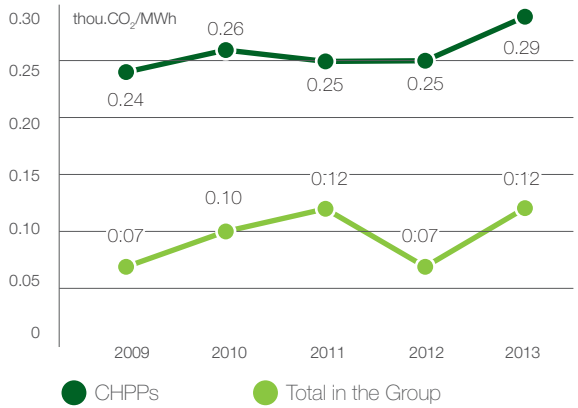


[EN18] Initiatives to reduce greenhouse gas emissions and reductions achieved

The use of efficient and modern technologies is one of the main methods to reduce emissions and save resources. One of the combined heat and power plant performance indicators is the fuel use ratio. In the reconstructed facilities of the combined heat and power plants of Latvenergo Group, this ratio is in the range between 86% and 89%, and it may decline to 48% in condensation mode.

Generally, the specific CO_2 emission indicators per unit of electricity generated describe the proportion of renewable energy and fossil fuel consumption and its efficiency – the lower is the ratio, the higher the proportion of electricity generation from renewable energy sources and the more efficient are the power plant facilities. In 2013, CO_2 emitted per unit of electricity generated was 0.12 t CO_2/MWh_{el}; for the combined heat and power plants alone (i.e. Riga TEC-1 and Riga TEC-2), the amount of CO_2 emitted per unit of electricity generated was 0.29 t CO_2/MWh_{el}. Excluding the emissions of CO_2 due to the testing and adjustment works at the Riga TEC-2 second power unit, the specific CO_2 emissions per unit of electricity generated are 0.10 t CO_2/MWh_{el} and specific CO_2 emissions per unit of electricity generated at the combined heat and power plants are 0.27 t CO_2/MWh_{el}.

CO_2 emissions per unit of electricity generated (2009 – 2013)



[EN20] NO_x, SO_x and other significant air emissions by type and weight

The emission of harmful substances into the atmosphere depends directly on the fuel used, the efficiency of its use and the type of technology. Latvenergo Group uses renewable energy sources (water, wind, wood) and also fossil fuel (primarily natural gas and, in smaller amounts, fuel oil and diesel) and other types of fuel for generation of electricity and thermal energy:

- Natural gas is one of the environmentally friendliest types of fuel, which Latvenergo Group uses not only in the combined heat and power plants but also in the small boiler houses where it is possible. However, besides carbon dioxide, combustion of natural gas emits other harmful substances into the atmosphere. These substances are nitrogen oxides (NO_x) and carbon monoxide (CO);
- The combustion of fuel oil and diesel, which Latvenergo Group uses as back-up fuels at combined heat and power plants, additionally produces sulphur dioxide (SO_2), solid particles and vanadium (V) pentoxide emissions. In addition, during storage of fuel oil and diesel, hydrocarbons are produced. In 2013, no fuel oil was used in energy generation; diesel was used in small amounts during the adjustment works at Riga TEC-1;
- Thermal energy generation at boiler houses of the Group as well as in the Liepaja biomass-fired cogeneration plant is fuelled by woodchips. Woodchip combustion produces NO_x, CO and solid particle emissions.

NO_x, CO, SO_2 and other emissions (2009 – 2013)

	Unit	Method	2009	2010	2011	2012	**2013**
NO_x	t	m/c	1,425	1,349	912	674	**792**
CO	t	m/c	345	250	356	336	**397**
SO_2	t	c	0	11	5	0	**3**
Other*	t	c	10	10	10	10	**14**

* including emissions of solid particles, vanadium, hydrocarbons
m – measured, e – evaluated, c – calculated

Implementation of the Riga TEC-2 reconstruction project replaced older, less efficient facilities with new, efficient equipment in compliance with the Best Available Techniques reference documents. Consequently, the specific emissions and concentration levels of harmful substances in flue gases, nitrogen oxides (NO_x) in particular, were significantly reduced. Generating electricity at the overhauled Riga TEC-2 power units, the NO_x emissions per unit of energy generated is 0.1 kg/MWh, which is 83% less than observed prior to the reconstruction (0.6 kg/MWh). As a result of Riga TEC-2 reconstruction, the statutory requirements that define the maximum allowed threshold of NO_x and CO emissions in flue gases have been met: NO_x – 50 mg/m^3, and CO – 100 mg/m^3 at 15% O_2 content in flue gases. In 2013, increased pollutant emissions were observed due to a greater output at Riga combined heat and power plants and testing and adjustment works at the Riga TEC-2 second power unit, during which 38 t oxides of nitrogen and 52 t carbon monoxide were emitted and included in the total emission figures.

To limit emissions of pollutants from combustion facilities and not to exceed the threshold values specified in legislation, Latvenergo Group monitors and records pollutant emissions, planning and implementing appropriate energy efficiency and environmental protection activities. Restoration of facilities is important in terms of both efficiency and environmental protection. Considering technical, economic and environmental protection aspects, Latvenergo Group plans to suspend the use of fuel oil (the back-up fuel) at Riga TEC-2 and replace it with less environmentally harmful diesel fuel. Reconstruction of the back-up fuel farm began in 2013. Once the project is completed, Riga TEC-2 will emit fewer airborne pollutants when it switches to back-up fuel and will consume fewer resources for the maintenance of the fuel farm.

[EN21] Total water discharge by quality and destination

Use of water resources is directly related to the wastewater treatment and discharge process. Different kinds of local water treatment facilities are operated at Latvenergo Group objects where wastewater cannot be discharged into the centralised sewage system and at objects where water polluted with petroleum products might be produced. Latvenergo Group operations discharge industrial wastewater, rainwater and municipal wastewater. Total water discharge by Latvenergo Group in 2013 was 3,753 thousand m^3, including 3,710 thousand m^3 discharged into sewage systems and 43 thousand m^3 – into the environment. Most of the discharged water (89% or 3,330 thousand m^3) is wastewater from generation at Riga TEC-2. Regular analysis is performed to control the wastewater for compliance with the quality parameters specified in the applicable legislation and in the permits for polluting activity.

Water discharge (2009 – 2013)

Discharged into	Unit	Method	2009	2010	2011	2012	**2013**
Sewage system	thou.m^3	m/c	3,385	3,092	3,017	2,887	**3,710**
Environment	thou.m^3	m/c	61	54	55	47	**43**

m – measured, e – evaluated, c – calculated

[EN22] Total weight of waste by type and disposal method

In accordance with the priority sequence of waste processing methods in Latvenergo Group, in cases when waste production causes cannot be eliminated or waste amounts cannot be reduced, the waste is consigned for recycling or management.

In accordance with the applicable legislation of the Republic of Latvia, Latvenergo Group conducts segregated collection of municipal and hazardous waste and maintains its waste collection sites. Segregated collection and consignment for recycling of various types of production waste (e.g., used tyres, scrap metal, construction waste, etc.) are also performed. Both municipal and hazardous waste is delivered to waste management companies that have permits for processing and recycling of waste.

Increased output of hazardous waste in 2013 is explained by eliminating the historical pollution of soil on the premises of the *Viskaļi* high-voltage substation. While production waste includes scrap metal (2,190 t in 2013), the amount of which is variable and depends on the building, structure and equipment repair and removal work performed at the Group.

Latvenergo Group companies employ waste management systems for used imported packaging and waste electrical and electronic equipment (WEEE).

Waste and recycled materials (2012 – 2013)

Waste	Unit	Method	2012	**2013**	Hazardousness	Management method
Municipal solid waste	t	m/c	2,320	**2,230**	non-hazardous	consigned for processing
Hazardous waste	t	m	330	**528**	hazardous	consigned for processing
Production waste	t	m	2,807	**3,522**	non-hazardous	consigned for processing
Imported packaging	t	m	424	**111**	non-hazardous	consigned for recycling
WEEE*	t	m	17	**17**	hazardous	consigned for recycling
Recycled materials						
Used transformer oil	t	m	81	**96**	hazardous	regenerated and recycled

* waste of electrical and electronic equipment
m – measured, e – evaluated, c – calculated

[EN23] Total number and volume of significant spills

To ensure compliance with the environmental protection legislation, the Group cooperates actively with the state environmental institutions, providing information related to environmental protection, organizing environmental impact assessments, implementing the provisions of polluting activity permits, as well as having consultations on issues related to environmental protection.

In April 2013, petroleum product pollution was identified in the Platone River near the *Viskaļi* high-voltage substation, which was caused by historical pollution on the premises of the substation. Emergency activities were performed to localise the pollution, and a detailed survey of the territory was performed. The risk of pollution spread was eliminated and decontamination works in the polluted area will commence in 2014.

In 2013, no other leakage of pollutants into the environment occurred and no other violations were identified.

[EN28] Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations

In 2013, six planned thematic inspections by the State Environmental Service of the Ministry of Environmental Protection and Regional Development of the Republic of Latvia and two extraordinary inspections by the Health Inspectorate of the Ministry of Health of the Republic of Latvia were conducted at Latvenergo Group. The planned inspections of the Group operations in 2013 did not lead to significant reprimands or sanctions from supervisory bodies, and no fines were imposed. The Jelgava Regional Environmental Board (JRVP) of the State Environmental Service performed two extraordinary inspections at the *Viskaļi* high-voltage substation in connection with pollution in the Platone River. The JRVP specified activities necessary for eliminating the pollution and verified their execution.

[EN30] Total environmental protection expenditures and investments by type

In 2013, Latvenergo Group invested EUR 8.3 million in the environmental protection, including EUR 5.3 million investments in environmental protection measures and EUR 3.1 million of running costs on the maintenance of environmental technology and equipment and compensation for environmental protection. services.

Environmental protection investments and costs (2009 – 2013)

	Unit	Method	2009	2010	2011	2012	**2013**
Waste management	MEUR	c	0.1	0.3	0.2	0.2	**0.4**
Emission-related (airborne, water-borne) costs	MEUR	c	0.3	3.1	0.6	0.6	**0.3**
Corrective measure costs	MEUR	c	1.8	2.4	2.4	2.1	**2.3**
Preventative measure costs	MEUR	c	6.6	4.4	2.1	4.9	**5.3**
Environmental management costs	MEUR	c	0.3	0.2	0.2	0.1	**0.1**

m – measured, e – evaluated, c – calculated

2.2 Employees and Work Environment

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Management Approach

Employees are the most important resource of Latvenergo Group. We believe that sustainable development is based on the desire and determination of employees to perform their duties professionally and efficiently. Latvenergo Group highly values diversity in the labour force, including experience, new knowledge and approaches. The human resource development of the Group depends on improvement of new competencies that are essential in competitive conditions, as well as on ensuring that knowledge is passed on to new employees. Latvenergo Group applies gender equality in personnel composition and remuneration.

Latvenergo Group employees work in the Baltic region. Human resources management and development principles are integrated in the relevant policies of each company of the Group, reflecting a common framework within the Group. These principles are shaped in such a way as to promote attraction of employees who, in line with the values of the Group, are:

- responsible – undertaking personal liability for each job they perform;
- efficient – acting professionally and achieving specified goals;
- open – promoting exchange of experience, receptive to change and new ideas.

Latvenergo Group shapes and maintains an open and transparent work environment that:

Ensures development of employee competencies

Latvenergo Group pays attention to employee competency development, efficiency improvement and linkage between individual goals of employees to the overall goals of the Group. In 2013, the job performance management system was improved, rising awareness of each employee of their role and influence in fulfilling business goals and assignments. Furthermore, uniform generation project management principles were developed, certification of project management was performed and employee training was conducted in 2013 thus improving the competencies of the relevant employees and enhancing the overall work process.

The specific nature of the Group operations require that, in order to ensure sustainable development, it is essential to accumulate and transfer the knowledge, also including thought-out and balanced substitution of retirement-age employees with new staff.

> Engaged, goal-oriented employee is the basis for sustainability and effectiveness of the Group operations

Promotes employee awareness

Latvenergo Group continually improves and simplifies labour organisation and communication. In internal communication and management practices the principle of openness is applied and efective communication is promoted encouraging a sense of belonging and awareness of common goals and values. Employees are provided with internal trainings about the Group strategy, values, ethical standards, labour protection and other matters.

Encourages employee engagement

Latvenergo Group puts a high value on employee engagement: the system for studying employee satisfaction and expressing opinions is continuously developed and improved. During the annual personnel development discussions, employees are also provided an opportunity to thoroughly clarify any issues of interest.

Ensures a motivating work environment

Employees are assigned motivating, performance-weighted remuneration – the basic salary is determined according to employee competencies, while the variable part of the remuneration is tied to the job performance quality.

Electrical Engineers testing microprocessor protection system. Photo: A. Zihičs.

[LA1] Total workforce by employment type, employment contract, and region, broken down by gender

Latvenergo Group constantly improves its processes to ensure that its employee structure is efficient and its staff is optimal in size. In five years, the number of employees has declined by 4% – 4,512 persons were employed by the Group at the end of 2013.

The structure of Latvenergo Group staff has a relatively high proportion of men: 73% of its employees are male and 27% are female. This is explained by the specifics of the industry, requiring a high proportion of technical positions.

Most employment agreements at Latvenergo Group are concluded for an indefinite term, only 2% of all agreements are concluded for a fixed term. The ratio is similar for both genders (men – 1%, women – 3%). Only 15 persons or 0.3% of the total staff (0.3% of men and 0.5% of women) work part-time.

Distribution of employees by operating segments (2009 - 2013)

	Unit	Method	2009	2010	2011	2012	**2013**
Generation and supply	number	m	989	951	920	940	**971**
Distribution	number	m	2,656	2,552	2,543	2,502	**2,505**
Management of transmission system assets*	number	m	533	495	493	438	**444**
Corporate functions	number	m	523	519	534	577	**592**
	number		**4,701**	**4,517**	**4,490**	**4,457**	**4,512**

* since 2 January 2012 Augstsprieguma tīkls AS is unbundled from the Group
m – measured, e – estimated, c – calculated

[LA2] Total number and rate of new employee hires and employee turnover by age group, gender, and region

332 new employees were hired in 2013 (including 12% of women and 6% of men employed by the Group). Employment relationships were terminated with 267 employees (including 6% of women and 6% of men). Employee turnover at Latvenergo Group is relatively low (6%) and it does not pose risks for sustainable development of the Group and ensures balanced transfer of knowledge to new employees.

Employee turnover in 2013

			new employee hires		employment terminated	
Age group	Unit	Method	Men	Women	Men	Women
less than 30	number	m	121	67	41	20
30 – 50	number	m	57	67	64	26
above 50	number	m	5	5	85	31
TOTAL	**number**		**183**	**139**	**190**	**77**

m – measured, e – estimated, c – calculated

[LA4] Percentage of employees covered by collective bargaining agreements

The Latvenergo Collective Bargaining Agreement, concluded by Latvenergo AS, Sadales tīkls AS and Latvijas elektriskie tīkli AS, serves to harmonise the socioeconomic interests of Latvenergo Group employees. Along with provisions of national laws and regulations, the Agreement provides employees with additional guarantees. In 2013, the Collective Bargaining Agreement was applicable to 4,377 or 97% of the Group employees; in recent years this percentage has remained unchanged. The collective agreements concluded by the Group companies are effective not only for labour union members but for all employees of these companies. Thus, social guarantees ensure equal treatment of each employee and reduce the likelihood of conflict between employee and employer.

[LA7] Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region and by gender

As an employer, Latvenergo Group provides its staff with workplaces that are adequate for fulfilment of their duties, appropriate individual means of protection and technical resources, also providing employee training on occupational safety and methods of safety at work. In compliance with requirements of the Occupational Health and Safety Management System OHSAS 18001 standard, work safety management system has been implemented and maintained in all business divisions of Latvenergo Group.

In 2013, 13 accidents occurred at Latvenergo Group companies. No jobsite fatalities occurred in 2013. Accidents are recorded in accordance with the criteria specified in the applicable legislation of the Republic of Latvia.

After the accidents, Latvenergo Group re-assessed the work environment risks and repeated staff instructions. During the instructions, the causes of the accidents were discussed and analysed together with employees. 3 contractors (all of them men) were injured in accidents during their onsite work at Latvenergo Group.Two cases of occupational diseases occurred in 2013, representing an average of 0.05 cases per 100 employees per year. Increased employee absenteeism is explained by a higher number of employees taking leave related to childbirth.

Injury and absentee rates* (2012-2013)

	Unit	Method	2012	**2013**
Injury rate (IR)	number	c	0.47	**0.34**
Occupational diseases rate (ODR)	number	c	0.03	**0.05**
Lost day rate (LDR)**	number	c	12	**14**
Absentee rate in hours (AR)***	number	c	7,875	**9,014**

* calculated per 100 employees on average in a year according to methodology provided by GRI guidelines
** number of days lost due to injuries
*** absence due to incapacity for work, including incapacities not related to injury or occupational disease
m – measured, e – estimated, c – calculated

[LA9] Health and safety topics covered in formal agreements with trade unions

In order to represent employee labour safety interests, trustees in work-related issues are elected at the general meeting of employees. Employee delegates participate in the meeting where nominated candidates are elected by voting. Trustees are elected for a three-year term. In 2013, for the first time trustees were elected by electronic voting. The total number of labour safety trustees elected at Latvenergo Group is 75, forming 1.7% of the total number of employees.

Issues related to labour safety and occupational health are covered by the Collective Bargaining Agreement, which, in addition to the provisions of national laws and regulations, imposes obligations like provision of support to trade unions and labour safety trustees and coverage of special medical treatment costs to employees who have been injured in accidents.

The Collective Bargaining Agreement obliges the employer to provide employees with health and accident insurance, additional vacation days, and extra pay in case of incapacity for work. These conditions allow employees to take better care of their health.

[LA12] Percentage of employees receiving regular performance and career development reviews, by gender

Annual personnel development discussions involve employees who have worked for a full calendar year and they are conducted by direct superior of the employee. The results of discussions allow decisions to be made on necessity for improving competencies of the employee, upgrading their qualification and any other opportunities for professional growth. In the recent years, the percentage of employees with whom development discussions are conducted has steadily increased. In 2013, the percentage reached 89% (2012: 85%). Discussions were conducted with 83% of the women and 91% of the men employed by the Group. The difference is explained by the number of women on maternity leave and a greater proportion of newly hired women, who have not worked a full-year yet, thus are not eligible for development discussions.

[LA13] Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity

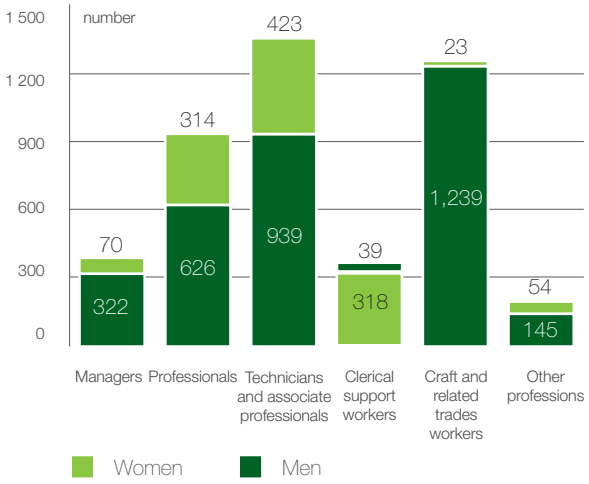
Latvenergo Group employee breakdown by employee category complies with the Profession classificator of the Republic of Latvia. In 2013, 88% of all employees of the Group were highly-qualified employees – managers, professionals, technicians and associate professionals, craft and related trades workers. More than half of all staff have a higher education. Overall, no significant changes in employee composition were observed in recent years. A large part of Latvenergo Group employees have a considerable length of service – the length of service of 66% employees exceeds 10 years. The distribution by gender is similar – 69% of men and 60% of women employed by Group have a length of service of more than 10 years.

The gender inequality in the distribution between qualified and support staff has remained unchanged for several years and is explained by the specifics of the industry.

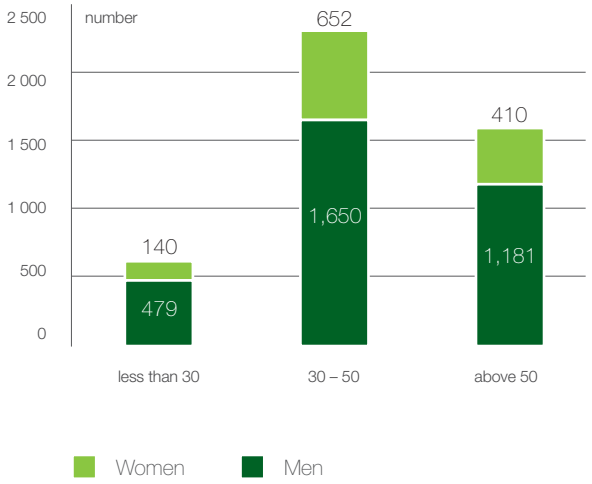
Latvenergo Group maintains equal treatment of all employees of the Group and they are by no means divided in terms of their belonging to any minority group.

Information about the structure and composition of management bodies by gender, age, education, length of service and other diversity indicators is provided in section 1.4 “Group Governance”.

Distribution of employees by gender and by employee category 31. 12. 2013



Distribution of employees by gender and age group 31. 12. 2013



Distribution of employees by age and by employee category 31.12. 2013

Profession group	Unit	Method	up to 30	30 – 50	above 50
Managers	number	m	9	254	129
Professionals	number	m	153	523	264
Technicians and associate professionals	number	m	167	670	525
Clerical support workers	number	m	84	186	87
Craft and related trades workers	number	m	195	592	475
Other professions	number	m	11	77	111

m – measured, e – estimated, c – calculated

[LA14] Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation

The ratio of basic salary for women and men who perform similar duties within an employee category shows that determining the remuneration Latvenergo Group applies gender equality. To identify differences in remuneration between genders, the basic salaries for employees with the same position titles and similar occupational duties were analysed. Overall, 2,797 employee basic salaries were analysed, representing 62% of the total number of employees of the Group.

Observed differences in employee salaries are not significant and are explained by the correspondence of employee competencies to the requirements specified for their position.

Also, no differences in employee total salary are observed due to unified work performance assessment criteria within a given position. Thus, based on the evaluation criteria, all employees have equal opportunity to receive the variable part of salary.

Ratio of basic salary of women to men by employee category

Profession group	Method	Rate of employees compared	Basic salary women/men, range
Managers	c	85%	0.93 – 1.01
Professionals	c	55%	0.89 – 1.10
Technicians and associate professionals	c	71%	0.92 – 1.05
Clerical support workers	c	76%	0.93 – 1.08
Craft and related trades workers	c	53%	0.91 – 1.08
Other professions	c	24%	0.90 – 1.00

m – measured, e – estimated, c – calculated

2.2.2 Human Rights

Management Approach

Latvenergo Group respects the fundamental human rights enshrined in the *Satversme* (Constitution of the Republic of Latvia), laws and binding international treaties and shapes its work environment and processes so as to prevent any infringement or violation of human rights of Latvenergo Group employees and, within the limits of the influence of Latvenergo Group, also of its business partner employees. All Latvenergo Group employees are provided equal opportunity and equal treatment regardless of their gender, race, age or any other characteristic.

We respect human rights and apply high ethical standards

Appliance of the principles of human rights by Latvenergo Group and its business partners is specified in the Code of Ethics, aimed at creating a unified set of norms for ethical conduct, thereby ensuring that respect, trust and loyalty are preserved. The Group actively educates employees on these matters. By surveying employee opinion and understanding of the application of ethical conduct, including human rights, conditions are determined that might potentially lead to the risk of violation of ethical standards or human rights, and possible improvements in this area are identified. Compliance with the standards specified in the Code of Ethics is an obligation and one of the evaluation criteria for all employees of Latvenergo Group and management is responsible for appliance of the standards.

Appliance of the principles of human rights is also defined in other internal documents, which also inter alia specify employee rights to:

- safe, non-hazardous, non-discriminative work environment;
- work and rest time, fair labour compensation;
- equal treatment in recruitment, promotion prospects and work performance evaluation;
- express opinion, participate in associations and trade unions;
- report on cases that might indicate violation of rights.

[HR5] Operations and significant suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and actions taken to support these rights

Latvenergo Group does not restrict individual participation of employees in various associations and organisations, including trade unions, and such participation does not require approval by the employer, thus ensuring free exchange of experience and professional growth.

Latvenergo Group selects business partners and suppliers that understand and apply ethical standards and respect human rights in their operations, as well as support the Group in shaping fair cooperation and do not engage in corruptive or fraudulent activities. To ensure implementation of these principles, upon concluding agreements, the business partners of the Group are asked to provide a declaration of appliance of the values and principles specified in the Code of Ethics of Latvenergo Group.

2.3 Society

2.3 Society

Management Approach

One of Latvenergo Group values is responsibility – it provides for going beyond the statutory requirements and undertaking a voluntary responsibility for direct and indirect impact of Group activity on society, national economy and environment by solving material issues in cooperation with stakeholders.

By conducting public discussions on energy generation and infrastructure modernisation projects, Latvenergo Group provides the society groups affected by its activities with an opportunity to participate in decision-making, thus mitigating the potential impact on society and the environment.

On the national and the European Union level, Latvenergo Group experts are actively involved in shaping of the public policies on subjects that are significant to the Group, communicating its position based on the priorities and goals specified in the strategy of the Group.

> In collaboration with stakeholders we take responsibility thus increasing sustainability of the Group

Latvenergo Group supports fair and responsible business practice. In interactions with various groups of society, Latvenergo Group employees apply the rules of conduct specified in the Code of Ethics of Latvenergo Group, including fairness, openness and equality. Group cooperates with suppliers who understand the necessity of values asserted in the Code of Ethics of Latvenergo Group, support the Group in establishing fair cooperation and are determined to prevent corruption and fraud in their operations.

Aware of the Corporate Social Responsibility (CSR) importance in development of responsible business practice, Latvenergo Group has developed and approved the CSR policy, specifying the key principles and selection criteria for CSR activities to support. The Group implements wide-scope (on the national and Baltic level) CSR activities related to the energy sector or to the human creative energy. Activities are aimed at achieving maximum long-term results and bringing a public good through widespread involvement of social groups, they correspond to the strategy of the Group and promote public understanding of business directions of Group and their current developments.

Directions of Latvenergo Group CSR activities

The main directions of Latvenergo Group corporate social responsibility activities are as follows:

Education of children and young people on electrical safety

In order to reduce risks related to the electrical safety and promote the youngster interest in the physical sciences, Latvenergo Group cooperates with educational institutions and experts annually to implement projects devoted to electrical safety for children and youth. One such project is Latvenergo Group erudition contest *eXperiments*. The contest involves young people and educates them about safe and efficient use of electricity in an interactive environment, encouraging deeper learning of the physical sciences. Furthermore, to educate young people about the basics of electrical safety, Latvenergo Group experts take part in such events as the safety festival for families *Piedzīvojumu vasara 2013* (Summer of Adventure 2013) organised by the State Police of Latvia and the Riga City Council, Safety Days organised in the regions, Safety Week events in schools organised by the National Centre for Education, and Electrical Safety Lessons at the Museum of Energy.

Support for science and education in the energy sector

Understanding the importance of applied research in promoting development of energy sector and innovative environment, Latvenergo Group supports research development in energy sector and promotes engineering professions. In cooperation with the Latvian Academy of Sciences, Latvenergo Group has granted Annual Prize in power engineering for more than 10 years. It also announces an annual competition for the best graduation thesis on topical issues in the energy sector, and a scholarship contest for students of higher educational institutions. Group provides internships for students of various institutions, and contributes to the prize fund for the *Mehu dienas* (Mech Days) organised by the Student Council of the Faculty of Engineering of the Latvia University of Agriculture. To involve youth and enhance their physics knowledge, the content of the schoolchildren's portal *fizmix.lv* was expanded in 2013. Experiments published on the portal were presented in the *Latvijas Izgudrotāju dienas 2013* (Latvian Inventors' Days 2013) organised by the CONNECT Latvia Association. The event is aimed at promoting development of innovative projects.

Preservation of industrial heritage

The Museum of Energy of Latvenergo Group plays an important role in research and preservation of documentary and industrial heritage of the Latvian energy sector and Latvenergo Group.

The Museum of Energy has created a travelling exhibition of E. Kraucs' collection of glass plate photonegatives entitled "The Process of Kegums Hydropower Plant Construction (1936–1940)", which is included in the Latvian National Register of the UNESCO Memory of the World Programme.

In 2013, Latvenergo Group helped to create the documentary *Kā tapa Ķeguma spēkstacija. Kārļa Dumbrāja atmiņas* (How the Kegums Hydropower Plant was Built. Memories of Kārlis Dumbrājs). To promote recognition of industrial heritage, the Museum of Energy in Kegums participated in the international Museum Night event and the *radi! 2013* (create!2013) Creativity Week, while the museum branch in Andrejsala hosted the Night of Scientists and UNESCO Week events.

Open to culture and sport

Latvenergo Group assists in organising events that support preservation of national values in culture. Latvenergo Group supported the XXV Latvian Song and Dance Festival which took place in 2013, and, promoting the artistic talents of handicapped and orphaned children, continued to support a charity concert *Nāc līdzās Ziemassvētkos!* (Come along in Christmas!).

Latvenergo Group also participates in events that promote active lifestyle – employees take part in the *Nordea* Riga Marathon and the Latvian Cyclist Unity Ride in Sigulda.

Environmental protection

In 2013, Latvenergo Group continued collaboration with the Latvian Ornithological Society (LOS) regarding bird protection and the *Mēs zivīm* (We to fish) association to protect and replenish fish stocks in the Daugava basin. Further information about environmental protection activities implemented by Group is available in the Section 2.1 "Environment".

Energy efficiency measures

The Energy Efficiency Centre of Latvenergo Group provides free advice on safe and efficient use of electricity and other topics related to energy efficiency, as well as organises lectures, workshops and distributes reference materials. Latvenergo Group website http://www.efektivi.lv provides easy-to-implement suggestions for improvement of energy efficiency.

Social support

To mitigate the economic impact of electricity tariffs on socially vulnerable groups, in 2013, Latvenergo Group provided several social support measures:

- socially vulnerable individuals had the opportunity to receive electricity settlement cards in the amount of LVL 53.70 (EUR 74.99) from municipal social services;
- large families had the opportunity to pay for the first 3.600 kWh consumed per year at a lower *Starta* tariff.

Latvenergo Group also continued its support for schools in Latvia, donating sets of computer equipment and desktop computers in 2013.

Social protection of employees

Information about social protection for employees is available in the Section 2.2 "Employees and Work Environment".

Photo from Latvian Song and Dance festival photo archive.

[SO1] Percentage of operations with implemented local community engagement, impact assessments, and development programs

Latvenergo Group responsibly evaluates the impact of its activities on the environment both day-to-day and during implementation of new projects. To reduce the risk of harm to the environment and the society, the opinion of stakeholders is obtained by organising public discussions. Also, environmental protection researches and environmental impact assessments are conducted. To ensure safety for residents of municipalities that during the flooding season are affected by the Daugava hydropower plant reservoirs, Latvenergo Group cooperates with the relevant state services, institutions and local governments.

In 2013, public discussions were conducted in connection with the 3rd stage of the *Kurzeme Ring* project (3 public discussions) and the *Third electricity transmission network interconnection* between Estonia and Latvia (8 public discussions). Further information about environmental impact assessments by Latvenergo Group and measures taken to reduce it, including bird protection and replenishment of fish stocks, is provided in the Section 2.1 "Environment".

In spring, in cooperation with the State Fire and Rescue Service, Latvenergo Group organised a group meeting regarding the cooperation between responsible services, institutions and local governments in the Daugava river basin during the flooding season, underscoring the importance of division of responsibility and mutual exchange of information.

The Group applies all regulatory requirements regarding assessment of the impact of its activities and performs the necessary mitigation activities.

[SO2] Percentage and total number of business units analysed for risks related to corruption

General evaluation of corruption risk within the audit framework is conducted at all Latvenergo Group subsidiaries.

In 2013, an evaluation of fraud and corruption risk was conducted at those Latvenergo AS business functions, which the management considered to be more susceptible to the risk of fraud and corruption.

According to the results of the risk assessment, the risk of fraud and corruption at Latvenergo Group is managed adequately. Internal normative documents determine employee activities, limit the scope of their authorities (policies, procedures, rules, Code of Ethics, etc.) and ensure mitigation of fraud and corruption risk.

No cases of corruption were identified within Latvenergo Group during the reporting period. More information about the fraud risk management and evaluation within the Group is available in the Section 1.5 "Group Management".

[SO4] Actions taken in response to incidents of corruption

The Code of Ethics of Latvenergo Group prohibits corruption, fraud and situations of conflict of interest.

In accordance with the Code of Ethics, managers of all levels, leading specialists, experts, project managers and other employees that during performance of their duties participate in decision-making or are otherwise susceptible to the risk of conflict of interest once a year must submit a Conflict of Interest Declaration to the employer. During the reporting period, Conflict of Interest Declarations were submitted by 1,731 employees of the Group (38% of all employees).

Upon commencing employment, new employees must sign a statement, confirming their understanding of conflict of interest situations and commitment to preventing occurrence of such situations in their work. The Code of Ethics of Latvenergo Group lays down restrictions on acceptance and offering of gifts: in performing their job duties, employees may not accept or offer any material reward, material or other kind of benefit, including gifts, commission fees or other valuables as an inducement or reward.

Employees must assess not only their commercial activity outside the Group but also that of their relatives and family members, if it is closely related to the business of the Group, and must report such situations to the employer.

In order to ensure employee awareness of conflict of interest situations and steps to be taken to prevent them, the Group carries out explanatory measures, management and employee trainings, organises discussions on prevention of conflict of interest situations and mitigating of fraud and corruption risk.

In 2013, the Fraud and Corruption Risk Management Policy of Latvenergo Group was developed, aiming at stipulating the framework of risk management, along with the Fraud and Corruption Risk Evaluation Rules, which specify a methodology for evaluating the risk.

Further information about control measures and activities implemented by the Group is available in the Section 1.5 "Group Management".

[SO5] Public policy positions and participation in public policy development and lobbying

Experts of Latvenergo Group participate in public discussions on factors that affect operational areas of the Group and prepare positions, opinions and statements on public policy documents and legislative proposals on the national and the European Union (EU) level, expressing its stance in line with the strategy and goals of the Group.

Lobbying of subjects essential to the Group in the EU is ensured through participation in the Union of the Electricity Industry (EURELECTRIC). In 2013, Latvenergo Group representatives took part in preparing the EURELECTRIC position (proposals for policymakers) on more balanced and efficient European Energy Policy, operation of the internal electricity market, and optimal public intervention, as well as on the EU 2030 policy framework for climate and energy.

Furthermore, the Group experts gave their recommendations for development and improvement of various regulatory documents in 2013, including laws and related Regulations of the Cabinet of Ministers. The most important of these were amendments to the Electricity Market Law, amendments to the Shelterbelt Law, the Subsidised Energy Tax Law, amendments to the Labour Law, amendments to the Natural Resource Tax Law, and the 2014-2020 Science, Technological Development and Innovation Guidelines.

[SO6] Total value of financial and in-kind contributions to political parties, politicians and related institutions by country

The Corporate Social Responsibility Policy of Latvenergo Group does not permit financial or in-kind contributions to political organisations.

2.4 Product Responsibility

2.4 Product Responsibility

Management Approach

Latvenergo Group actively seeks to increase the value of products provided to customers and in its business activities considers differences and requirements entailed by operation both on a Baltic scale and in product segments. In the regulated product segment, Latvenergo Group focuses on the efficiency of customer service, on meeting the regulatory requirements and on ensuring the necessary service standards. While in the unregulated product segment, Latvenergo Group concentrates on a personalised approach as well as on product differentiation according to the needs of customers, motivating them to continue cooperation with Latvenergo Group.

In 2013, the liberalisation of the electricity market gradually continued in the Baltics. As of 1 January 2013, the electricity market in Estonia is opened for all customers and in Lithuania – for all business customers. Full opening of the Baltic electricity market is expected in 2015, when opening of the electricity market for households in Latvia and Lithuania is expected. Along with the liberalisation of the electricity market, in 2013, Latvenergo Group continued focusing on key initiatives and activities to increase its competitiveness and strengthen its positions on the Baltic electricity market: the number of retail customers in Lithuania and Estonia now exceeds 20 thousands.

Goals and results

For Latvenergo Group, 2013 has been characterised by preparation for the electricity market opening for households in Latvia and by strengthening of its positions in Lithuania and Estonia. To ensure efficient and customer-friendly service in the new market environment while preserving the leading supplier position after the opening of the market in Latvia, Latvenergo Group laid the following groundwork:

- processes and formats for market messages between traders and the system operator were developed;
- renewal of the customer service and billing system was initiated in order to adjust to market requirements;
- business and customer service processes for organising activities and communication during the opening of the market were revised and improved;
- customer service was restructured to ensure the necessary resources for servicing the increasing customer flow;
- detailed customer research was performed to study customer needs and establish a baseline for developing customer-oriented services;
- development of an electronic sales channel in Latvia was commenced, providing customers the opportunity to select the most suitable electricity product and conclude an electricity trade agreement in a convenient way.

To strengthen the market position in Lithuania and Estonia, activities to increase awareness of the *Elektrum* brand were implemented in 2013. According to a reputation study performed at the end of the last year, since 2012, *Elektrum* awareness has reached the targets set: *Elektrum* is known by 75% of the target group in Estonia and by 44% in Lithuania. Awareness indexes are considered as high, because *Elektrum* brand stays behind only the dominating national electricity suppliers. The experience of using the *Elektrum* service portal in Estonia and possibilities for development were also analysed in 2013. Annual customer satisfaction and loyalty surveys were carried-out in all three Baltic States.

> We offer a personal approach and a wide range of products according to the Baltic customer needs

Other activities and improvements were also performed in 2013, continuing development of convenient customer service options:

- new mobile applications were introduced for reporting meter readings in Latvia and Estonia. Although the main purpose of the new application is to shape the image of *Latvenergo* and *Elektrum* as a contemporary brand that introduces advanced technologies, the number of mobile application users was also considerable by the end of the year – 8.1 thousand in Latvia, 9.4 thousand in Estonia;
- opportunity to conclude electronically signed agreements was provided for customers in Latvia;
- interactive voice response options were improved at the Contact Centre to simplify and speed up access to services

1. Mobile application for reporting meter readings. 2. *Latvenergo/ Elektrum* seasonal campaign in social networks.

for customers. Phone voicemail is also promoted, and is preferred by customers to use when there is too intensive call-flow (such as during massive faults);

- opportunity to apply in advance for a visit to a customer service centre was provided for customers in Latvia, thus saving the time;
- *e-latvenergo.lv* portal promotion activities were carried-out, increasing the number of portal users by 16%;
- new website www.sadalestikls.lv was created to raise awareness of role and operations of Sadales tīkls AS. In addition, social accounts of Sadales tīkls AS were developed in social sites, providing prompt communication with customers.

Organisational responsibility

To maintain high customer satisfaction, service quality and availability, customers are offered the access to a number of service options for their convenience. Customer service in Latvia is ensured through the following channels: self-service portal *e-latvenergo.lv* and *e-st.lv*; customer service via telephone; customer service in person at customer service centres; an option to submit questions electronically via e-mail; customer issues are also addressed on social networks. Mobile messaging is also used to inform customers about supply disruptions and other matters. Customer service in Estonia and Lithuania is ensured via the *elektrum.ee* and *elektrum.lt* portals as well as over the phone.

The most popular customer service channel is the portal *e-latvenergo.lv*, with the number of visits increased more than 12 times since 2008. In 2013, the average number of visits exceeded 250 thousand per month. Year-on-year, the number of visits of the portal has increased by 12%.

For customer convenience, a free call centre is also provided. In 2013, it has serviced 6% more customers than in 2012.

Latvenergo Group Customer Service Centres (CSCs) serviced about 30% fewer customers than in previous years. To a large extent, the lower number of CSC visits is explained by the fact that customer service was reorganized in 2013, from CSCs structurally separating the business customer service division, which took-over part of the customer flow. In 2013, the actual reduction in customer visits to CSCs (after adjusting for the number of legal entities serviced by the new division) was 8%.

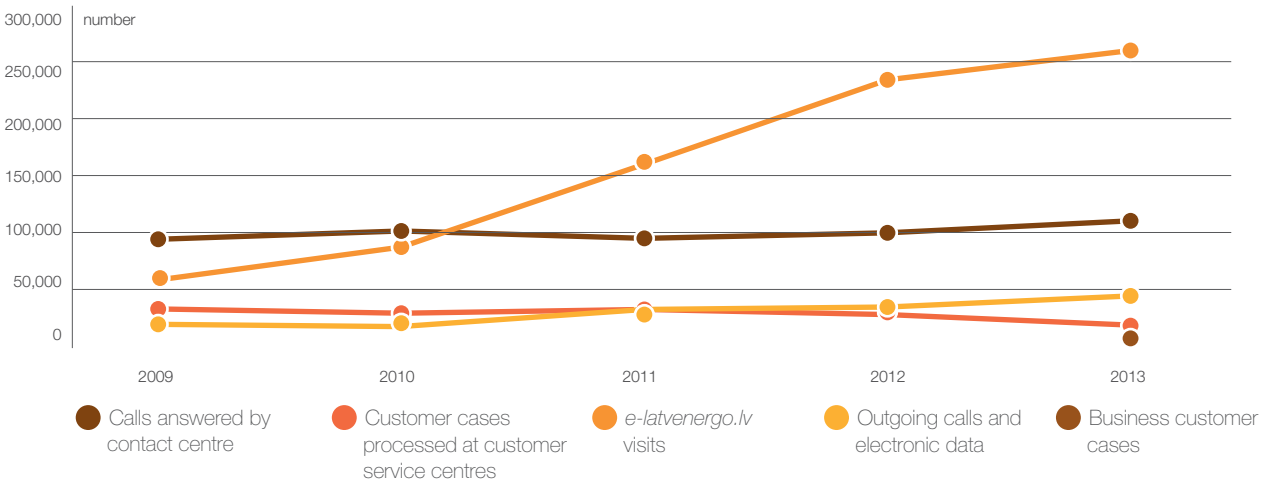
The increasing popularity of the *e-latvenergo.lv* portal year-on-year and the lower number of customers serviced at CSCs reflect the effectiveness of the customer service development strategy of the Group, focused on development of indirect communication and more convenient customer service format.

Overall, the average number of customer contacts through various customer service channels in Latvia was 460 thousand per month. Only 315 of these were customer complaints, which represent 0.04% of all customers of the Group. 10% of all complaints were justified and 8% were partly justified. Responses were provided to customers as soon as possible – 63% of all complaints filed were given a response within 15 days.

To increase the response time while ensuring mutual understanding about a solution to customer issues, in 2013, 48% (2012: 41%) customer complaints and issues were resolved directly with the customer by the phone.

Key performance indicators (KPI) were determined in order to assess the effectiveness of customer service: customer call response service level (percentage of calls answered, calls answered within 30 seconds), complaints and applications responded to within 15 days.

Average number of customer cases serviced per month (2009 – 2013)



Customer service KPI in Latvia (2009 – 2013)

	Unit	Method	KPI	2009	2010	2011	2012	**2013**
Calls answered	%	m/c	90	87	88	89	90	**92**
Calls answered in 30 seconds	%	m/c	85	82	78	77	82	**86**
Claims answered in 15 days	%	m/c	50	55	51	52	58	**63**

m – measured, e – estimated, c – calculated

[PR5]

Practices related to customer satisfaction, including results of surveys measuring customer satisfaction

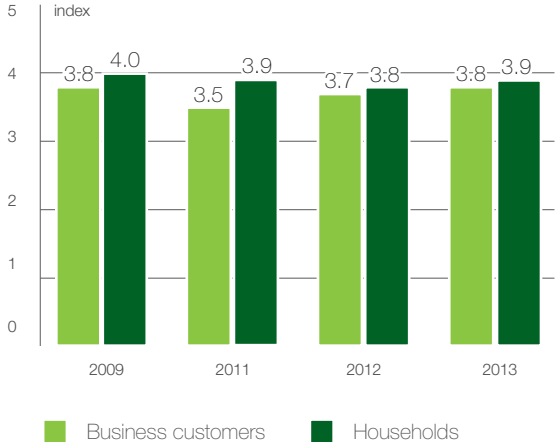
To ensure high quality customer service, in cooperation with sociological research agencies Latvenergo Group conducts regular studies of customer satisfaction and loyalty, identifying the service aspects that can be developed and improved. The level of customer satisfaction is measured across several aspects – overall satisfaction with the company, its services, customer service, payment options, information accessibility and content. Customer satisfaction and loyalty are evaluated separately in the household and business customer segments.

A representative customer survey was performed in late 2013, which, compared to 2012, showed a slight increase in customer satisfaction index in the household and business customer segments in Latvia. Satisfaction was measured across several parameters: customer service options and employees, payment options, provision of information and resolution of problems/ complaints. Across all these aspects, the customer satisfaction index has increased both in the household and the business customer segment.

In 2013, customer satisfaction and loyalty monitoring practice was also introduced in Lithuania and Estonia. After the first year of operation, the results of the survey in Lithuania and Estonia showed high customer satisfaction in all segments, particularly among business customers. Notably, *Elektrum* customers have evaluated their electricity trader higher than competitors' customers have evaluated them.

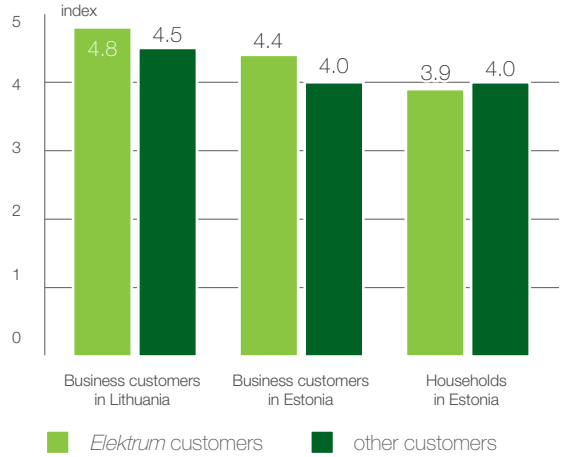
In spring of 2013, Sadales tīkls AS customer satisfaction survey was carried-out. Based on the results, a customer satisfaction improvement plan for 2013-2014 was developed. The plan provides for development of two service areas – construction of new connections and electricity supply recovery – thus improving access to information and shortening the time of the service provision thus reducing costs, as well as highlighting the benefits and the value of the service.

Customer satisfaction index among business customers and households in Latvia (2009; 2011 – 2013)*



* No customer satisfaction study was carried out in 2010

Customer satisfaction index in Lithuania and Estonia in 2013



[PR6]

Programmes for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion and sponsorship

In communication with customers and in marketing activities, Latvenergo Group ensures that information complies not only with the state regulations and fair competition standards but also with the Code of Ethics of Latvenergo Group and the Corporate Social Responsibility policy. Communication at Latvenergo Group is always constructed in a manner that conforms to the values of the Group.

In order to inform customers and the public about services and current events, Group uses several media channels: the press, television, Internet, mail, brochures and other informative materials, mobile text messages, etc.

[PR7] Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes

In 2013, there were no cases of non-compliance with the state regulations or provisions of voluntary codes of conduct in Latvenergo Group marketing activities.

[PR8] Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data

Latvenergo Group holds an extensive customer database, the processing and maintenance of which complies with all statutory requirements in terms of data security and observance of confidentiality. Customer service processes are adapted to ensure confidentiality of data. Data security and protection is also ensured in customer service in the electronic environment, incl. during the authorization process, providing customers with access to sensitive information on the customer portal as well as in direct communication with customers.

In 2013, two justified complaints were registered concerning a possible violation of customer data privacy. The errors in the customer database were resolved immediately upon receiving the complaints.

[PR9] Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services

Latvenergo Group seeks to ensure the maximum quality for the provision of its services. If provision of electricity distribution services is deemed to be inconsistent with quality requirements, the customer is compensated for the losses incurred. Thus, in 2013, compensation for damaged electrical equipment due to distribution network disturbances was paid in 97 cases, in the total amount of EUR 43.3 thousand. In addition, a reduced electricity distribution tariff for inadequate voltage quality was applied to 70 customer sites.

[EU26] Percentage of population unserved in licensed distribution or service areas

The service area specified in the electricity distribution licence covers 99% of the territory of the Republic of Latvia. Electricity distribution is provided to approximately 860 thousand electricity distribution service customers.

Electricity distribution services are provided to all households that have concluded an agreement on electricity supply within the service area specified in the licence.

[EU28] [EU29] Power outage frequency (SAIFI) and average power outage duration (SAIDI)

The key performance indicator characterising electricity distribution to which Sadales tīkls AS pays particular attention is the average electricity supply interruption, calculated on a per customer over a year, expressed as frequency (System Average Interruption Frequency Index, SAIFI) and duration in minutes (System Average Interruption Duration Index, SAIDI).

Electricity supply interruption indicators are subdivided into scheduled and unscheduled interruptions. The duration/frequency of scheduled supply interruptions is determined primarily by distribution network maintenance and reconstruction works, while the duration/frequency of unscheduled supply interruptions is determined by adverse weather conditions (storm,

snowbreak, flooding) and damage or theft by third parties.

The following activities were carried out in 2013 to decrease the duration of unscheduled electricity supply interruptions:

- medium-voltage lines were equipped with damage location sensors;
- remote-controlled circuit breakers that ensure quick damage localisation were installed in the medium-voltage network;
- medium-voltage overhead lines in forested areas were replaced with cable lines for a total length of 162 km.

In addition, systematic work was performed to maintain electricity lines and to clear rights of way, including vertical trimming of tree branches along overhead lines using a helicopter.

In the coming years, plans include paying greater attention and carrying out preventative measures in order to reduce the frequency and duration of electricity supply interruptions for customers. The Automation Programme for the coming years includes a number of activities to localise damage and restore supply of electricity to customers sooner:

- installation of circuit breakers to disconnect electricity lines in densely populated and forested areas;
- division of long overhead lines servicing a high number of customers into shorter sections, with subsequent connection to the automatic damage localisation system;
- replacement of obsolete circuit breakers with the latest technology circuit breakers.

System Average Interruption Frequency Index (SAIFI) (2012 – 2013)

	Unit	Method	2012	**2013**
Unscheduled: natural phenomena (massive damage)	number	m/c	0.5	**0.6**
Unscheduled: damage (incl. if caused by third parties)	number	m/c	3.4	**2.9**
Scheduled: network maintenance and overhaul	number	m/c	0.9	**1.0**
Total SAIFI	**number**		**4.8**	**4.5**

m – measured, e – estimated, c – calculated

System Average Interruption Duration Index (SAIDI) 2012 - 2013

	Unit	Method	2012	**2013**
Unscheduled: natural phenomena (massive damage)	minutes	m/c	116	**149**
Unscheduled: damage (incl. if caused by third parties)	minutes	m/c	255	**192**
Scheduled: network maintenance and overhaul	minutes	m/c	265	**280**
Total SAIDI	**minutes**		**636**	**621**

m – measured, e – estimated, c – calculated

[EU30] Average plant availability factor by energy source and by regulatory regime

The plant availability factor for the generation facilities of Daugava HPPs and Riga CHPPs is calculated as the period of time during which a plant can operate at the nominal capacity. The remaining time is provided for scheduled and unscheduled interruptions, such as repair works. After conclusion of the Riga TEC-2 reconstruction project, plant availability is expected to remain at current levels.

Average plant availability (2009 – 2013)

	Unit	Method	2009	2010	2011	2012	**2013**
Daugava HPPs	%	m/c	87%	84%	86%	90%	**91%**
Riga CHPPs	%	m/c	89%	85%	82%	86%	**93%**

m – measured, e – estimated, c – calculated

2.5 Economic Performance

2.5 Economic Performance

Management Approach

The Group makes thought-out investments in maintenance and development of generation capacities, improving energy generation efficiency and becoming even friendlier to nature, as well as in reconstruction and maintenance of the transmission and distribution system, where energy supply reliability is the key factor.

In 2013, Latvenergo Group generated most of its electricity output (59%) from renewable energy sources. To preserve leadership in green energy generation, measures to renew and maintain Daugava HPPs generation capacities are essential. More than EUR 200 million are planned to be invested in reconstruction of Daugava HPPs hydropower units by 2022, ensuring their operation for the next 40 years.

The rest of the Latvenergo Group electricity output is mainly generated at combined heat and power plants in cogeneration mode, which is one of the most efficient ways to generate energy and facilitates savings in primary energy resources thus reducing the negative impact on the environment in terms of CO_2 and other harmful emissions.

> We make economically justified, sustainable investments, increasing the efficiency and diminishing the environmental impact

In 2013, the Riga TEC-2 second power unit was commissioned, replacing the technological equipment installed in 1970s with a state-of-the-art equipment. After the reconstruction, Riga TEC-2 has become the most advanced combined-cycle power plant in the Baltics with a total electrical capacity of 832 MW_{el}. Reconstruction of Riga TEC-2 allowed reducing to minimum CO_2 and other pollutant (NO_x, CO) emissions per unit of energy generated, gaining a competitive advantage in terms of high efficiency. The new Riga TEC-2 power unit can generate up to 3 times more electricity than the former facilities. It should also be noted that the reconstructed Riga combined heat and power plants guarantee the base-load capacity and electricity supply safety in Latvia and the Baltics, stabilising electricity prices in the region.

In order to improve the quality and technical performance of network services, Latvenergo Group continues to increase its investment in network assets – in 2013, investments were increased by 35% reaching EUR 157.6 million. Investments in transmission and distribution assets represent 70% of Latvenergo Group total investments in 2013. The development plan of Sadales tīkls AS was also developed in 2013, laying out a roadmap for investments in modernising the network and increasing operational safety in the coming years according to the needs of customers.

Along with smart investment in energy generation and development of its networks, Latvenergo Group is able to maintain stable financial performance, as evident from its financial reports. Detailed information on the performance of the Group is available in the Latvenergo Consolidated Annual Report 2013.

Kurzeme Ring. Photo: E. Liepiņš.

[EC1] Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments

In 2013, the economic value generated by Latvenergo Group increased by 4%, reaching EUR 1,109.5 million. The increase in economic value generated reflects the growth of the Group. It has had a positive effect on the change in distributed economic value – compared to 2012, this indicator increased by 1% reaching EUR 903.2 million or 81% of the total economic value generated.

Most of the distributed economic value (82%) consists of operational costs, including those related to electricity procurement, electricity services, fuel and other operational costs, which have increased by 5%. Dividends for 2012 were paid in the amount of EUR 40.6 million. Latvenergo Group is a major payer of dividends for the use of state capital.

In 2013, the undistributed economic value of Latvenergo Group represents less than one-fifth of the economic value generated reaching EUR 206.3 million, which has been earmarked for investment. Latvenergo Group invested EUR 224.9 million in 2013.

Economic value generated and distributed (2012 – 2013)

	Unit	Method	2012	**2013**
Economic value generated	**MEUR**	**c**	**1,071.9**	**1,109.5**
Revenue and other income	MEUR	c	1,066.3	**1,103.9**
Income from financial activities	MEUR	c	5.6	**5.6**
Economic value distributed	**MEUR**	**c**	**894.2**	**903.2**
Raw materials, consumables and other operational expenses	MEUR	c	709.6	**742.5**
Remuneration of employees	MEUR	c	91.3	**95.4**
Payments for the use of state capital	MEUR	c	56.8	**40.6**
Payments to providers of debt capital	MEUR	c	16.0	**17.8**
State imposed payments	MEUR	c	19.3	**6.1**
Charity and sponsorships	MEUR	c	1.3	**0.8**
Retained economic value	**MEUR**	**c**	**177.7**	**206.3**
Depreciation and amortisation	MEUR	c	170.2	**170.2**
Savings and reserves	MEUR	c	7.5	**36.1**

m – measured, e – estimated, c – calculated

[EC4] Significant financial assistance received from government

For implementation of major investment projects Latvenergo Group also has attracted co-funding from the European Union (EU) as foreign financial assistance. One of the key projects for which co-funding was attracted is construction of the Kurzeme Ring within the framework of the NORDBALT project, with 50% co-funding provided by the European Energy Programme for Recovery. Co-funding from the EU Cohesion Fund was attracted for a biomass boiler house construction project (50%) and reconstruction of heating networks in Liepaja (40%), while 60% co-funding was attracted within the framework of the Republic of Latvia state budget programme "Climate Change Financial Instrument" for the project "Promoting energy efficiency in households using smart technologies". Latvenergo Group continues initiated activities to attract possible co-funding for construction of inter-connection system *Estonia-Latvia third interconnection.*

[EU11] Average generation efficiency of thermal plants by energy source and regulatory regime

Efficiency is considered as a paramount part of the energy generation process at Latvenergo Group. Generation efficiency indicators are calculated as the ratio of generated electricity and thermal energy against the energy used in its generation. Generation efficiency indicators are affected by the selected plant operating modes, which are adjusted to the electricity market conditions.

The Riga TEC-2 reconstruction project, which was concluded in late 2013, comprised replacement of obsolete generation equipment with more efficient, state-of-the-art equipment, positively affecting Riga TEC-2 generation efficiency indicators. In 2013, testing and adjustment works conducted at Riga TEC-2, not always ensuring the most economical operational mode at the plant, determined a decline in Riga combined heat and power plant efficiency ratio. Excluding the effect from testing and adjustment works, in 2013, the efficiency ratio of Riga combined heat and power plants was 83%.

Efficiency indicators for Latvenergo Group generation facilities are relatively high compared to other energy generation companies in the Baltics.

Generation facility efficiency indicators (2009 – 2013)

	Unit	Method	2009	2010	2011	2012	**2013**
Daugava HPPs	m^3/kWh	m/c	19.3	19.6	19.4	19.4	**19.5**
Riga CHPPs	%	m/c	86%	84%	83%	85%	**79%**
Liepaja plants	%	m/c	93%	92%	92%	93%	**91%**
Kegums boiler house	%	m/c	79%	78%	80%	83%	**86%**

m – measured, e – estimated, c – calculated

[EU12] Distribution losses as a percentage of total electricity

Distribution losses as a percentage of total electricity received in the network are a significant indicator of the distribution operating segment. In 2013, distribution losses were reduced to 5.0% of the electricity received in the distribution network. This was the lowest amount of losses recorded to date.

This reduction in losses is the result of focused activities – electricity meters were replaced, electricity metering was reorganised, and payments for electricity consumed are monitored regularly.

Additional data is available in Section 1.7.2 “Distribution”.

Distribution losses (2009 – 2013)

	Unit	Method	2009	2010	2011	2012	**2013**
Distribution losses	%	m/c	6.9	6.4	6.4	5.9	**5.0**

m – measured, e – estimated, c – calculated

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INDEPENDENT AUDITOR'S REVIEW REPORT ON THE SUSTAINABILITY REPORT

To the management of AS Latvenergo

We have been engaged by the management of AS Latvenergo to perform limited review procedures in respect to the Sustainability Report of AS Latvenergo and its subsidiaries ('the Group') for the year ended 31 December 2013.

Management's Responsibility
The Management of the Group is responsible for the preparation and presentation of the Sustainability Report 2013, in accordance with the requirements of the B level application of The Global Reporting Initiative Guidelines ('GRI Guidelines'), issued by The Global Reporting Initiative (GRI), a non-profit organisation with secretariat based in Amsterdam, the Netherlands. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the Sustainability Report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. The Management is responsible for ongoing activities regarding the environment, health & safety, quality, social responsibility and sustainable development, and for the preparation and presentation of the Sustainability Report in accordance with the applicable criteria.

Our responsibility
Our responsibility is to express a conclusion on the Sustainability Report based on our review. We conducted our engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000, 'Assurance engagements other than audits or reviews of historical financial information', issued by the International Auditing and Assurance Standards Board (IAASB). A review consists of making inquiries, primarily of persons responsible for preparing the Sustainability Report, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with IAASB's Standards on Auditing and Quality Control. The procedures performed consequently do not enable us to obtain an assurance that would make us aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.
Our assurance does not comprise the assumptions used by the Group or whether or not it is possible for the Group to reach certain future targets described in the report (e.g. goals, expectations and ambitions).
The criteria on which our review is based on are the parts of the "Sustainability Reporting Guidelines, G3.1" published by GRI as well as the accounting and calculation principles that the Group has developed. We consider these criteria suitable for the preparation of the Sustainability Report.

Our review has, based on an assessment of materiality and risk, included the following procedures:

- an assessment of suitability and application of the criteria regarding the stakeholders' need for information;
- an assessment of the outcome of the Group's stakeholder dialogue;
- interviews with the responsible management, at group level, subsidiary level, and at selected business units in order to assess if the qualitative and quantitative information stated in the Sustainability Report is complete, accurate and sufficient;
- review of internal and external documents in order to assess if the information stated in the Sustainability Report is complete, accurate and sufficient;
- an evaluation of the design of the systems and processes used to obtain, manage and validate sustainability information;
- verifying the information included in the Sustainability report 2013 through enquires to the relevant management of the Group;
- a reconciliation of financial information with the Group's Consolidated Annual Report for the financial year 2013;

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INDEPENDENT AUDITOR'S REVIEW REPORT ON THE SUSTAINABILITY REPORT (CONTINUED)

- an assessment of the Group's declared application level according to GRI guidelines;
- an assessment of the overall impression of the Sustainability Report, and its format, taking into consideration the consistency of the stated information with applicable criteria,
- testing performance data, on a selective basis, substantively at both an operational and corporate level;
- inspecting documentation to corroborate statements of management and senior executives in our interviews;
- a reconciliation of the reviewed information with the sustainability information in the Group's Consolidated Annual Report for the financial year 2013.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the Sustainability Report 2013 of Latvenergo AS and its subsidiaries has not, in all material respects, been prepared in accordance with the above stated criteria.

SIA Ernst & Young Baltic
Licence No. 17

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

Riga, 15 April 2014

2013 Latvenergo Group Consolidated Annual Report

FINANCIAL STATEMENTS
PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING
STANDARDS AS ADOPTED BY THE EU
AND
INDEPENDENT AUDITOR'S REPORT

KEY FIGURES

	2013	2012	2011	2010	2009	2013	2012	2011	2010	2009
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Revenue	773,009	747,566	676,416	565,227	499,314	1,099,893	1,063,691	962,453	804,246	710,460
EBITDA[1]	174,783	171,557	178,983	206,859	144,736	248,694	244,103	254,670	294,334	205,941
Operating profit[2]	42,935	49,361	52,045	61,593	31,446	61,091	70,234	74,053	87,639	44,744
Net profit	32,434	35,741	43,778	44,325	19,556	46,149	50,856	62,290	63,069	27,826
Dividends	16,590	28,546	39,900	35,000	20,230	23,605	40,618	56,773	49,801	28,785
Total assets	2,512,776	2,472,290	2,288,004	2,279,266	1,699,491	3,575,358	3,517,752	3,255,536	3,243,103	2,418,158
Non-current assets	2,198,416	2,180,111	2,026,594	1,942,231	1,462,114	3,128,064	3,102,019	2,883,583	2,763,546	2,080,401
Total equity	1,420,869	1,410,510	1,351,576	1,344,748	889,440	2,021,714	2,006,975	1,923,119	1,913,404	1,265,559
Borrowings	663,921	595,248	513,334	545,607	507,225	944,675	846,961	730,408	776,329	721,716
Net debt[3]	484,409	424,823	404,457	311,342	352,287	689,252	604,468	575,492	443,000	501,259
Net cash flows from operating activities	102,989	150,769	180,399	160,563	138,174	146,540	214,526	256,685	228,461	196,604
Capital expenditure	158,038	185,723	198,723	127,539	104,506	224,868	264,260	282,757	181,472	148,699

		2013	2012	2011	2010	2009
Net debt / EBITDA ratio		2.8	2.5	2.3	1.5	2.4
EBITDA margin[4]		23%	23%	26%	37%	29%
Net profit margin[5]		4%	5%	6%	8%	4%
Capital ratio[6]		57%	57%	59%	59%	52%
Return on assets (ROA)[7]		1.3%	1.5%	1.9%	2.2%	1.2%
Return on equity (ROE)[8]		2.3%	2.6%	3.2%	4.0%	2.2%
Retail electricity supply	GWh	7,954	8,287	8,980	7,620	6,659
Electricity generated in power plants	GWh	4,854	5,077	5,285	5,869	4,872
Aggregate heat supply	GWh	2,517	2,669	2,524	2,928	2,600
Number of employees at the end of the year		4,512	4,457	4,490	4,517	4,701
Moody's credit rating of the Parent Company		Baa3 (stable)	Baa3 (stable)	Baa3 (stable)	Baa3 (stable)	Baa3 (negative)

1) EBITDA – earnings before interest, income tax, share of result of associates, depreciation and amortisation, and impairment of intangible assets and property, plant and equipment
2) Operating profit – earnings before income tax, finance income and costs
3) Net debt – borrowings at the end of the year minus cash and cash equivalents at the end of the year
4) EBITDA margin – EBITDA / revenue
5) Net profit margin – net profit / revenue
6) Capital ratio – total equity / total assets
7) Return on assets (ROA) – net profit / average value of assets (assets at the beginning of the year + assets at the end of the year / 2)
8) Return on equity (ROE) – net profit / average value of equity (equity at the beginning of the year + equity at the end of the year / 2)

MANAGEMENT REPORT

Latvenergo Group is a pan-Baltic power supply utility operating in generation and supply of electricity and thermal energy, provision of electricity distribution services and management of transmission system assets.

Increase of Latvenergo group revenue and EBITDA index

In 2013, Latvenergo Group revenue increased by 3% compared to 2012 and reached LVL 773.0 million (EUR 1,099.9 million). Revenue has increased in all operating segments. EBITDA index of the Group increased by 2% reaching LVL 174.8 million (EUR 248.7 million), but net profit was LVL 32.4 million (EUR 46.1 million) (2012: LVL 35.7 million (EUR 50.9 million)).

In 2013, the Group's results were positively impacted by increase of mandatory procurement revenues due to a change of the mandatory procurement public service obligation fee on 1 April 2013 and recognition of balanced revenues and costs of mandatory procurement due to the amendments of the mandatory procurement administration process according to the Amendments to the Electricity Market Law of the Republic of Latvia announced on 27 November 2013. While the results were negatively affected by:

- unearned revenues in the amount of LVL 31 million (EUR 44 million) due to electricity supply at the regulated tariff in Latvia;
- lower water inflow in the Daugava River;
- higher electricity purchase costs for electricity supply to retail customers;
- decline in industrial sector electricity consumption in Latvia.

In 2013, a one-off impairment loss of Riga combined heat and power plants (Riga CHHPs) in the amount of LVL 12.4 million (EUR 17.7 million) has been recognised. The necessity of impairment loss recognition was determined by application of the Subsidised Energy Tax for a four-year period as of 1 January 2014. The tax provides a 15% reduction of the receivable amount of guaranteed payments for installed electrical capacity at Riga CHPPs.

Latvenergo group supplies more than 25% of electricity abroad

In 2013, Latvenergo Group has successfully retained its leadership in electricity supply on the Baltic market, supplying 7,954 GWh of electricity to Baltic retail customers. As a result of focused electricity trade activities, the retail electricity supply volume outside Latvia reached 2,081 GWh, which is by 32% higher than in 2012 and exceeds a quarter of the retail electricity supply. While the number of customers in Lithuania and Estonia exceeds 20 thousands.

In 2013, the total amount of electricity generated by the power plants of Latvenergo Group was 4,854 GWh (2012: 5,077 GWh). Compared to 2012, electricity output at Riga CHPPs increased by 39% or 548 GWh due to commissioning of the second power unit of Riga 2nd combined heat and power plant (Riga TEC-2) and higher electricity price. While lower water inflow in the Daugava River determined a decrease of Daugava hydro power plants output by 21% or 775 GWh. In 2013, the total amount of thermal energy generated by Latvenergo Group was 2,566 GWh, which, compared to the previous year, decreased by 5% due to a higher average temperature in Latvia during the heating season.

Riga TEC–2, the most advanced power plant in the Baltics, has been commissioned

In 2013, the total amount of investments was LVL 158.0 million (EUR 224.9 million) (2012: LVL 185.7 million (EUR 264.3 million)). In late 2013, the second power unit of Riga TEC-2 was commissioned, completing the reconstruction project of Riga TEC-2 – the most efficient and up-to-date combined cycle power plant in the Baltics. From now the Latvenergo Group possesses the base-load capacity in order to fully cover Latvian electricity consumption in case if the electricity import price is higher than variable costs at combined heat and power plants. The total construction costs of the power unit from March 2010 to December 2013 are LVL 225 million (EUR 320 million).

The amount invested in the networks assets represents 70% of the total investments

To improve the quality of network services and technical parameters, Latvenergo Group continues to increase investments in both distribution and transmission segment assets. In 2013, the amount invested in the network assets increased by LVL 28.8 million (EUR 41.0 million), comprising 70% of the total investments. Pursuing the completion of transmission system project – NORDBALT-02-330kV Kurzeme Ring, in 2013, LVL 35.8 million (EUR 51.0 million) were invested in the project.

Total amount of bonds issued reaches EUR 105 million

Latvenergo Group has diversified the financing sources by issuing debt securities (bonds) – the total amount of bonds issued reaches LVL 74 million (EUR 105 million). In 2013, bonds in the amount of LVL 35 million (EUR 50 million) with maturity of 5 years and in the amount of LVL 25 million (EUR 35 million) with maturity of 7 years were issued.

Due to investments in the reconstruction of the second power unit of Riga TEC-2 second power unit, net debt of Latvenergo Group has increased and reaches LVL 484.4 million (EUR 689.2 million) as at 31 December 2013 (LVL 424.8 million (EUR 604.5 million) at 31 December 2012). The capital ratio is 57%, which is considered to be an appropriate rate for the industry and shows a stable capital structure. In 2013, all the binding financial covenants included in Latvenergo Group's loan agreements have been met.

In 2013, the international rating agency Moody's Investors Service has confirmed Latvenergo AS credit rating as Baa3 with a stable outlook and reconfirmed it on 20 March 2014.

Activities of the Latvenergo Group are exposed to a variety of financial risks: market risk, credit risk, pricing risk and liquidity risk. The risk management programme of the Group focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments to hedge certain risk exposures (see Note 3).

In 2013, the overall Latvenergo Group performance has been successful and it has made a significant contribution to accomplishment of the strategic goals defined in the Group's strategy. The development of Latvenergo Group will be continued.

Events after the reporting period

On 1 January 2014, Latvia has joined the Euro zone, converting the Latvian Lats (LVL) into the Euros at fixed exchange rate EUR 1 = LVL 0.702804. As of this date, the Group balance account values were converted into the Euro currency and financial reports for 2014 and the following years will be prepared in Euro currency.

All other significant events subsequent to the end of the reporting period that would materially affect the financial position of the Group are disclosed in Note 28 of the Consolidated Financial Statements.

Statement of management responsibility

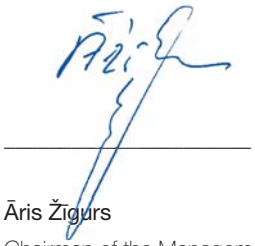
Based on the information available to the Management Board of Latvenergo AS in all material aspects Latvenergo Consolidated Annual Report 2013 has been prepared in accordance with applicable laws and regulations and gives a true and fair view of assets, liabilities, financial position and profit and loss of the Latvenergo Group. All information included in the Management report is true.

Profit distribution

Fulfilling the requirements of the Law on state and municipality owned shares and companies, Regulations No. 1074 of the Cabinet of Ministers of the Republic of Latvia dated 25 November 2010 On amendments of regulations No. 1471 of 15 December 2009 on Procedure how to determine and transfer to the State Budget the share of the profit payable for use of State Capital, the Management Board of Latvenergo AS proposes to allocate profit of the year in the amount of LVL 16.6 million (EUR 23.6 million) to be paid out in dividends and the rest of the profit to be transferred to Latvenergo AS reserves.

The distribution of profit for 2013 is subject to a resolution of Latvenergo AS Shareholders' Meeting.

The Management Board of Latvenergo AS:



Āris Žīgurs
Chairman of the Management Board

Zane Kotāne
Member of the Management Board

Uldis Bariss
Member of the Management Board

Māris Kuņickis
Member of the Management Board

Arnis Kurgs
Member of the Management Board

15 April 2014

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Income Statement

	Notes	2013	2012	2013	2012
		LVL'000	LVL'000	EUR'000	EUR'000
Revenue	6	773,009	747,566	1,099,893	1,063,691
Other income	7	2,846	1,809	4,050	2,574
Raw materials and consumables used	8	(492,984)	(472,031)	(701,453)	(671,640)
Personnel expenses	9	(66,818)	(63,904)	(95,074)	(90,927)
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	13a,14a	(131,848)	(122,196)	(187,603)	(173,869)
Other operating expenses	10	(41,270)	(41,883)	(58,722)	(59,595)
Operating profit		**42,935**	**49,361**	**61,091**	**70,234**
Finance income	11a	3,183	3,705	4,529	5,272
Finance costs	11b	(12,538)	(11,250)	(17,840)	(16,007)
Share of profit of associates	15	746	253	1,061	360
Profit before taxes		**34,326**	**42,069**	**48,841**	**59,859**
Income tax	12	(1,892)	(6,328)	(2,692)	(9,003)
Profit for the year		**32,434**	**35,741**	**46,149**	**50,856**
Profit attributable to:					
- Equity holders of the Parent Company		31,138	35,302	44,305	50,231
- Non-controlling interests		1,296	439	1,844	625

Consolidated Statement of Comprehensive Income

	Notes	2013	2012	2013	2012
		LVL'000	LVL'000	EUR'000	EUR'000
Profit for the year		**32,434**	**35,741**	**46,149**	**50,856**
Other comprehensive income to be reclassified to profit or loss in subsequent periods:					
Gains / (losses) from change in hedge reserve	20, 21c	6,216	(4,883)	8,844	(6,948)
Gains on currency translation differences		10	-	14	-
Net other comprehensive income / (loss) to be reclassified to profit or loss in subsequent periods		**6,226**	**(4,883)**	**8,858**	**(6,948)**
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:					
Gains on revaluation of property, plant and equipment	20	68	68,829	97	97,935
Losses as a result of re-measurement on defined post-employment benefit plan	22	(216)	-	(307)	-
Net other comprehensive income / (loss) not to be reclassified to profit or loss in subsequent periods		**(148)**	**68,829**	**(210)**	**97,935**
Other comprehensive income for the year, net of tax		**6,078**	**63,946**	**8,648**	**90,987**
Total comprehensive income for the year		**38,512**	**99,687**	**54,797**	**141,843**
Attributable to:					
- Equity holders of the Parent Company		37,216	99,248	52,953	141,218
- Non-controlling interests		1,296	439	1,844	625

The notes on pages 92 to 147 are an integral part of these Consolidated Financial Statements.

The Management Board of Latvenergo AS:

Āris Žīgurs	Zane Kotāne	Uldis Bariss	Māris Kuņickis	Arnis Kurgs
Chairman of the Management Board	Member of the Management Board	Member of the Management Board	Member of the Management Board	Member of the Management Board

15 April 2014

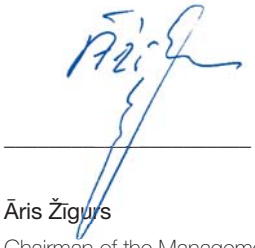
Consolidated Statement of Financial Position

	Notes	31/12/2013	31/12/2012	31/12/2013	31/12/2012
		LVL'000	LVL'000	EUR'000	EUR'000
ASSETS					
Non-current assets					
Intangible assets	13a	7,822	5,804	11,130	8,258
Property, plant and equipment	14a	2,169,398	2,148,077	3,086,775	3,056,439
Investment property		1,035	1,116	1,473	1,588
Investments in associates	15	29	4,948	41	7,040
Other non-current receivables		40	32	57	45
Investments in held-to-maturity financial assets	21a	20,092	20,134	28,588	28,649
Total non-current assets		**2,198,416**	**2,180,111**	**3,128,064**	**3,102,019**
Current assets					
Inventories	16	15,204	15,604	21,634	22,203
Trade receivables and other receivables	17	113,545	101,913	161,560	145,009
Current financial investments	15	5,665	-	8,060	-
Derivative financial instruments	21c	434	4,237	617	6,028
Cash and cash equivalents	18	179,512	170,425	255,423	242,493
Total current assets		**314,360**	**292,179**	**447,294**	**415,733**
TOTAL ASSETS		**2,512,776**	**2,472,290**	**3,575,358**	**3,517,752**
EQUITY					
Share capital	19	905,219	904,605	1,288,011	1,287,137
Reserves	20	458,522	452,685	652,418	644,113
Retained earnings		52,593	49,761	74,832	70,803
Equity attributable to equity holders of the Parent Company		**1,416,334**	**1,407,051**	**2,015,261**	**2,002,053**
Non-controlling interests		4,535	3,459	6,453	4,922
Total equity		**1,420,869**	**1,410,510**	**2,021,714**	**2,006,975**

	Notes	31/12/2013	31/12/2012	31/12/2013	31/12/2012
LIABILITIES		LVL'000	LVL'000	EUR'000	EUR'000
Non-current liabilities					
Borrowings	21b	565,892	520,830	805,192	741,074
Deferred income tax liabilities	12	189,136	187,822	269,116	267,246
Provisions	22	10,962	10,508	15,597	14,952
Derivative financial instruments	21c	4,384	12,555	6,238	17,864
Other liabilities and deferred income	23	119,584	108,407	170,152	154,250
Total non-current liabilities		**889,958**	**840,122**	**1,266,295**	**1,195,386**
Current liabilities					
Trade and other payables	24	91,833	133,004	130,667	189,248
Income tax payable		2	1,892	3	2,692
Borrowings	21b	98,029	74,418	139,483	105,887
Derivative financial instruments	21c	12,085	12,144	17,196	17,279
Issued guarantees	26	-	200	-	285
Total current liabilities		**201,949**	**221,658**	**287,349**	**315,391**
TOTAL EQUITY AND LIABILITIES		**2,512,776**	**2,472,290**	**3,575,358**	**3,517,752**

The notes on pages 92 to 147 are an integral part of these Consolidated Financial Statements.

The Management Board of Latvenergo AS:



Āris Žīgurs
Chairman of the Management Board

Zane Kotāne
Member of the Management Board

Uldis Bariss
Member of the Management Board

Māris Kuņickis
Member of the Management Board

Arnis Kurgs
Member of the Management Board

15 April 2014

Consolidated Statement of Changes in Equity

	Notes	Attributable to equity holders of the Parent Company				Non-controlling interests	TOTAL	Attributable to equity holders of the Parent Company				Non-controlling interests	TOTAL
		Share capital	Reserves	Retained earnings	Total			Share capital	Reserves	Retained earnings	Total		
		LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
As at 31 December 2011		325,862	976,921	45,773	1,348,556	3,020	1,351,576	463,660	1,390,033	65,129	1,918,822	4,297	1,923,119
Increase in share capital	19	578,743	(577,990)	-	753	-	753	823,477	(822,406)	-	1,071	-	1,071
Dividends for 2011	20	-	-	(39,900)	(39,900)	-	(39,900)	-	-	(56,773)	(56,773)	-	(56,773)
Transfer from reserves		-	(10,257)	10,257	-	-	-	-	(14,594)	14,594	-	-	-
Total contributions by and distributions to equity holders of the Parent Company, recognised directly in equity		578,743	(588,247)	(29,643)	(39,147)	-	(39,147)	823,477	(837,000)	(42,179)	(55,702)	-	(55,702)
Adjustments of revaluation reserve		-	-	(1,606)	(1,606)	-	(1,606)	-	-	(2,285)	(2,285)	-	(2,285)
Profit for the year		-	-	35,302	35,302	439	35,741	-	-	50,231	50,231	625	50,856
Other comprehensive income / (loss)	20	-	64,011	(65)	63,946	-	63,946	-	91,080	(93)	90,987	-	90,987
Total comprehensive income		-	64,011	35,237	99,248	439	99,687	-	91,080	50,138	141,218	625	141,843
As at 31 December 2012		904,605	452,685	49,761	1,407,051	3,459	1,410,510	1,287,137	644,113	70,803	2,002,053	4,922	2,006,975
Increase in share capital	19	614	-	-	614	-	614	874	-	-	874	-	874
Dividends for 2012	20	-	-	(28,547)	(28,547)	(220)	(28,767)	-	-	(40,619)	(40,619)	(313)	(40,932)
Total contributions by and distributions to equity holders of the Parent Company, recognised directly in equity		614	-	(28,547)	(27,933)	(220)	(28,153)	874	-	(40,619)	(39,745)	(313)	(40,058)
Profit for the year		-	-	31,138	31,138	1,296	32,434	-	-	44,305	44,305	1,844	46,149
Other comprehensive income	20	-	5,837	241	6,078	-	6,078	-	8,305	343	8,648	-	8,648
Total comprehensive income		-	5,837	31,379	37,216	1,296	38,512	-	8,305	44,648	52,953	1,844	54,797
As at 31 December 2013		905,219	458,522	52,593	1,416,334	4,535	1,420,869	1,288,011	652,418	74,832	2,015,261	6,453	2,021,714

The notes on pages 92 to 147 are an integral part of these Consolidated Financial Statements.

Consolidated Statement of Cash Flows

	Notes	2013	2012	2013	2012
		LVL'000	LVL'000	EUR'000	EUR'000
Cash flows from operating activities					
Profit before tax		34,326	42,069	48,841	59,859
Adjustments:					
- Amortisation, depreciation and impairment of non-current assets	13a, 14a	131,848	122,196	187,603	173,869
- Loss from disposal of non-current assets		2,156	689	3,068	980
- Investments accounting at equity method	15	(746)	(252)	(1,061)	(359)
- Interest costs	11b	15,110	15,008	21,500	21,354
- Interest income	11a	(1,525)	(2,502)	(2,170)	(3,560)
- Fair value losses / (gains) on derivative financial instruments	8, 11	1,589	(5,871)	2,261	(8,353)
- Increase in provisions	22	238	991	339	1,411
- Unrealised gains on currency translation differences	11a	(86)	(841)	(122)	(1,197)
Operating profit before working capital adjustments		182,910	171,487	260,259	244,004
Decrease / (increase) in inventories		929	(1,655)	1,322	(2,355)
Increase in trade and other receivables		(7,369)	(3,818)	(10,486)	(5,432)
(Decrease) / increase in trade and other payables		(45,541)	18,520	(64,800)	26,352
Cash generated from operating activities		**130,929**	**184,534**	**186,295**	**262,569**
Interest paid		(17,113)	(19,141)	(24,350)	(27,235)
Interest received		1,659	1,515	2,361	2,156
Income tax paid		(12,486)	(16,139)	(17,766)	(22,964)
Net cash flows from operating activities		**102,989**	**150,769**	**146,540**	**214,526**
Cash flows from investing activities					
Purchase of intangible assets and PPE		(147,456)	(175,996)	(209,812)	(250,420)
Proceeds on financing from EU funds and other financing		7,125	2,416	10,138	3,438
Purchase of held-to-maturity assets		-	(3,626)	-	(5,160)
Proceeds from redemption of held-to-maturity assets		42	44,974	60	63,992
Net cash flows used in investing activities		**(140,289)**	**(132,232)**	**(199,614)**	**(188,150)**
Cash flows from financing activities					
Proceeds from issued debt securities (bonds)	21b	59,622	14,020	84,835	19,949
Proceeds from borrowings from financial institutions	21b	82,439	116,947	117,300	166,401
Repayment of borrowings	21b	(73,917)	(48,056)	(105,174)	(68,378)
Dividends paid to non-controlling interests		(220)	-	(313)	-
Dividends paid to equity holders of the Parent Company		(21,537)	(39,900)	(30,644)	(56,773)
Net cash flows from financing activities		**46,387**	**43,011**	**66,004**	**61,199**
Net increase in cash and cash equivalents		**9,087**	**61,548**	**12,930**	**87,575**
Cash and cash equivalents at the beginning of the year	18	170,425	108,877	242,493	154,918
Cash and cash equivalents at the end of the year	**18**	**179,512**	**170,425**	**255,423**	**242,493**

The notes on pages 92 to 147 are an integral part of these Consolidated Financial Statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

All shares of public limited company Latvenergo or Latvenergo AS (hereinafter – the Parent Company) are owned by the Republic of Latvia and are held by the Ministry of Economics of the Republic of Latvia. The registered address of the Company is 12 Pulkveža Brieža Street, Riga, LV-1230, Latvia. According to the Energy Law of the Republic of Latvia, Latvenergo AS is designated as a national economy object of State importance and, therefore, is not subject to privatisation.

Public limited company Latvenergo is power supply utility engaged in electricity and thermal energy generation, as well as supply of electricity. Latvenergo AS is one of the largest corporate entities in the Baltics.

Latvenergo AS heads the Latvenergo Group (hereinafter – the Group) that includes following subsidiaries:

- Sadales tīkls AS (since 18.09.2006);
- Elektrum Eesti OÜ (since 27.06.2007) and its subsidiary Elektrum Latvija SIA (since 18.09.2012);
- Elektrum Lietuva UAB (since 07.01.2008);
- Latvijas elektriskie tīkli AS (since 10.02.2011);
- Liepājas enerģija SIA (since 06.07.2005);
- Enerģijas publiskais tirgotājs AS (since 25.02.2014).

Latvenergo AS is a shareholder in two associated companies:

- Nordic Energy Link AS carries out the functions of the operator of an interconnection power cable between Estonia and Finland;
- Pirmais Slēgtais Pensiju Fonds AS manages a defined-contribution corporate pension plan in Latvia.

On 26 September Shareholder's Meeting of Latvenergo AS decided to terminate Latvenergo AS participation in Nordic Energy Link AS. According to the Directive 2009/72/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in electricity and repealing Directive 2003/54/EC, Latvenergo AS, as electricity generator and supplier, needs to perform activities so that after 31 December 2013 it would not be owner of the electricity transmission infrastructure. In the Consolidated Statement of Financial Position as at 31 December 2013 investment in Nordic Energy Link AS is presented as the current financial investment held for sale. On 12 February 2014 the Cabinet of Ministers of the Republic of Latvia adopted decision No. 67 „On Latvenergo AS termination of partnership in Nordic Energy Link AS".

The Parent Company's participating interest in subsidiaries and associates is disclosed in Note 15.

Since 15 August 2011 until the date of approving of the 2013 Annual Report, the Management Board of Latvenergo AS includes the following members: Āris Žīgurs (Chairman), Uldis Bariss, Māris Kuņickis, Arnis Kurgs and Zane Kotāne.

The Consolidated Financial Statements for year 2013 include the financial information in respect of the Parent Company and its subsidiaries for the year ending 31 December 2013 and comparative information for year 2012. Financial Statements for year 2013 are prepared by comparability of financial results, and where it is necessary, comparatives for year 2012 are reclassified using the same principles applied for preparation of the 2013 Annual Report.

Latvenergo AS Management Board has approved the Consolidated Financial Statements on 15 April 2014. The decision on approval of the Consolidated Financial Statements is made by Shareholder's Meeting.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these Consolidated Financial Statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. Where it is necessary comparatives are reclassified.

2.1. Basis of Preparation

The Consolidated Financial Statements are prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted for use in the European Union. Due to the European Union's endorsement procedure, the standards and interpretations not approved for use in the European Union are presented in this note as they may have impact on the Consolidated Financial Statements in the following periods if endorsed.

The Consolidated Financial Statements are prepared under the historical cost convention, as modified by the revaluation of land and buildings, financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or loss as disclosed in accounting policies presented below.

All amounts shown in these Consolidated Financial Statements are presented in thousands of Latvian Lats (LVL), and are translated into Euros (EUR) using official currency rate of the Bank of Latvia 1EUR = 0.702804 LVL, that conforms with the Latvian Lats conversion rate to the Euros determined by the European Central Bank in accordance with the ECOFIN decision accepted by the European Union Council on 9 July 2013.

The preparation of the Consolidated Financial Statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on the Parent Company Management's best knowledge of current events and actions, actual results ultimately may differ from those. The areas involving

a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Consolidated Financial Statements are disclosed in Note 4.

Adoption of new and/or changed IFRS and International Financial Reporting Interpretations Committee (IFRIC) interpretations

The Group has adopted the following International Financial Reporting Standards or interpretations published or revised during the reporting year, which became effective for the reporting period started from 1 January 2013:

- **Amendment to IAS 1 "Financial Statement Presentation".**

Changes apply to presentation of items of Other Comprehensive Income (OCI) not presented to profit or loss. This amendment changes the principles of grouping the items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon de-recognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects only presentation of the Consolidated Statement of Comprehensive Income and has no impact on the Group's financial position or performance.

- **Amendment to IAS 19 "Employee Benefits".**

Due to the impact of this amendment the actuarial gains or losses as a result of re-measurement on defined post-employment benefit plan for the reporting period are presented in other comprehensive income and additional information for assumptions of accrued benefit obligations is disclosed. As adjustment for 2012 is not significant, the comparatives for 2012 are not reclassified respectively (see Note 22 a). The amendment impacts the accounting for defined post-employment benefit plan and also requires more extensive disclosures.

- **Amendment to IFRS 7 "Financial Instruments: Disclosures": Offsetting of Financial Assets and Financial Liabilities.**

The amendment introduces common disclosure requirements and thereby disclosures would provide users with information that is useful in evaluating the effect or potential effect of netting arrangements on an entity's financial position. Amendment to IFRS 7 should be applied retrospectively. That amendment does not impact the financial statements of the Group, because the Group does not have financial assets and financial liabilities netting arrangements.

- **IFRS 13 "Fair Value Measurement".**

The main reason of issuance of IFRS 13 is to reduce complexity and improve consistency in application when measuring fair value. It does not change requirements that determine cases when an entity is required to use fair value but, rather, provides guidance on how to measure fair value under IFRS when fair value is required or permitted by IFRS. The implementation of this standard did not have a material impact on the amounts of assets and liabilities recognised in these financial statements, however it resulted in additional disclosures (see point 2.22 and Note 21 d).

Standards issued but not yet effective

The Group has not applied the following IFRS and IFRIC interpretations that have been issued as of the date of authorisation of these financial statements for issue, but which will become effective for the reporting periods started from 1 January 2014 or later. At present the Management of the Group does not consider that any of these amendments will have significant effect to the Consolidated Financial Statements:

- **Amendment to IAS 19 "Employee Benefits".**

Addresses accounting for the employee contributions to a defined benefit plan.

- **Amendment to IAS 27 "Separate Financial Statements".**

Amendment contains accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. IAS 27 "Separate Financial Statements" requires an entity preparing separate financial statements to account for those investments at cost or in accordance with IFRS 9 "Financial Instruments".

Amendment to IAS 28 "Investments in Associates and Joint Ventures" that renames this standard.

"Investments in Associates and Joint Ventures" addresses the application of the equity method to investments in joint ventures in addition to associates.

- **Amendment to IAS 32 "Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities".**

Clarifies the meaning of "currently has a legally enforceable right to set-off" and also clarifies the application of the IAS 32 offsetting criteria to settlement systems which apply gross settlement mechanisms that are not simultaneous.

- **Amendment to IAS 36 "Impairment of Assets".**

Adds a few additional disclosure requirements about the fair value measurement when the recoverable amount is based on fair value less costs of disposal.

- **Amendment to IAS 39 "Financial Instruments: Recognition and Measurement".**

Provides relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria.

- **IFRS 9 "Financial Instruments – Classification and Measurement" that will eventually replace IAS 39.**

The International Accounting Standards Board (IASB) has issued the first three parts of the standard, establishing a new classification and measurement framework for financial assets, requirements on the accounting for financial liabilities and hedge accounting.

- **IFRS 10 "Consolidated Financial Statements".**

Establishes a single control model that applies to all entities, including special purpose entities. The changes introduced by IFRS 10 will require the management to exercise significant judgment to determine which entities are controlled and, therefore, are required to be consolidated by a parent. Examples of areas of significant judgment include evaluating de facto control, potential voting rights or whether a decision maker is acting as a principal or agent.

- **IFRS 12 “Disclosures of Interests in Other Entities”.**

Combines the disclosure requirements for an entity’s interests in subsidiaries, joint arrangements, investments in associates and structured entities into one comprehensive disclosure standard. A number of new disclosures also will be required such as disclosing the judgments made to determine control over another entity.

- **Amendments to IFRS 10, IFRS 12 and IAS 27.**

Compulsory for entities that qualify as investment entities. The amendments provide an exception to the consolidation requirements of IFRS 10 by requiring investment entities to measure their subsidiaries at fair value through profit or loss, rather than consolidate them.

- **In December 2013 IASB issued omnibus of necessary, but non-urgent amendments to the following standards:**

IFRS 8 “Operating Segments”, IFRS 13 “Fair Value Measurement”, IAS 16 “Property, Plant and Equipment”, IAS 24 “Related Party Disclosures”, IAS 38 “Intangible Assets”, IAS 40 “Investment property”.

The Management of the Group plans to adopt the above mentioned standards and interpretations that were applicable for the Group on their effectiveness date.

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

- **IFRS 11 “Joint Arrangements”**
- **IFRS 14 “Regulatory Deferral Accounts”**
- **IFRIC Interpretation 21 “Levies” that addresses the accounting for levies imposed by governments.**
- **In December 2013 IASB issued omnibus of necessary, but non-urgent amendments to the following standards:**

IFRS 1 “First-time adoption of IFRS”, IFRS 2 “Share-based Payment”, IFRS 3 “Business Combinations”.

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

2.2. Consolidation

a) Subsidiaries

Subsidiaries, which are those entities where the Group has control over the financial and operating policies of the entity, financial reports are consolidated. The existence of control is assumed when the Parent Company voting rights in the subsidiary is more than 50%.

Subsidiaries’ financial reports are consolidated from the date on which control is transferred to the Parent Company and are no longer consolidated from the date when control ceases. General information about entities included in consolidation and its primary business activities are disclosed in Note 15.

The acquisition method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured, as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Costs directly attributable to the acquisition are expensed to the Consolidated Income Statement as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in business combination are measured initially at their fair values at the acquisition date. Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in the income statement.

Intercompany transactions, balances and unrealised gains on transactions between the Group’s entities are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

b) Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group’s Parent Company. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in the Group’s equity.

c) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting in the consolidated financial statements and are initially recognised at cost. Under this method the Group’s share of its associate’s post-acquisition profits and losses is recognised in the Consolidated Income Statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group’s share of losses in associate equals or exceeds its interest in associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.3. Disclosures of operating segments

For segment reporting purposes the Group allocates division into operating segments based on the Group’s internal management structure, which is the basis for the reporting system, performance assessment and the allocation of resources by the chief operating decision maker, the parent company’s management board.

The Group allocates its operations into three main operating segments – generation and supply, distribution system services and management of transmission system assets. In addition Corporate Functions, that covers administration and other support services, are presented separately.

2.4. Foreign currency translation

a) Functional and presentation currency

Items included in the Consolidated Financial Statements are measured using the currency of the primary economic environment in which the Group's entity operates ("the functional currency"). The Consolidated Financial Statements have been prepared in Latvian Lats (LVL), which is the Parent Company's functional currency, and in the Group's second presentation currency – Euros (EUR).

b) Transactions and balances

All transactions denominated in foreign currencies are translated into functional currency at the exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into functional currency using the exchange rate at the last day of the reporting year. The resulting gain or loss is charged to the Consolidated Income Statement.

c) Consolidation of the Group's foreign companies

The results and financial position of all the Group's entities (none of which has the currency of a hyper-inflationary economy) that have functional currency different from the presentation currency are translated into the presentation currency as follows:

1) Assets and liabilities for each financial position presented are translated at the closing rate at the date of that financial position;
2) Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of transactions).

2.5. Intangible assets

a) Licenses and software

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

b) Greenhouse gas emission allowances

Emission rights for greenhouse gases (or allowances) are recognised at purchase cost. Allowances received from the Government free of charge are recognised at zero cost. Emission rights are recognised at cost when the Group is able to exercise the control. In those cases when the quantity of emitted greenhouse gases exceeds the quantity of allowances allocated by the state free of charge, the Group purchases additional allowances and carrying value of those allowances is determined on the basis of the market price of greenhouse gas emission allowances at the reporting period. Allowances are accounted for within 'Intangible assets' (see Note 13 b). The forward agreements for purchase or sale of emission allowances for trade rather than for own uses in the Group are defined as derivatives (see points 2.21 b), 3.3 and Note 21 c), IV).

2.6. Property, plant and equipment

Property, plant and equipment (PPE) are stated at historical cost or revalued amount (see point 2.7) less accumulated depreciation and accumulated impairment loss.

The cost comprises the purchase price, transportation costs, installation, and other direct expenses related to the acquisition or implementation. The cost of the self-constructed item of PPE includes the cost of materials, services and workforce. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of an item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance expenses are charged directly to the Consolidated Income Statement when the expenditure is incurred. Borrowing costs are capitalised proportionally to the part of the cost of fixed assets under construction over the period of construction. Effective part of the changes in the fair value of forward foreign currencies exchange contracts, the purpose of which is to hedge currency exchange risk on PPE items, are also capitalised and included in the Consolidated Income Statement along with the expenses of depreciation over the useful life of the asset or at the disposal of the asset.

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

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

Type of property, plant and equipment	Estimated useful life, years
Buildings and facilities, including	
- Hydropower plants, thermal power plants	15 – 80
- Electricity transmission lines	30 – 50
- Electricity distribution lines	20 – 30
Technology equipment and machinery, including	
- Hydropower plants	3 – 12
- Thermal power plants	3 – 10
- Transmission and distribution machinery and equipment	10
Other property, plant and equipment	2 – 10

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see point 2.8).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. Those are included in the Consolidated Income Statement. If revalued property, plant and equipment have been sold, appropriate amounts are reclassified from revaluation reserve to retained earnings.

All fixed assets under construction are stated at historical cost and comprised costs of construction of assets. The initial cost includes construction and installation costs and other direct costs related to construction of fixed assets. Assets under construction are not depreciated as long as the relevant assets are completed and assigned for the operation.

2.7. Revaluation of property, plant and equipment

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

The following property, plant and equipment groups are revalued regularly but not less frequently than every five years:

a) Buildings and facilities, including
   - Daugava hydropower plants' buildings and facilities,
   - Buildings and facilities of transmission system,
   - Buildings and facilities of distribution system;

b) Technology equipment and machinery, including
   - Daugava hydropower plants' technology equipment and machinery,
   - Technology equipment and machinery of transmission system,
   - Technology equipment and machinery of distribution system;

c) Other property, plant and equipment, including
   - Other PPE of Daugava hydropower plants',
   - Other PPE of transmission system,
   - Other PPE of distribution system.

Increase in the carrying amount arising on revaluation net of deferred tax is credited to the Consolidated Statement of Financial Position as "Property, plant and equipment revaluation reserve" in shareholders' equity. Decreases that offset previous increases of the same asset are charged in 'Other comprehensive income' and debited against the revaluation reserve directly in equity; all other decreases are charged to the current year's Consolidated Income Statement. Any accumulated depreciation at the date of revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after the revaluation equals its revalued amount.

Property, plant and equipment revaluation reserve is decreased at the moment, when revalued asset has been eliminated or disposed.

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

2.8. Impairment of non-financial assets

Assets that are subject to depreciation or amortisation and land are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market expectations regarding the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognised in the other comprehensive income within PPE revaluation reserve for the assets accounted at revalued amount and in the Consolidated Income Statement within amortisation, depreciation and impairment charge expenses for the assets that are accounted at amortised historical cost and for the assets accounted at revalued amount in case if impairment charge exceeds revaluation surplus previously recognised on individual asset.

The key assumptions used in determining impairment losses are based on the Group entities' or the Parent Company's management best estimation of the range of economic conditions that will exist over the remaining useful life of the asset, on the basis of the most recent financial budgets and forecasts approved by the management for a maximum period of 10 years. Assets are reviewed for possible reversal of the impairment at each reporting date. The reversal of impairment is recognised in the Consolidated Income Statement. Reversal of impairment loss for revalued assets is recognised in the Consolidated Income Statement to the extent that an impairment loss on the same revalued asset was previously recognised the income statement; the remaining reversals of impairment losses of revalued assets are recognised in Other Comprehensive Income.

2.9. Leases

a) The Group is the lessee

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

b) The Group is the lessor

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

2.10. Inventories

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

Purchase cost of inventories consists of the purchase price, import charges and other fees and charges, freight-in and related costs as well as other costs directly incurred in bringing the

materials and goods to their present location and condition. The value of inventories is assigned by charging trade discounts, reductions and similar allowances.

Amount of inventories as of the end of reporting period is verified during stock-taking.

At the end of each reporting year the inventories are reviewed for any indications of obsolescence. In cases when obsolete or damaged inventories are identified allowances are recognised. During the reporting year at least each month revaluation of the inventories is performed with the purpose to identify obsolete and damaged inventories. Allowances for an impairment loss are recognised for those inventories.

The following basic principles are used in determining impairment losses for idle and obsolete inventories:

a) Machinery and equipment of hydropower plants and thermal power plants that haven't turned over during last 12 months are impaired in amount of 90%,
b) Other inventories that haven't turned over during last 12 months are fully impaired,
c) Machinery and equipment of hydropower plants and thermal power plants that haven't turned over during last 6 months are impaired in amount of 45%,
d) Other inventories that haven't turned over during last 6 months are impaired in amount of 50%,
e) Allowances are not calculated for the inventory of heating materials necessary to ensure uninterrupted operations of heat power plants.

2.11. Trade and other receivables

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

An allowance for impairment of doubtful debts is calculated on the basis of trade receivables aging analysis according to estimates defined by the Group entities and the Parent Company's management, which are revised at least once a year. Allowances for electricity trade receivables are calculated for debts overdue 45 days, and, if the debt is overdue for more than 181 day, allowances are established at 100%. For other trade receivables allowances are calculated for debts overdue 31 day, and, if the date of payment is overdue for more than 91 day, allowances are established at 100% (see Note 17 a). Individual impairment assessments are performed for the debtors if their debt balance exceeds LVL 500 thousand (EUR 710 thousand) and debt repayment schedule has been individually agreed. The level of allowance for such type of debtors is based on the individual risk assessment of insolvency probability.

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

2.12. Cash and cash equivalents

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

2.13. Dividend distribution

Dividend distribution to the Parent Company's shareholders is recognised as a liability in the Consolidated Financial Statements in the period in which the dividends are approved by the Parent Company's shareholders.

2.14. Pensions and employment benefits

a) Pension obligations

The Group makes monthly contributions to a closed defined contribution pension plan on behalf of its employees. The plan is managed by the non-profit public limited company Pirmais Slēgtais Pensiju Fonds, with the participation of the Group companies amounting for 48.15% of its share capital. A defined contribution plan is a pension plan under which the Group pays contributions into the plan. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior periods. The contributions amount to 5% of each pension plan member's salary. The Group recognizes the contributions to the defined contribution plan as an expense when an employee has rendered services in exchange for those contributions.

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

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

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

The liability recognised in the Consolidated Statement of Financial Position in respect of post-employment benefit plan is the present value of the defined benefit obligation at the end of the reporting period. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds. The Group uses projected unit credit method to establish its present value of fixed benefit obligation and related present and previous employment expenses. According to this method it has been stated that each period of work makes benefit obligation extra unit and the sum of those units comprises total Group's obligations of post-employment benefits. The Group uses objective and mutually compatible actuarial assumptions on variable demographic factors and financial factors (including expected remuneration increase and determined changes in benefit amounts).

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

2.15. Income tax

a) Corporate income tax

Latvia and Lithuania

Income tax expense for the period comprises current income tax and deferred income tax. Current income tax charges are calculated on current profit before tax using the tax rate 15% in accordance with applicable tax regulations as adjusted for certain non-deductible expenses/non-taxable income and are based on the taxable income reported for the taxation period.

Estonia

Under the Income Tax Act, the annual profit earned by entities is not taxed in Estonia. Corporate income tax is paid on dividends, fringe benefits, gifts, donations, costs of entertaining guests, non-business related disbursements and adjustments of the transfer price. From 1 January 2008, the tax rate on the net dividends paid out of retained earnings is 21/79. In certain circumstances, it is possible to distribute dividends without any additional income tax expense. The corporate income tax arising from the payment of dividends is accounted for as a liability and expense in the period in which dividends are declared, regardless of the actual payment date or the period for which the dividends are paid.

b) Deferred income tax

Latvia and Lithuania

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

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

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

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

Estonia

Due to the nature of the taxation system, the entities registered in Estonia do not have any differences between the tax bases of assets and their carrying amounts and hence, no deferred income tax assets and liabilities arise.

2.16. Borrowings

Borrowings are recognised initially at fair value. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the Consolidated Income Statement over the period of the borrowings, except for the capitalised part.

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

2.17. Borrowing costs

General and specific borrowing costs directly attributable to the acquisition or construction of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

2.18. Provisions

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

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

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

Environmental protection provisions are recognised to cover environmental damages that have occurred before the end of the reporting period when this is required by law or when the Group's past environmental policies have demonstrated that the Group has a constructive present obligation to liquidate this environmental damage. Experts' opinions and prior experience in performing environmental work are used to set up the provisions (see Note 22 b).

2.19. Grants

Government grants are recognised as income over the period necessary to match them with the related costs, for which they are intended to compensate, on a systematic basis.

Property, plant and equipment received at nil consideration are accounted for as grants. Those grants are recognised at fair value as deferred income and are credited to the Consolidated Income Statement on a straight-line basis over the expected lives of the related assets.

Financing provided by European Union funds

The Group ensures the management, application of internal controls and accounting for the Group's projects financed by

the European Union funds, according to the guidelines of the European Union and legislation of the Republic of Latvia.

Accounting of the transactions related to the projects financed by the European Union is ensured using separately identifiable accounts. The Group ensures separate accounting of financed projects with detailed income and expense, non-current investments and value added tax in the relevant positions of the Group's Consolidated Income Statement and Consolidated Statement of Financial Position.

2.20. Financial instruments – initial recognition, subsequent measurement and de-recognition

a) Financial assets

I) Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

II) Subsequent measurement

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented as finance costs (negative net changes in fair value) or finance income (positive net changes in fair value) in the income statement. Financial assets designated upon initial recognition at fair value through profit or loss are designated at their initial recognition date and only if the criteria under IAS 39 are satisfied. The Group has not designated any financial assets at fair value through profit or loss.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value though profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the EIR method, less impairment. The losses arising from impairment are recognised in the income statement in finance costs for loans and in other operating expenses for receivables.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. After initial measurement, held to maturity investments are measured at amortised cost using the EIR, less impairment. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available for sale. Held-to-maturity financial assets with maturities more than 12 months from the end of the reporting period are included in non-current assets; however those with maturities less than 12 months from the end of the reporting period are classified as current assets.

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

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

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

Available-for-sale financial assets

Available-for-sale financial assets include equity instruments and debt securities. After initial measurement available-for-sale financial assets are subsequently measured at fair value with unrealised gains or losses recognised in other comprehensive income and credited in the available-for sale financial assets reserve until the investment is derecognised.

III) De-recognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

1) the rights to receive cash flows from the asset have expired,
2) the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

b) Financial liabilities

I) Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, bank overdrafts, loans and borrowings, financial guarantee contracts, and derivative financial instruments.

II) Subsequent measurement

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement.

Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the income statement, except for the capitalised part.

Trade and other payables

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

III) De-recognition

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

2.21. Derivative financial instruments and hedging activities

The Group uses derivatives such as forward foreign exchange contracts, interest rate swaps, electricity swaps and CO_2 emission allowances forward contracts to hedge risks associated with currency exposures, the interest rate and purchase price fluctuations.

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

The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, on the nature/content of the relevant asset or liability being hedged.

The Group designates certain derivatives as hedges of a particular risk associated with a recognised liability or highly probable forecast transactions denominated in foreign currency (cash flow hedge). Other derivatives are accounted for at fair value through profit or loss.

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

The fair value of the derivative instruments is presented as current or non-current based on settlement date. Derivative instruments that have maturity of more than twelve months and have been expected to be hold for more than twelve months after the end of the reporting year are classified as non-current assets or liabilities. Derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

a) Cash flow hedge

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

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

The gain or loss relating to the ineffective portion of electricity swaps hedging variable electricity prices and interest rate swaps hedging variable rate borrowings is recognised in the Consolidated Income Statement.

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

b) Fair value changes of derivatives through profit and loss

Changes in the fair value of derivatives at fair value through profit or loss, ineffective part of changes in the fair value of hedging derivatives and amounts accumulated in equity that are recycled to the Consolidated Income Statement, are classified according to the purpose of the derivatives – gains/losses from electricity SWAP agreements and CO_2 forward contracts are recognised

within 'Raw materials and consumables used', while gains/ losses from interest rate SWAP agreements and forward foreign currencies exchange contracts are recognised within 'Finance costs' or 'Finance income'.

2.22. Fair value measurement of financial instruments

The Group measures financial instruments, such as, derivatives, and non-financial assets such as investment properties, at fair value at each balance sheet date. Also fair values of financial instruments measured at amortised cost are disclosed in Note 21 d.

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

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

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

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

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

Fair values of financial instruments are obtained from corresponding bank's revaluation reports and in financial statements fair values of financial instruments as specified by banks are disclosed.

2.23. Revenue recognition

Revenue comprises the value of goods sold and services rendered in the ordinary course of the Group's activities. The Latvian regulatory authority (Public Utilities Commission) determines tariffs for electricity and heat. Revenue is measured at the fair value of the consideration received or receivable, net of value-added tax, estimated returns, rebates and discounts. Revenue is recognised as follows:

a) Electricity sales

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

b) Heat sales

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

c) Connection fees

When connecting to the electricity network, the clients must pay a connection fee that partly reimburses for the cost of infrastructure to be built to connect the client to the network. Connection fees are carried in the Consolidated Statement of Financial Position as deferred income and amortised to Consolidated Income Statement on a straight-line basis over the estimated customer relationship period.

d) Sales of distribution services

Revenues from electricity distribution services are based on regulated tariffs that are subject to approval by the Public Utilities Commission. The Group recognizes revenue from sales of distribution services at the end of each month on the basis of the automatically made meter readings or customers' reported meter readings.

e) Lease and management of transmission system assets

Revenues from lease and management of transmission system assets are recognised on the basis of invoices which are prepared for transmission system operator accordingly to lease agreement.

f) Sales of IT & telecommunication services

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

g) Interest income

Interest income is recognised using the effective interest method. Interest income is recorded in the Consolidated Income Statement as "Finance income".

h) Dividend income

Revenue is recognised when the Group's right to receive the payment is established, which is generally when shareholders approve the dividend.

i) Accrued income on mandatory procurement public service obligation fee

Revenue is recognised as the amount of income on mandatory procurement can be reliably measured and it is virtually certain that the economic benefits from mandatory procurement will flow to the Group with collected mandatory procurement public service obligation fees from electricity end users. Income from mandatory procurement component is calculated as difference between mandatory procurement expenses above the electricity market price and collected mandatory procurement component payments from all end users of electricity.

2.24. Related parties

The parties are considered related when one party has a possibility to control the other one or has significant influence over the other party in making financial and operating decisions. Related parties of the Group are associates, Shareholder of the Parent Company who could control or who has significant influence over the Group's entities in accepting operating business decisions, key management personnel of the Group's entities including members of Supervisory body – Audit committee and close family members of any above-mentioned persons, as well as entities over which those persons have control or significant influence.

2.25. Non-current assets held for sale

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

2.26. Share capital

The Group's share capital consists of ordinary shares.

2.27. Investment property

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

2.28. Issued guarantees

Guarantees issued are initially recognised at fair value, which is usually equal to the premium received. Subsequently they are measured at the higher of the amount expected to be paid and the amount initially recognised less accumulated amortisation.

2.29. Events after the reporting period

Subsequent events that provide additional information about the Group's position at the balance sheet date (adjusting events) are reflected in the financial statements. Subsequent events that are not adjusting events are disclosed in the notes when material.

3. FINANCIAL RISK MANAGEMENT

3.1. Financial risk factors

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

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

Financial assets and liabilities by categories:

	Notes	Loans and receivables	Derivatives used for hedging	Held-to-maturity assets	Loans and receivables	Derivatives used for hedging	Held-to-maturity assets
Financial assets as at 31 December 2013		LVL'000	LVL'000	LVL'000	EUR'000	EUR'000	EUR'000
Derivative financial instruments	21 c, l	-	434	-	-	617	-
Trade receivables, net	17 a	62,977	-	-	89,608	-	-
Other non-current receivables		40	-	-	57	-	-
Accrued income and other financial current receivables	17 b	37,793	-	-	53,775	-	-
Held-to-maturity financial assets	21 a	-	-	20,092	-	-	28,588
Cash and cash equivalents	18	179,512	-	-	255,423	-	-
		280,322	**434**	**20,092**	**398,863**	**617**	**28,588**
Financial assets as at 31 December 2012							
Derivative financial instruments	21 c, l	-	4,237	-	-	6,028	-
Trade receivables, net	17 a	78,042	-	-	111,044	-	-
Other non-current receivables		32	-	-	45	-	-
Accrued income and other financial current receivables	17 b	7,472	-	-	10,631	-	-
Held-to-maturity financial assets	21 a	-	-	20,134	-	-	28,649
Cash and cash equivalents	18	170,425	-	-	242,493	-	-
		255,971	**4,237**	**20,134**	**364,213**	**6,028**	**28,649**

	Notes	Derivatives used for hedging	Other financial liabilities at amortised cost	Liabilities at fair value through the profit or loss	Derivatives used for hedging	Other financial liabilities at amortised cost	Liabilities at fair value through the profit or loss
		LVL'000	LVL'000	LVL'000	EUR'000	EUR'000	EUR'000
Financial liabilities as at 31 December 2013							
Borrowings	21 b	-	663,921	-	-	944,675	-
Derivative financial instruments	21 c, I	7,348	-	9,121	10,456	-	12,978
Trade and other payables	24	-	67,203	-	-	95,621	-
		7,348	**731,124**	**9,121**	**10,456**	**1,040,296**	**12,978**
Financial liabilities as at 31 December 2012							
Borrowings (Note 21 b)	21 b	-	595,248	-	-	846,961	-
Derivative financial instruments (Note 21 c, I)	21 c, I	17,367	-	7,332	24,711	-	10,432
Issued guarantees (Note 26)	26	-	-	200	-	-	285
Trade and other payables (Note 24)	24	-	97,777	-	-	139,124	-
		17,367	**693,025**	**7,532**	**24,711**	**986,085**	**10,717**

a) Market risk

I) Foreign exchange risk

During 2013 the Group was exposed to currency risk primarily arising from settlements in foreign currencies for recognised assets and liabilities (mainly, borrowings), capital expenditures and imported electricity.

However, the peg of Lat to Euro at the beginning of the year 2005 resulted in limited EUR / LVL currency risk, while the introduction of Euro in Latvia at 1 January 2014 prevented the Euro currency risk. At 31 December 2013 the Group had borrowings denominated only in Euros (Note 21 b).

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

Except for the transactions described below the Group does not have any material balances of financial assets and liabilities denominated in currencies other than LVL and EUR. The Group Treasury's Financial Risk Management Policy is to hedge all anticipated cash flows (capital expenditure and purchase of inventory) in each major foreign currency that might create significant currency risk. During 2013 the Group had one committed capital expenditure project whose expected transactions in United States dollars (USD) created significant currency risk and qualified as 'highly probable' forecast transactions for hedge accounting purposes (Note 21 c, V).

The Parent Company has certain investment in subsidiary, which are exposed to foreign currency risks. Currency exposure arising from the net assets of the Group's foreign operations in Lithuania is limited as subsidiary have insignificant amount of assets and Lithuania has fixed currency peg to Euro.

II) Cash flow and fair value interest rate risk

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

During 2013, if Euro and Lats interest rates had been 50 basis points higher or lower with all other variables held constant, the Group's income from the cash reserves held at bank for the year would have been LVL 197 thousand (EUR 280 thousand) higher or lower (2012: LVL 222 thousand (EUR 316 thousand)).

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

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

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

To hedge cash flow interest rate risk the Group has entered into rate swap agreements with total notional amount of LVL 244.4 million (EUR 347.7 million) (2012: LVL 269.1 million (EUR 382.8 million)) (Note 21 c, II). As at 31 December 2013 43% of the total Group's borrowings (31/12/2012: 46%) had fixed interest rate (taking into account the effect of the interest rate swaps) and average fixed rate duration was 2.1 years (2012: 2.0 years).

During 2013, if interest rates on Euro denominated borrowings at floating base interest rate (after considering hedging effect) had been 50 basis points higher or lower with all other variables held

constant, the Group's profit for the year net of taxes would have been LVL 1,421 thousand (EUR 2,021 thousand) lower or higher (2012: LVL 1,205 thousand (EUR 1,715 thousand)).

The Group's borrowings with floating rates do not impose fair value interest rate risk. Derivatives such as interest rate swaps are the only source of fair value interest rate risk.

At 31 December 2013, if short and long term Euro interest rates had been 50 basis points higher or lower with all other variables held constant fair value of interest rate swaps would have been LVL 3,914 thousand (EUR 5,569 thousand) higher or lower (31/12/2012: LVL 4,577 thousand (EUR 6,512 thousand)). Furthermore LVL 290 thousand (EUR 413 thousand) (2012: LVL 481 thousand (EUR 684 thousand)) would have been attributable to Consolidated Income Statement and LVL 3,624 thousand (EUR 5,156 thousand) (2012: LVL 4,096 thousand (EUR 5,828 thousand)) to the Consolidated Statement of Comprehensive Income as hedge accounting item.

III) Price risk

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

The most significant price risk is related to purchase of electricity and CO_2 emission allowances. To hedge the risk related to changes in the price of electricity the Parent Company during 2013 has purchased electricity swap contracts (Note 21 c, III). As at 31 December 2013 the Group has no outstanding CO_2 emission allowance purchase or sale forward contracts. In 2012 fair value changes of CO2 emission allowances forward contracts are included in the Consolidated Income Statement (see Notes 8 and 21 c, IV).

b) Credit risk

Credit risk is managed at the Group level. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks, outstanding receivables. Credit risk exposure in connection with trade receivables is limited due to broad range of the Group's customers. The Group has no significant concentration of credit risk with any single counterparty or group of counterparties having similar characteristics. Impairment loss has been deducted from gross accounts receivable (Note 17).

The maximum credit risk exposure related to financial assets comprises of carrying amounts of cash and cash equivalents (see table below and Note 18), trade and other receivables (Note 17), nominal amounts of issued guarantees (Note 26).

Assessment of maximum possible exposure to credit risk

	Note	31/12/2013	31/12/2012	31/12/2013	31/12/2012
		LVL'000	LVL'000	EUR'000	EUR'000
Trade receivables	17 a	62,977	78,042	89,608	111,044
Accrued income	17 b	37,591	7,353	53,487	10,462
Other non-current financial receivables		40	32	57	45
Other current financial receivables	17 b	202	119	288	169
Cash and cash equivalents	18	179,512	170,425	255,423	242,493
Derivative financial instruments	21 c	434	4,237	617	6,028
Held-to-maturity financial assets	21 a	20,092	20,134	28,588	28,649
		300,848	**280,342**	**428,068**	**398,890**

Maximum credit risk related to the issued guaranties amounts to the outstanding loan balances as at the end of the year (see Note 26). For banks and financial institutions, independently rated parties with own or parent bank's minimum rating of investment grade are accepted. Otherwise, if there is no independent rating, management performs risk control to assess the credit quality of the financial counterparty, taking into account its financial position, past co-operation experience and other factors. After performed assessment individual credit limits are set based on internal ratings in accordance with principles set by the Financial Risk Management Policy. The basis for estimating the credit quality of financial assets not past due and not impaired is credit ratings assigned by the rating agencies or, in their absence, the earlier credit behaviour of clients and other parties to the contract.

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

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

Credit limits are regularly monitored.

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

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

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

	31/12/2013	31/12/2012	31/12/2013	31/12/2012
	LVL'000	LVL'000	EUR'000	EUR'000
Investment level credit rating	153,588	140,730	218,536	200,241
No or non-investment level credit rating	25,924	29,695	36,887	42,252
	179,512	**170,425**	**255,423**	**242,493**

c) Liquidity risk

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

The Group entities' management is monitoring rolling forecasts of the Group's liquidity reserve, which comprises of undrawn borrowing facilities (Note 21 b), and cash and cash equivalents (Note 18).

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the settlement terms. The amounts disclosed in the table are the contractual undiscounted cash flows.

Contractual undiscounted cash flows originated by the borrowings are calculated taking into account the actual interest rates at the end of the reporting period.

Liquidity analysis (contractual undiscounted cash flows)

	Less than 1 year	From 1 to 2 years	From 3 to 5 years	Over 5 years	TOTAL	Less than 1 year	From 1 to 2 years	From 3 to 5 years	Over 5 years	TOTAL
At 31 December 2013	LVL'000	LVL'000	LVL'000	LVL'000	**LVL'000**	EUR'000	EUR'000	EUR'000	EUR'000	**EUR'000**
Borrowings from banks	103,308	161,571	174,578	187,042	**626,499**	146,993	229,895	248,403	266,137	**891,428**
Issued debt securities (bonds)	2,066	2,066	54,018	25,976	**84,126**	2,940	2,940	76,860	36,960	**119,700**
Derivative financial instruments	15,733	4,828	4,676	1,294	**26,531**	22,386	6,870	6,653	1,841	**37,750**
Trade and other payables*	67,203	-	-	-	**67,203**	95,621	-	-	-	**95,621**
	188,310	**168,465**	**233,272**	**214,312**	**804,359**	**267,940**	**239,705**	**331,916**	**304,938**	**1,144,499**
At 31 December 2012										
Borrowings from banks	83,067	93,768	280,952	172,450	**630,237**	118,194	133,420	399,758	245,374	**896,746**
Issued debt securities (bonds)	394	394	14,843	-	**15,631**	560	560	21,120	-	**22,240**
Derivative financial instruments	22,088	7,720	5,854	-	**35,662**	31,429	10,984	8,329	-	**50,742**
Issued guarantees	8,994	-	-	-	**8,994**	12,797	-	-	-	**12,797**
Trade and other payables*	97,777	-	-	-	**97,777**	139,124	-	-	-	**139,124**
	212,320	**101,882**	**301,649**	**172,450**	**788,301**	**302,104**	**144,964**	**429,207**	**245,374**	**1,121,649**

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

3.2. Capital risk management

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

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

This ratio is calculated by dividing the equity by the sum of total assets and nominal value of issued and outstanding financial guarantees. According to the Group's strategy and defined loan covenants as per loan agreements the capital ratio shall be maintained at least at 30% level.

The capital ratio figures were as follows:

	31/12/2013	31/12/2012	31/12/2013	31/12/2012
	LVL'000	LVL'000	EUR'000	EUR'000
Total equity	1,420,869	1,410,510	2,021,714	2,006,975
Total assets and outstanding financial guarantees issued	2,512,776	2,481,284	3,575,359	3,530,549
Capital Ratio	**57%**	**57%**	**57%**	**57%**

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

a) Estimates concerning property, plant and equipment

I) Useful lives of property, plant and equipment

The Group makes estimates concerning the expected useful lives and residual values of property, plant and equipment. These are reviewed at the end of each reporting period and are based on the past experience as well as industry practice. Previous experience has shown that the actual useful lives have sometimes been longer than the estimates. As at 31 December 2013, the net book amount of property, plant and equipment of the Group totalled LVL 2,169 million (EUR 3,087 million) (31/12/2012: LVL 2,148 million (EUR 3,056 million)), and the depreciation charge of continuing operations for the reporting period was LVL 118.1 million (EUR 168.0 million) (2012: LVL 117.3 million (EUR 166.9 million)) (Note 14 a). If depreciation rates were changed by 10%, the annual depreciation charge would change by LVL 11.8 million (EUR 16.8 million) (2012: LVL 11.7 million (EUR 16.7 million)).

II) Recoverable amount

When the events and circumstances indicate a potential impairment, the Group performs impairment tests for items of property, plant and equipment. According to these tests assets are written down to their recoverable amounts, if necessary. When carrying out impairment tests management uses various estimates for the cash flows arising from the use of the assets, sales, maintenance, and repairs of the assets, as well as in respect of the inflation and growth rates. The estimates are based on the forecasts of the general economic environment, consumption and the sales price of electricity. If the situation changes in the future, either additional impairment could be recognised, or the previously recognised impairment could be partially or fully reversed. Such factors as high maintenance and reconstruction costs, low load of several auxiliaries, comparatively substantial maintenance expense, limited facilities to sell property, plant and equipment in the market and other essential factors have an impact of decreasing of the recoverable amounts. If discount rate used for the purposes of impairment charge calculation would be lower or higher by one per cent point the current year's impairment charge on technological equipment would be by LVL 25.8 million (EUR 36.8 million) higher or lower (2012: LVL 27.9 million (EUR 39.7 million)). Impairment charges recognised during the current reporting year are disclosed in Note 14 c.

III) Revaluation

External, certified valuers have performed revaluation of the Group's property, plant and equipment by applying the depreciated replacement cost model. Valuation has been performed according to international standards on property valuation and IAS 16, Property, plant and equipment, based on current use of property, plant and equipment. As a result of valuation, depreciated replacement cost was determined for each asset. Depreciated replacement cost is calculated as land's instant market value at its current use, increased by the replacement cost of existing buildings and refinements on the said land plot and decreased by the depreciation expenses and other impairment losses. Last revaluation was performed for assets of Daugava hydropower plants as at 1 January 2012 and results of revaluation are disclosed in Note 14 b.

b) Recoverable amount of trade receivables

The estimated collectability of accounts receivable is assessed on an individual basis for each customer. In case individual assessment is not possible due to the large number of individual balances, receivables are classified into groups of similar credit risk characteristics and are collectively assessed for impairment, using historical loss experience. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The circumstances indicating an impairment loss may include initiated insolvency of the debtor and inability to meet payment terms (Note 2.11.). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss incurred (Note 17).

c) Fair value estimation for financial instruments

The following table presents the Group's financial assets and liabilities that are measured at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1),
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2),
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

	Notes	Level 1	Level 2	Level 3	Total balance	Level 1	Level 2	Level 3	Total balance
As at 31 December 2013		LVL'000	LVL'000	LVL'000	LVL'000	EUR'000	EUR'000	EUR'000	EUR'000
Assets									
Interest rate derivatives used for hedging	21 c, II	-	434	-	434	-	617	-	617
Total assets		-	434	-	434	-	617	-	617
Liabilities									
Financial liabilities at fair value through profit or loss:									
- Electricity trading derivatives	21 c, III	-	6,966	-	6,966	-	9,912	-	9,912
- Interest rate derivatives	21 c, II	-	2,144	-	2,144	-	3,051	-	3,051
- Forward foreign exchange contracts	21 c, V	-	11	-	11	-	16	-	16
Interest rate derivatives used for hedging	21 c, II	-	7,348	-	7,348	-	10,455	-	10,455
Total liabilities		-	16,469	-	16,469	-	23,434	-	23,434

	Notes	Level 1	Level 2	Level 3	Total balance	Level 1	Level 2	Level 3	Total balance
As at 31 December 2012		LVL'000	LVL'000	LVL'000	LVL'000	EUR'000	EUR'000	EUR'000	EUR'000
Assets									
Electricity trading derivatives used for hedging	21 c, III	-	4,195	-	4,195	-	5,969	-	5,969
Forward foreign exchange contracts used for hedging	21 c, V	-	42	-	42	-	59	-	59
Total assets		-	4,237	-	4,237	-	6,028	-	6,028
Liabilities									
Financial liabilities at fair value through profit or loss:									
- Electricity trading derivatives	21 c, III	-	3,841	-	3,841	-	5,465	-	5,465
- Interest rate derivatives	21 c, II	-	3,491	-	3,491	-	4,967	-	4,967
Electricity trading derivatives used for hedging	21 c, III	-	4,123	-	4,123	-	5,866	-	5,866
Interest rate derivatives used for hedging	21 c, II	-	13,244	-	13,244	-	18,845	-	18,845
Total liabilities		-	24,699	-	24,699	-	35,143	-	35,143

d) Recognition of connection service fees

Connection and other service fees are recognised as income over the estimated customer relationship period, which is 20 years (see Note 23). The estimated customer relationship period is based on the Management's estimate. In the reporting period the Group's received connection fees totalled LVL 12.6 million (EUR 17.9 million) (2012: LVL 13.7 million (EUR 19.5 million), and to the Consolidated Income Statement credited LVL 6.9 million (EUR 9.9 million) (2012: LVL 6.8 million (EUR 9.7 million)).

If the estimated customer relationship period is reduced/increased by 25%, the annual income from connection service fees would increase/decrease by LVL 1.8 million (EUR 2.5 million) (2012: LVL 1.7 million (EUR 2.4 million)).

e) Recognition and revaluation of provisions

As at 31 December 2013, the Group had set up provisions for environmental protection and post-employment benefits totalling LVL 11.0 million (EUR 15.6 million) (31/12/2012: LVL 10.5 million (EUR 14.9 million) (Note 22). The amount and timing of the settlement of these obligations is uncertain. A number of assumptions and estimates have been used to determine the present value of provisions, including the amount of future expenditure, inflation rates, and the timing of settlement of the expenditure. The actual expenditure may also differ from the provisions recognised as a result of possible changes in legislative norms, technology available in the future to restore environmental damages, and expenditure covered by third parties. For revaluation of provisions for post-employment obligations probabilities of retirement in different employees' aging groups as well as variable demographic factors and financial factors (including expected remuneration increase and determined changes in benefit amounts) have been estimated. The probabilities and other factors are determined on the basis of previous experience.

f) Evaluation of effectiveness of hedging instruments

The Group has concluded significant number of swap transactions to hedge the risk of the changes in prices of electricity and interest rate fluctuations to which cash flow hedge risk accounting is applied and the gains and losses from changes in the fair value of the effective hedging instruments and items secured against risk are included in respective equity reserve. The evaluation of the effectiveness of the hedging is based on Management's estimates with regard to future purchase transactions of electricity and signed variable interest loan agreements. When hedging instruments turn out to be ineffective, gains/losses from the changes in the fair value are recognised in the Consolidated Income Statement (Note 21 c).

5. OPERATING SEGMENT INFORMATION

Operating segments

For segment reporting purposes, the division into operating segments is based on the Group's internal management structure, which is the basis for the reporting system, performance assessment and the allocation of resources by the chief operating decision maker.

The Group divides its operations into three main operating segments – generation and supply, distribution system services and management of transmission system assets. In addition, Corporate Functions, that cover administration and other support services, are presented separately.

The generation and supply operating segment comprises the Group's electricity and heat generation operations, which are organised into the legal entities: Latvenergo AS and Liepājas enerģija SIA, as well as electricity sales operations, including wholesale, which are conducted Pan-Baltic by Latvenergo AS, Elektrum Eesti OÜ and Elektrum Lietuva UAB.

The operations of the distribution system services operating segment relates to the provision of electricity distribution services in Latvia and is managed by the subsidiary Sadales tīkls AS (the largest distribution system operator in Latvia) and Latvenergo AS – the owner of the distribution system real estate assets. In 2011, the distribution assets (excluding the real estate) owned by the Parent Company, were invested in Sadales tīkls AS.

The operations of the management of transmission system assets operating segment is managed both by Latvijas elektriskie tīkli AS – the owner of transmission system assets (330 kV and 110 kV transmission lines, substations and distribution points), which provides construction and maintenance as well as the lease of assets to the transmission system operator Augstsprieguma tīkls AS, and Latvenergo AS – the owner of the transmission system real estate assets. The Republic of Latvia has applied the second unbundling model under EU Directive 2009/72/EC, which provides that the electricity transmission system assets shall remain with a vertically integrated utility, while the activities of the transmission system operator are independently managed. In 2011, the transmission system assets owned by the Parent Company (excluding the real estate related to system assets) were invested in Latvijas elektriskie tīkli AS.

The following table presents revenue, profit information and segment assets and liabilities of the Group's operating segments. Inter-segment revenue is eliminated on consolidation.

LVL	Generation and supply	Distribution system services	Management of transmission system assets	Corporate functions	TOTAL segments	Adjustments and eliminations	Consolidated
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
Year ended 31 December 2013							
Revenue							
External customers	525,692	204,280	39,187	3,850	773,009	-	773,009
Inter-segment	18,046	1,290	1,782	31,739	52,857	(52,857)	-
Total revenue	543,738	205,570	40,969	35,589	825,866	(52,857)	773,009
Results							
Amortisation, depreciation and impairment loss	56,352	50,537	16,639	8,320	131,848	-	131,848
Investments in associates	27	1	1	-	29	-	29
Segment profit	16,371	13,405	9,862	3,297	42,935	(8,609)	34,326
Segment assets at the end of the year	1,052,144	879,922	303,066	60,763	2,295,895	216,881	2,512,776
Segment liabilities at the end of the year	49,460	119,827	24,459	4,266	198,012	893,895	1,091,907
Capital expenditure	37,546	62,280	48,452	9,760	158,038	-	158,038
Year ended 31 December 2012							
Revenue							
External customers	503,039	203,548	36,924	4,055	747,566	-	747,566
Inter-segment	19,862	1,282	1,624	31,756	54,524	(54,524)	-
Total revenue	522,901	204,830	38,548	35,811	802,090	(54,524)	747,566
Results							
Amortisation, depreciation and impairment loss	42,082	54,758	16,483	8,873	122,196	-	122,196
Investments in associates	4,946	1	1	-	4,948	-	4,948
Segment profit	31,683	5,893	8,086	4,236	49,898	(7,829)	42,069
Segment assets at the end of the year	1,067,218	872,491	269,691	59,192	2,268,592	203,698	2,472,290
Segment liabilities at the end of the year	77,143	104,308	34,050	4,035	219,536	842,244	1,061,780
Capital expenditure	95,072	58,445	23,468	8,738	185,723	-	185,723

EUR	Generation and supply	Distribution system services	Management of transmission system assets	Corporate functions	TOTAL segments	Adjustments and eliminations	Consolidated
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Year ended 31 December 2013							
Revenue							
External customers	747,993	290,664	55,758	5,478	1,099,893	-	1,099,893
Inter-segment	25,677	1,836	2,536	45,160	75,209	(75,209)	-
Total revenue	**773,670**	**292,500**	**58,294**	**50,638**	**1,175,102**	**(75,209)**	**1,099,893**
Results							
Amortisation, depreciation and impairment loss	80,182	71,908	23,675	11,838	187,603	-	187,603
Investments in associates	39	1	1	-	41	-	41
Segment profit	**23,294**	**19,074**	**14,032**	**4,691**	**61,091**	**(12,250)**	**48,841**
Segment assets at the end of the year	**1,497,066**	**1,252,016**	**431,224**	**86,458**	**3,266,764**	**308,594**	**3,575,358**
Segment liabilities at the end of the year	**70,375**	**170,498**	**34,802**	**6,070**	**281,745**	**1,271,899**	**1,553,644**
Capital expenditure	53,423	88,617	68,941	13,887	224,868	-	224,868
Year ended 31 December 2012							
Revenue							
External customers	715,760	289,623	52,538	5,770	1,063,691	-	1,063,691
Inter-segment	28,261	1,824	2,311	45,185	77,581	(77,581)	-
Total revenue	**744,021**	**291,447**	**54,849**	**50,955**	**1,141,272**	**(77,581)**	**1,063,691**
Results							
Amortisation, depreciation and impairment loss	59,877	77,914	23,453	12,625	173,869	-	173,869
Investments in associates	7,038	1	1	-	7,040	-	7,040
Segment profit	**45,081**	**8,385**	**11,505**	**6,027**	**70,998**	**(11,139)**	**59,859**
Segment assets at the end of the year	**1,518,515**	**1,241,443**	**383,736**	**84,222**	**3,227,916**	**289,836**	**3,517,752**
Segment liabilities at the end of the year	**109,765**	**148,417**	**48,449**	**5,742**	**312,373**	**1,198,404**	**1,510,777**
Capital expenditure	135,275	83,160	33,392	12,433	264,260	-	264,260

Adjustments and eliminations

Finance income and expenses, fair value gains and losses on financial assets are not allocated to individual segments as the underlying instruments are managed on a group basis. Taxes and certain financial assets and liabilities are not allocated to those segments as they are also managed on a group basis.

Capital expenditure consists of additions of property, plant and equipment, intangible assets and investment properties including assets from the acquisition of subsidiaries.

Reconciliation of profit

	Notes	2013	2012	2013	2012
		LVL'000	LVL'000	EUR'000	EUR'000
Segment profit		**42,935**	**49,898**	**61,091**	**70,998**
Gain on disposal of revalued PPE		-	(537)	-	(764)
Finance income	11 a	3,183	3,705	4,529	5,272
Finance costs	11 b	(12,538)	(11,250)	(17,840)	(16,007)
Share of profit of associates	15	746	253	1,061	360
Profit before income tax		**34,326**	**42,069**	**48,841**	**59,859**

Reconciliation of assets

	Notes	31/12/2013	31/12/2012	31/12/2013	31/12/2012
		LVL'000	LVL'000	EUR'000	EUR'000
Segment operating assets		**2,295,895**	**2,268,592**	**3,266,764**	**3,227,916**
Investments in associates	15	29	4,948	41	7,040
Held-to-maturity financial assets	21 a	20,092	20,134	28,588	28,649
Current financial assets		434	42	617	60
Other assets and assets held for sale		16,814	8,149	23,925	11,594
Cash and cash equivalents	18	179,512	170,425	255,423	242,493
Group operating assets		**2,512,776**	**2,472,290**	**3,575,358**	**3,517,752**

Reconciliation of liabilities

	Notes	31/12/2013	31/12/2012	31/12/2013	31/12/2012
		LVL'000	LVL'000	EUR'000	EUR'000
Segment operating liabilities		**198,012**	**219,536**	**281,745**	**312,373**
Deferred income tax liabilities	12	189,136	187,822	269,116	267,246
Current corporate income tax liabilities		2	1,892	3	2,692
Borrowings	21 b	663,921	595,248	944,675	846,961
Derivative financial instruments	21 c	16,469	24,699	23,434	35,143
Trade and other payables		24,367	32,583	34,671	46,362
Group operating liabilities		**1,091,907**	**1,061,780**	**1,553,644**	**1,510,777**

Geographical information on segments

	2013	2012	2013	2012
	LVL'000	LVL'000	EUR'000	EUR'000
Revenue from external customers				
Baltics	751,604	724,858	1,069,436	1,031,380
Scandinavian countries	21,405	22,708	30,457	32,311
Total revenue	**773,009**	**747,566**	**1,099,893**	**1,063,691**

Non-current assets are located in the Group's country of domicile – Latvia and consist of intangible assets, property, plant and equipment and investment properties.

Revenue from major customer in 2013 amounted to LVL 73,984 thousand (EUR 105,270 thousand) (2012: LVL 80,543 thousand (EUR 114,602 thousand)) arising from sales by the generation and supply segment.

6. REVENUE

	2013	2012	2013	2012
	LVL'000	LVL'000	EUR'000	EUR'000
Electricity and electricity services	631,144	598,879	898,037	852,128
Heat sales	82,556	90,548	117,466	128,838
Lease and management of transmission system assets	38,721	36,323	55,095	51,683
Other revenue	20,588	21,816	29,295	31,042
Total revenue	**773,009**	**747,566**	**1,099,893**	**1,063,691**

7. OTHER INCOME

	2013	2012	2013	2012
	LVL'000	LVL'000	EUR'000	EUR'000
Net gain from sale of assets held for sale and PPE	661	190	941	270
Net gain from sale of current assets and other income	2,185	1,619	3,109	2,304
Total other income	**2,846**	**1,809**	**4,050**	**2,574**

8. RAW MATERIALS AND CONSUMABLES USED

	2013	2012	2013	2012
	LVL'000	LVL'000	EUR'000	EUR'000
Electricity:				
Purchased electricity	267,870	256,580	381,144	365,081
Fair value loss / (income) on electricity swaps (Note 21 c, III)	3,125	(1,525)	4,447	(2,170)
Electricity transmission services costs	52,129	52,262	74,173	74,362
	323,124	**307,317**	**459,764**	**437,273**
Fuel expense	149,674	140,052	212,967	199,276
Fair value income on CO_2 emission allowances forward contracts (Note 21 c, IV)	-	(4,598)	-	(6,542)
Raw materials, spare parts and maintenance costs	26,914	29,260	38,295	41,633
Capitalised costs of raw materials and consumables used (fuel)	(6,728)	-	(9,573)	-
Total raw materials and consumables used	**492,984**	**472,031**	**701,453**	**671,640**

9. PERSONNEL EXPENSES

	2013	2012	2013	2012
	LVL'000	LVL'000	EUR'000	EUR'000
Wages and salaries	50,547	48,644	71,922	69,215
Expenditure of employment termination	1,587	1,140	2,258	1,623
Pension costs – defined contribution plan	2,229	2,175	3,172	3,094
State social insurance contributions and other benefits defined in the Collective Agreement	12,690	12,193	18,056	17,348
Capitalised personnel expenses	(235)	(248)	(334)	(353)
Total personnel expenses, including remuneration to the management	**66,818**	**63,904**	**95,074**	**90,927**
Including remuneration to the management:				
Wages and salaries	872	745	1,241	1,060
Expenditure of employment termination	-	5	-	7
Pension costs – defined contribution plan	38	28	54	40
State social insurance contributions and other benefits defined in the Collective Agreement	213	182	303	259
Total remuneration to the management	**1,123**	**960**	**1,598**	**1,366**

	2013	2012
Number of employees at the end of the year	4,512	4,457
Average number of employees during the year	4,504	4,453

* remuneration to the management includes remuneration to the members of the Management Boards and Supervisory body of the Group entities.

10. OTHER OPERATING EXPENSES

	2013	2012	2013	2012
	LVL'000	LVL'000	EUR'000	EUR'000
Selling expenses and customer service costs	13,899	13,377	19,776	19,034
Information technology maintenance expenses	2,573	2,457	3,661	3,496
Transportation expenses	5,488	5,306	7,809	7,550
Environment protection and work safety expenses	2,488	3,291	3,540	4,683
Rent, maintenance and utilities costs	5,093	5,282	7,247	7,516
Telecommunications expenses	1,747	2,079	2,486	2,958
Electric power transit and capacity services costs	2,772	2,489	3,944	3,541
Real estate tax	720	712	1,024	1,013
Public utilities regulation fee	1,002	682	1,426	970
Other expenses	5,488	6,208	7,809	8,834
Total other operating expenses	**41,270**	**41,883**	**58,722**	**59,595**

11. FINANCE INCOME AND COSTS

a) Finance income

	2013	2012	2013	2012
	LVL'000	LVL'000	EUR'000	EUR'000
Interest income on bank accounts and deposits	442	1,405	629	1,999
Interest income from held-to-maturity financial assets	1,083	1,097	1,541	1,561
Fair value gain on interest rate swaps (Note 21 c, II)	1,347	-	1,917	-
Fair value gain on issued guarantees (Note 26)	200	136	285	193
Net gain on redemption of held-to-maturity financial assets	-	226	-	322
Net gain on issued debt securities (bonds)	25	-	35	-
Net gain from currency exchange rate fluctuations	86	841	122	1,197
Total finance income	**3,183**	**3,705**	**4,529**	**5,272**

b) Finance costs

	2013	2012	2013	2012
	LVL'000	LVL'000	EUR'000	EUR'000
Interest expense on borrowings	6,803	10,132	9,680	14,417
Interest expense on issued debt securities (bonds)	1,837	13	2,614	18
Interest expense on interest rate swaps	6,470	4,863	9,206	6,919
Fair value loss on interest rate swaps (Note 21 c, II)	-	283	-	403
Fair value loss on forward foreign currencies exchange contracts (Note 21 c, V)	11	105	16	149
Net losses on redemption of held-to-maturity financial assets	42	-	60	-
Capitalised borrowing and finance costs (Note 14 a)	(2,684)	(4,267)	(3,819)	(6,071)
Other finance costs	59	121	83	172
Total finance costs	**12,538**	**11,250**	**17,840**	**16,007**

12. INCOME TAX

	2013	2012	2013	2012
	LVL'000	LVL'000	EUR'000	EUR'000
Current tax	510	10,156	726	14,450
Deferred tax	1,382	(3,828)	1,966	(5,447)
Total income tax:	**1,892**	**6,328**	**2,692**	**9,003**

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

	2013	2012	2013	2012
	LVL'000	LVL'000	EUR'000	EUR'000
Profit before tax	**34,326**	**42,069**	**48,841**	**59,859**
Corporate income tax at the statutory rate 15%	5,149	6,310	7,326	8,979
Expense non-deductible for tax purpose	241	305	343	433
Impairment of receivables	1,499	1,674	2,133	2,382
Tax deductions for donations	-	(175)	-	(249)
Discount on undistributed profit	(18)	-	(26)	-
Losses as a result of re-measurement on defined post-employment benefit plan	(32)	-	(46)	-
Other expenses	25	-	36	-
Losses that reduce taxable income	-	(178)	-	(254)
Tax incentives for new technological equipment*	(4,972)	(1,608)	(7,074)	(2,288)
Total income tax:	**1,892**	**6,328**	**2,692**	**9,003**

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

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

The movement on the deferred income tax accounts

	2013	2012	2013	2012
	LVL'000	LVL'000	EUR'000	EUR'000
At the beginning of the year	**187,822**	**172,425**	**267,246**	**245,339**
Expense charged / (income) credited to the Consolidated Income Statement	1,382	(3,828)	1,967	(5,447)
Attributable to non-current assets revaluation reserve in equity (Note 20)	(68)	19,225	(97)	27,354
Deferred tax liabilities at the end of the year	**189,136**	**187,822**	**269,116**	**267,246**

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

	2013	2012	2013	2012
	LVL'000	LVL'000	EUR'000	EUR'000
Deferred tax liabilities				
	Accelerated tax depreciation		Accelerated tax depreciation	
At the beginning of the year	**191,523**	**173,352**	**272,512**	**246,658**
Expense charged / (income) credited to the Consolidated Income Statement	1,934	(1,084)	2,752	(1,543)
Adjustment for discontinuing operations	-	30	-	43
Attributable to non-current assets revaluation reserve in equity (Note 20)	(68)	19,225	(97)	27,354
At the end of the year	**193,389**	**191,523**	**275,167**	**272,512**
Deferred tax assets				
	Accruals/provisions		Accruals/provisions	
At the beginning of the year	**(3,701)**	**(957)**	**(5,266)**	**(1,362)**
Income credited to the Consolidated Income Statement	(552)	(2,744)	(785)	(3,904)
At the end of the year	**(4,253)**	**(3,701)**	**(6,051)**	**(5,266)**

13. INTANGIBLE ASSETS

a) Intangible assets

	Licenses	Software	Assets under construction	TOTAL	Licenses	Software	Assets under construction	TOTAL
	LVL'000	LVL'000	LVL'000	LVL'000	EUR'000	EUR'000	EUR'000	EUR'000
At 31 December 2011								
Cost	1,750	19,940	497	**22,187**	2,490	28,372	707	**31,569**
Accumulated amortisation	(715)	(14,871)	-	**(15,586)**	(1,017)	(21,160)	-	**(22,177)**
Net book amount	**1,035**	**5,069**	**497**	**6,601**	**1,473**	**7,212**	**707**	**9,392**
Year ended 31 December 2012								
Additions	-	1,042	681	**1,723**	-	1,483	969	**2,452**
Disposals	(148)	(7)	-	**(155)**	(211)	(10)	-	**(221)**
Amortisation charge	-	(2,365)	-	**(2,365)**	-	(3,365)	-	**(3,365)**
Closing net book amount	**887**	**3,739**	**1,178**	**5,804**	**1,262**	**5,320**	**1,676**	**8,258**
At 31 December 2012								
Cost	1,750	20,571	1,178	**23,499**	2,490	29,270	1,676	**33,436**
Accumulated amortisation	(863)	(16,832)	-	**(17,695)**	(1,228)	(23,950)	-	**(25,178)**
Net book amount	**887**	**3,739**	**1,178**	**5,804**	**1,262**	**5,320**	**1,676**	**8,258**
Year ended 31 December 2013								
Additions	-	2,246	1,496	**3,742**	-	3,196	2,129	**5,325**
Disposals	(148)	-	-	**(148)**	(210)	-	-	**(210)**
Amortisation charge	-	(1,576)	-	**(1,576)**	-	(2,243)	-	**(2,243)**
Closing net book amount	**739**	**4,409**	**2,674**	**7,822**	**1,052**	**6,273**	**3,805**	**11,130**
At 31 December 2013								
Cost	1,750	21,544	2,674	**25,968**	2,490	30,654	3,805	**36,949**
Accumulated amortisation	(1,011)	(17,135)	-	**(18,146)**	(1,438)	(24,381)	-	**(25,819)**
Net book amount	**739**	**4,409**	**2,674**	**7,822**	**1,052**	**6,273**	**3,805**	**11,130**

b) Greenhouse gas emission allowances:

	2013 Number of allowances	2012 Number of allowances
At the beginning of the year	**3,190,862**	**552,559**
Allowances allocated free of charge	517,163	3,099,482
Purchased allowances	16,196	562,188
Used allowances	(1,104,382)	(953,367)
Sales of allowances	-	(70,000)
At the end of the year	**2,619,839**	**3,190,862**

Allowances are allocated free of charge in accordance with the law "On Pollution" and Directives of the Ministry of Environmental Protection and Regional Development of the Republic of Latvia and are recognised at zero cost.

As at 31 December 2013 the number of allowances in the Group received in 2013 from the Government free of charge was 517,163 (31/12/2012: 3,099,482). Therefore their carrying amount as at 31 December 2013 was nil (31/12/2012: nil).

The fair value of greenhouse gas emission allowances as at 31 December 2013 was LVL 9,243 thousand (EUR 13,152 thousand) (31/12/2012: LVL 15,025 thousand (EUR 21,379 thousand). For estimation of the fair value of allowances were used closing market prices of NASDAQ OMX Commodities exchange on the last trade date on 30 December 2013 – 5.02 EUR/t (28/12/2012: 6.7 EUR/t).

In 24 October 2012 in accordance with Directive No. 51 of the Ministry of Environmental Protection and Regional Development "For additional allocation of gas emission allowances for Latvenergo AS thermal plant TEC-2 in period from 2009 until 2012" all allowances for four-year period are received and allocated in 2012 and transferred to next allocation period. Received European Union Allowances (EUA) must be used until the end of 2020.

As at 31 December 2013 the number of allowances in the Group purchased was 16,196 (31/12/2012: 562,188). As at 31 December 2013 and 31 December 2012 the Group has no entered into outstanding forward contracts of CO_2 emission allowances purchase or sale. Fair value changes of previously concluded CO_2 emission allowances forward contracts in 2012 are included in the Consolidated Income Statement in the amount of LVL 4,598 thousand (EUR 6,542 thousand) (Notes 8 and 21 c, IV). Purchase costs of allowances in the amount of LVL 2 thousand (EUR 3 thousand) (2012: LVL 7,293 thousand (EUR 10,377 thousand)) are included in the Consolidated Income Statement position 'Fuel expense' (Note 8). All purchased allowances during the 2013 are used therefore carrying amount at the end of the year was nil (31/12/2012: nil).

14. PROPERTY, PLANT AND EQUIPMENT

a) Property, plant and equipment

	Revalued buildings and facilities			Non-revalued buildings and facilities	Land and buildings, total	Revalued technology equipment, machinery			Non-revalued technology equipment, machinery	Technology equipment, machinery, total
	Daugava hydropower plants'	Transmission system	Distribution system			Daugava hydropower plants'	Transmission system	Distribution system		
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
At 31 December 2011										
Cost or valuation	1,041,813	306,387	1,290,528	230,442	**2,869,170**	158,771	252,794	478,154	220,049	**1,109,768**
Accumulated depreciation and impairment	(592,764)	(196,516)	(714,127)	(56,836)	**(1,560,243)**	(120,410)	(141,069)	(261,762)	(128,186)	**(651,427)**
Net book amount	**449,049**	**109,871**	**576,401**	**173,606**	**1,308,927**	**38,361**	**111,725**	**216,392**	**91,863**	**458,341**
Year ended 31 December 2012										
PPE revaluation	12,633	2,017	2,065	-	**16,715**	51,294	8,363	10,067	-	**69,724**
Additions	4,044	4,087	34,474	12,297	**54,902**	2,633	13,354	14,552	6,853	**37,392**
Transfers	1,419	-	-	(1,331)	**88**	(928)	-	-	932	**4**
Disposals	(7)	(129)	(1,054)	(338)	**(1,528)**	(19)	(101)	(847)	(41)	**(1,008)**
Reclassified to investment property	-	-	-	(1,116)	**(1,116)**	-	-	-	-	**-**
Impairment charge	-	-	-	361	**361**	-	-	-	(3,114)	**(3,114)**
Depreciation	(10,981)	(7,279)	(38,312)	(6,950)	**(63,522)**	(7,060)	(7,768)	(13,931)	(16,062)	**(44,821)**
Closing net book amount	**456,157**	**108,567**	**573,574**	**176,529**	**1,314,827**	**84,281**	**125,573**	**226,233**	**80,431**	**516,518**
At 31 December 2012										
Cost or valuation	1,051,763	316,974	1,337,675	237,629	**2,944,041**	227,803	280,095	490,773	226,193	**1,224,864**
Accumulated depreciation and impairment	(595,606)	(208,407)	(764,101)	(61,100)	**(1,629,214)**	(143,522)	(154,522)	(264,540)	(145,762)	**(708,346)**
Net book amount	**456,157**	**108,567**	**573,574**	**176,529**	**1,314,827**	**84,281**	**125,573**	**226,233**	**80,431**	**516,518**
Year ended 31 December 2013										
Additions	-	-	-	3	**3**	-	65	636	6	**707**
Invested in share capital	-	-	-	614	**614**	-	-	-	-	**-**
Transfers	2,364	11,817	39,815	63,610	**117,606**	4,557	8,384	16,178	209,110	**238,229**
Disposals	-	(699)	(936)	(8)	**(1,643)**	-	(150)	(789)	-	**(939)**
Impairment charge	-	-	-	-	**-**	-	-	-	(12,407)	**(12,407)**
Depreciation	(11,030)	(7,213)	(36,266)	(7,555)	**(62,064)**	(7,293)	(8,129)	(12,052)	(19,806)	**(47,280)**
Closing net book amount	**447,491**	**112,472**	**576,187**	**233,193**	**1,369,343**	**81,545**	**125,743**	**230,206**	**257,334**	**694,828**
At 31 December 2013										
Cost or valuation	1,053,855	321,270	1,367,517	301,651	**3,044,293**	231,539	283,150	498,342	425,084	**1,438,115**
Accumulated depreciation and impairment	(606,364)	(208,798)	(791,330)	(68,458)	**(1,674,950)**	(149,994)	(157,407)	(268,136)	(167,750)	**(743,287)**
Net book amount	**447,491**	**112,472**	**576,187**	**233,193**	**1,369,343**	**81,545**	**125,743**	**230,206**	**257,334**	**694,828**

	Revalued other property, plant and equipment						
	Daugava hydropower plants'	Transmission system	Distribution system	Non-revalued other PPE	Other PPE, total	Assets under construction	Property, plant and equipment, total
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
At 31 December 2011							
Cost or valuation	7,477	3,318	4,359	81,648	**96,802**	213,475	**4,289,215**
Accumulated depreciation and impairment	(3,675)	(3,034)	(2,916)	(63,422)	**(73,047)**	(4,996)	**(2,289,713)**
Net book amount	**3,802**	**284**	**1,443**	**18,226**	**23,755**	**208,479**	**1,999,502**
Year ended 31 December 2012							
PPE revaluation	540	625	679	-	**1,844**	-	**88,283**
Additions	21	1,631	826	5,897	**8,375**	83,331	**184,000**
Transfers	281	-	-	(373)	**(92)**	-	**-**
Disposals	-	(1)	(36)	(21)	**(58)**	(167)	**(2,761)**
Reclassified to investment property	-	-	-	-	**-**	-	**(1,116)**
Impairment charge	-	-	-	-	**-**	191	**(2,562)**
Depreciation	(459)	(799)	(582)	(7,086)	**(8,926)**	-	**(117,269)**
Closing net book amount	**4,185**	**1,740**	**2,330**	**16,643**	**24,898**	**291,834**	**2,148,077**
At 31 December 2012							
Cost or valuation	9,598	5,502	6,004	78,609	**99,713**	296,705	**4,565,323**
Accumulated depreciation and impairment	(5,413)	(3,762)	(3,674)	(61,966)	**(74,815)**	(4,871)	**(2,417,246)**
Net book amount	**4,185**	**1,740**	**2,330**	**16,643**	**24,898**	**291,834**	**2,148,077**
Year ended 31 December 2013							
Additions	-	681	-	6,264	**6,945**	146,027	**153,682**
Invested in share capital	-	-	-	-	**-**	-	**614**
Transfers	-	521	365	5,062	**5,948**	(361,783)	**-**
Disposals	-	(1)	(21)	(17)	**(39)**	(82)	**(2,703)**
Impairment charge	-	-	-	-	**-**	199	**(12,208)**
Depreciation	(356)	(650)	(489)	(7,225)	**(8,720)**	-	**(118,064)**
Closing net book amount	**3,829**	**2,291**	**2,185**	**20,727**	**29,032**	**76,195**	**2,169,398**
At 31 December 2013							
Cost or valuation	9,598	6,613	6,138	85,708	**108,057**	80,867	**4,671,332**
Accumulated depreciation and impairment	(5,769)	(4,322)	(3,953)	(64,981)	**(79,025)**	(4,672)	**(2,501,934)**
Net book amount	**3,829**	**2,291**	**2,185**	**20,727**	**29,032**	**76,195**	**2,169,398**

	Revalued buildings and facilities			Non-revalued buildings and facilities	Land and buildings, total	Revalued technology equipment, machinery			Non-revalued technology equipment, machinery	Technology equipment, machinery, total
	Daugava hydropower plants'	Transmission system	Distribution system			Daugava hydropower plants'	Transmission system	Distribution system		
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
At 31 December 2011										
Cost or valuation	1,482,366	435,949	1,836,256	327,889	**4,082,460**	225,911	359,693	680,352	313,101	**1,579,057**
Accumulated depreciation and impairment	(843,427)	(279,617)	(1,016,111)	(80,870)	**(2,220,025)**	(171,328)	(200,723)	(372,454)	(182,392)	**(926,897)**
Net book amount	**638,939**	**156,332**	**820,145**	**247,019**	**1,862,435**	**54,583**	**158,970**	**307,898**	**130,709**	**652,160**
Year ended 31 December 2012										
PPE revaluation	17,975	2,870	2,939	-	**23,784**	72,985	11,900	14,324	-	**99,209**
Additions	5,754	5,815	49,051	17,497	**78,117**	3,746	19,001	20,706	9,751	**53,204**
Transfers	2,019	-	-	(1,894)	**125**	(1,320)	-	-	1,326	**6**
Disposals	(10)	(183)	(1,500)	(481)	**(2,174)**	(27)	(144)	(1,205)	(58)	**(1,434)**
Reclassified to investment property	-	-	-	(1,588)	**(1,588)**	-	-	-	-	**-**
Impairment charge	-	-	-	514	**514**	-	-	-	(4,431)	**(4,431)**
Depreciation	(15,624)	(10,357)	(54,513)	(9,889)	**(90,383)**	(10,046)	(11,053)	(19,822)	(22,854)	**(63,775)**
Closing net book amount	**649,053**	**154,477**	**816,122**	**251,178**	**1,870,830**	**119,921**	**178,674**	**321,901**	**114,443**	**734,939**
At 31 December 2012										
Cost or valuation	1,496,524	451,013	1,903,340	338,116	**4,188,993**	324,134	398,539	698,307	321,844	**1,742,824**
Accumulated depreciation and impairment	(847,471)	(296,536)	(1,087,218)	(86,938)	**(2,318,163)**	(204,213)	(219,865)	(376,406)	(207,401)	**(1,007,885)**
Net book amount	**649,053**	**154,477**	**816,122**	**251,178**	**1,870,830**	**119,921**	**178,674**	**321,901**	**114,443**	**734,939**
Year ended 31 December 2013										
Additions	-	-	-	4	**4**	-	92	905	8	**1,005**
Invested in share capital	-	-	-	874	**874**	-	-	-	-	**-**
Transfers	3,364	16,814	56,652	90,509	**167,339**	6,484	11,930	23,019	297,537	**338,970**
Disposals	-	(995)	(1,332)	(11)	**(2,338)**	-	(214)	(1,123)	-	**(1,337)**
Impairment charge	-	-	-	-	**-**	-	-	-	(17,654)	**(17,654)**
Depreciation	(15,694)	(10,263)	(51,602)	(10,750)	**(88,309)**	(10,377)	(11,566)	(17,148)	(28,181)	**(67,272)**
Closing net book amount	**636,723**	**160,033**	**819,840**	**331,804**	**1,948,400**	**116,028**	**178,916**	**327,554**	**366,153**	**988,651**
At 31 December 2013										
Cost or valuation	1,499,501	457,126	1,945,801	429,211	**4,331,639**	329,450	402,886	709,077	604,840	**2,046,253**
Accumulated depreciation and impairment	(862,778)	(297,093)	(1,125,961)	(97,407)	**(2,383,239)**	(213,422)	(223,970)	(381,523)	(238,687)	**(1,057,602)**
Net book amount	**636,723**	**160,033**	**819,840**	**331,804**	**1,948,400**	**116,028**	**178,916**	**327,554**	**366,153**	**988,651**

	Revalued other property, plant and equipment			Non-revalued other PPE	Other PPE, total	Assets under construction	Property, plant and equipment, total
	Daugava hydropower plants'	Transmission system	Distribution system				
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
At 31 December 2011							
Cost or valuation	10,639	4,721	6,202	116,175	**137,737**	303,748	**6,103,002**
Accumulated depreciation and impairment	(5,229)	(4,317)	(4,149)	(90,241)	**(103,936)**	(7,109)	**(3,257,967)**
Net book amount	**5,410**	**404**	**2,053**	**25,934**	**33,801**	**296,639**	**2,845,035**
Year ended 31 December 2012							
PPE revaluation	768	889	966	-	**2,623**	-	**125,616**
Additions	30	2,321	1,176	8,391	**11,918**	118,569	**261,808**
Transfers	400	-	-	(531)	**(131)**	-	**-**
Disposals	-	(1)	(51)	(30)	**(82)**	(238)	**(3,928)**
Reclassified to investment property	-	-	-	-	**-**	-	**(1,588)**
Impairment charge	-	-	-	-	**-**	272	**(3,645)**
Depreciation	(653)	(1,137)	(828)	(10,083)	**(12,701)**	-	**(166,859)**
Closing net book amount	**5,955**	**2,476**	**3,316**	**23,681**	**35,428**	**415,242**	**3,056,439**
At 31 December 2012							
Cost or valuation	13,657	7,829	8,543	111,851	**141,880**	422,173	**6,495,870**
Accumulated depreciation and impairment	(7,702)	(5,353)	(5,227)	(88,170)	**(106,452)**	(6,931)	**(3,439,431)**
Net book amount	**5,955**	**2,476**	**3,316**	**23,681**	**35,428**	**415,242**	**3,056,439**
Year ended 31 December 2013							
Additions	-	969	-	8,913	**9,882**	207,778	**218,669**
Invested in share capital	-	-	-	-	**-**	-	**874**
Transfers	-	740	519	7,203	**8,462**	(514,771)	**-**
Disposals	-	(1)	(30)	(24)	**(55)**	(117)	**(3,847)**
Impairment charge	-	-	-	-	**-**	283	**(17,371)**
Depreciation	(507)	(925)	(696)	(10,280)	**(12,408)**	-	**(167,989)**
Closing net book amount	**5,448**	**3,259**	**3,109**	**29,493**	**41,309**	**108,415**	**3,086,775**
At 31 December 2013							
Cost or valuation	13,657	9,409	8,734	121,952	**153,752**	115,063	**6,646,707**
Accumulated depreciation and impairment	(8,209)	(6,150)	(5,625)	(92,459)	**(112,443)**	(6,648)	**(3,559,932)**
Net book amount	**5,448**	**3,259**	**3,109**	**29,493**	**41,309**	**108,415**	**3,086,775**

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

As at 31 December 2013 cost or valuation of fully depreciated PPE amounted to LVL 533,205 thousand (EUR 758,683 thousand) (31/12/2012: LVL 246,394 thousand (EUR 350,587 thousand).

In 2013 the Group has capitalised borrowing and finance costs in the amount of LVL 2,684 thousand (EUR 3,819 thousand) (2012: LVL 4,267 thousand (EUR 6,071 thousand)). Rate of capitalised borrowing costs was of 1.48% (2012: 1.98%).

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

b) Property, plant and equipment revaluation

As at 1 January 2011 transmission system assets and as at 1 September 2011 distribution system assets were evaluated for property investment in subsidiaries share capital (*Latvijas elektriskie tīkli AS* and *Sadales tīkls AS* respectively). Latvenergo AS revalued assets of Daugava hydropower plants as at 1 January 2012. Valuation have been done by independent certified valuators by applying the cost model, which provides, that the assets value comprises replacement or renewal costs of similar asset at the date of revaluation less the accumulated depreciation and impairment losses. To determine original cost replacement value of the revaluated asset current acquisition or purchase cost is used.

As at the end of the reporting period carrying value of the Daugava hydropower plants, transmission system assets and distribution system assets approximates its fair value. In 2012 the increase in revalued Daugava hydropower plants in amount of LVL 64,436 thousand (EUR 91,684 thousand), net of deferred tax, was charged to non-current assets revaluation reserve under the comprehensive income and the increase in the amount of LVL 31 thousand (EUR 44 thousand), that has been previously charged to expenses, in the Consolidated Income Statement under 'Increase of non-current assets value due revaluation'.

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

	Revalued property, plant and equipment categories				Revalued property, plant and equipment categories			
	Buildings and facilities	Technology equipment and machinery	Other property, plant and equipment	Total	Buildings and facilities	Technology equipment and machinery	Other property, plant and equipment	Total
	LVL'000	LVL'000	LVL'000	LVL'000	EUR'000	EUR'000	EUR'000	EUR'000
	At revalued amounts				At revalued amounts			
At 31 December 2012								
Revalued	2,706,412	998,671	21,104	**3,726,187**	3,850,877	1,420,980	30,029	**5,301,886**
Accumulated depreciation	(1,568,114)	(562,584)	(12,849)	**(2,143,547)**	(2,231,225)	(800,484)	(18,282)	**(3,049,991)**
Revalued net book amount	**1,138,298**	**436,087**	**8,255**	**1,582,640**	**1,619,652**	**620,496**	**11,747**	**2,251,895**
At 31 December 2013								
Revalued	2,742,642	1,013,031	22,349	**3,778,022**	3,902,428	1,441,413	31,800	**5,375,641**
Accumulated depreciation	(1,606,492)	(575,537)	(14,044)	**(2,196,073)**	(2,285,832)	(818,915)	(19,984)	**(3,124,731)**
Revalued net book amount	**1,136,150**	**437,494**	**8,305**	**1,581,949**	**1,616,596**	**622,498**	**11,816**	**2,250,910**
	At amounts stated on historical cost basis				At amounts stated on historical cost basis			
At 31 December 2012								
Cost	572,104	420,410	14,861	**1,007,375**	814,031	598,190	21,145	**1,433,366**
Accumulated depreciation	(184,073)	(212,758)	(11,796)	**(408,627)**	(261,912)	(302,727)	(16,784)	**(581,423)**
Net book amount	**388,031**	**207,652**	**3,065**	**598,748**	**552,119**	**295,463**	**4,361**	**851,943**
At 31 December 2013								
Cost	625,690	451,276	18,603	**1,095,569**	890,277	642,108	26,470	**1,558,855**
Accumulated depreciation	(197,414)	(229,361)	(13,778)	**(440,553)**	(280,895)	(326,351)	(19,604)	**(626,850)**
Net book amount	**428,276**	**221,915**	**4,825**	**655,016**	**609,382**	**315,757**	**6,866**	**932,005**

c) Impairment

Impairment review performed in accordance with IAS 36 Impairment of Assets resulted in an impairment charge on technological equipment and machinery of the Riga combined heat and power plant (carried in non-revalued technology equipment and machinery) based on value in use calculations. The accumulated impairment as at 31 December 2013 amounted to LVL 65,902 thousand (EUR 93,770 thousand) (31/12/2012: LVL 53,495 thousand (EUR 76,117 thousand)).

The cash-generating unit is defined as the assets of Riga combined heat and power plant. In 2013, a one-off impairment loss of Riga combined heat and power plants (Riga CHHPs) in the amount of LVL 12.4 million (EUR 17.7 million) has been recognised. Additional impairment was made due the Subsidised Energy Tax (SET) Law adopted by the Saiema (the Parliament of the Republic of Latvia) and announced by the President of the Republic of Latvia in late 2013 which provides implementation of subsidised energy tax (hereinafter - SEN). Law shall come into force from 1 January 2014 and tax will be applied for taxable income from 1 January 2014 until 31 December 2017. For Riga combined heat and power plants, which use fossil energy resources for electricity generation, estimated tax rate is 15%. Nominal pre-tax discount rate used to determine value in use of cash-generating unit by discounting cash flows is 7.3% (2012: 7.4%).

For sensitivity analysis see Note 4 a, II.

15. INVESTMENTS IN ASSOCIATES AND OTHER INVESTMENTS

	2013	2012	2013	2012
	LVL'000	LVL'000	EUR'000	EUR'000
At the beginning of the year	**4,948**	**4,696**	**7,040**	**6,681**
Share of profit in Nordic Energy Link AS	746	253	1,061	360
Investment in Nordic Energy Link AS reclassified to current financial investments held for sale*	(5,665)	-	(8,060)	-
Disposal of investment in Pirmais Slēgtais Pensiju Fonds AS	-	(1)	-	(1)
At the end of the year	**29**	**4,948**	**41**	**7,040**

* On 26 September Shareholder's Meeting of Latvenergo AS decided to terminate Latvenergo AS participation in Nordic Energy Link AS. According to the Directive 2009/72/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in electricity and repealing Directive 2003/54/EC, Latvenergo AS, as electricity generator and supplier, needs to perform activities so that after 31 December 2013 it would not be owner of the electricity transmission infrastructure. In the Consolidated Statement of Financial Position as at 31 December 2013 investment in Nordic Energy Link AS is presented as the current financial investment held for sale. On 12 February 2014 the Cabinet of Ministers of the Republic of Latvia adopted decision No. 67 „On Latvenergo AS termination of partnership in Nordic Energy Link AS".

The table below discloses the Group's share of profit from investments in significant associates and summarised financial information on the amounts of assets, liabilities and net sales of these entities:

	Assets	Liabilities	Net sales	Share of profit	Assets	Liabilities	Net sales	Share of profit
	LVL'000	LVL'000	LVL'000	LVL'000	EUR'000	EUR'000	EUR'000	EUR'000
As of 31 December 2012								
Nordic Energy Link AS	57,007	37,169	9,801	**253**	81,114	52,887	13,946	**360**
	57,007	**37,169**	**9,801**	**253**	**81,114**	**52,887**	**13,946**	**360**
As of 31 December 2013								
Nordic Energy Link AS	23,613	954	9,006	746	33,598	1,357	12,814	1,061
	23,613	**954**	**9,006**	**746**	**33,598**	**1,357**	**12,814**	**1,061**

Participating interest in subsidiaries and associates:

Name	Country of incorporation	Business activity held	Interest held, %	
			31/12/2013	31/12/2012
Subsidiaries:				
Latvijas elektriskie tīkli AS	Latvia	Management of transmission system assets	100%	100%
Sadales tīkls AS	Latvia	Electricity distribution	100%	100%
Elektrum Eesti OÜ	Estonia	Electricity supply	100%	100%
Elektrum Latvija SIA	Latvia	Electricity supply	100%	100%
Elektrum Lietuva UAB	Lithuania	Electricity supply	100%	100%
Liepājas enerģija SIA	Latvia	Thermal energy generation and supply in Liepaja city, electricity generation	51%	51%
Associates:				
Nordic Energy Link AS	Estonia	Electricity transmission	25%	25%
Pirmais Slēgtais Pensiju Fonds AS	Latvia	Management of pension plans	48.15%	48.15%

The Group owns 48.15% of the shares of the closed pension fund Pirmais Slēgtais Pensiju Fonds AS. However, the Group is only a nominal shareholder as all risks and benefits arising from associate's activities will accrue to the Group's employees who are members of the pension fund. Therefore, investment in Pirmais Slēgtais Pensiju Fonds AS is valued at cost and equity method is not applied.

16. INVENTORIES

	31/12/2013	31/12/2012	31/12/2013	31/12/2012
	LVL'000	LVL'000	EUR'000	EUR'000
Raw materials and spare parts	14,871	14,196	21,160	20,199
Other inventories	3,326	4,192	4,733	5,965
Allowance for raw materials, spare parts, technological fuel	(2,993)	(2,784)	(4,259)	(3,961)
Total inventories	**15,204**	**15,604**	**21,634**	**22,203**

Changes in the allowance for raw materials and spare parts are included in the Consolidated Income Statement position 'Raw materials and consumables used'.

Movement on the allowance for raw materials, spare parts and technological fuel:

	2013	2012	2013	2012
	LVL'000	LVL'000	EUR'000	EUR'000
At the beginning of the year	2,784	2,742	3,961	3,902
Inventories written off	(120)	(48)	(171)	(69)
Charged to the Consolidated Income Statement	329	90	469	128
At the end of the year	2,993	2,784	4,259	3,961

17. TRADE RECEIVABLES AND OTHER CURRENT RECEIVABLES

a) Trade receivables, net

	31/12/2013	31/12/2012	31/12/2013	31/12/2012
	LVL'000	LVL'000	EUR'000	EUR'000
Receivables				
- Electricity customers	64,605	64,637	91,925	91,971
- Heating customers	12,355	19,140	17,580	27,234
- Other trade receivables	16,584	14,671	23,597	20,875
	93,544	98,448	133,102	140,080
Allowances for impairment of receivables				
- Electricity customers	(28,564)	(18,894)	(40,643)	(26,884)
- Heating customers	(259)	(295)	(369)	(420)
- Other trade receivables	(1,744)	(1,217)	(2,482)	(1,732)
	(30,567)	(20,406)	(43,494)	(29,036)
Receivables, net				
- Electricity customers	36,041	45,743	51,282	65,087
- Heating customers	12,096	18,845	17,211	26,814
- Other trade receivables	14,840	13,454	21,115	19,143
	62,977	78,042	89,608	111,044

There is no significant concentration of credit risk with respect to trade receivables, as the Group has a large number of customers except the major heating customer the net debt of which as at 31 December 2013 amounted to LVL 10,551 thousand (EUR 15,013 thousand) (31/12/2012: LVL 16,355 thousand (EUR 23,271 thousand)).

Electricity receivables grouped by past due days and calculated impairment loss:

	31/12/2013	31/12/2012	31/12/2013	31/12/2012
	LVL'000	LVL'000	EUR'000	EUR'000
Electricity receivables:				
Fully performing receivables	32,596	37,974	46,380	54,033
Receivables past due but not impaired:				
- Receivables past due by 1-45 days	3,129	4,140	4,452	5,891
Impaired receivables:				
- Receivables past due by 46-90 days	349	507	497	721
- Receivables past due by 91-180 days	565	691	804	983
- Receivables past due by more than 181 day	10,059	9,376	14,313	13,341
- Individually impaired receivables with scheduled payments	17,907	11,949	25,479	17,002
	64,605	**64,637**	**91,925**	**91,971**
Allowances for impaired electricity receivables:				
- Receivables past due by 46-90 days	(174)	(253)	(248)	(360)
- Receivables past due by 91-180 days	(424)	(518)	(603)	(737)
- Receivables past due by more than 181 day	(10,059)	(9,376)	(14,313)	(13,341)
- Individually impaired receivables with scheduled payments	(17,907)	(8,747)	(25,479)	(12,446)
	(28,564)	**(18,894)**	**(40,643)**	**(26,884)**
Electricity receivables, net				
Fully performing receivables	32,596	37,974	46,380	54,033
Receivables past due but not impaired:				
- Receivables past due by 1-45 days	3,129	4,140	4,452	5,891
Net impaired receivables:				
- Receivables past due by 46-90 days	175	254	249	361
- Receivables past due by 91-180 days	141	173	201	246
- Individually impaired receivables with scheduled payments	-	3,202	-	4,556
	36,041	**45,743**	**51,282**	**65,087**

Heating and other receivables grouped by past due days and calculated impairment loss:

	31/12/2013	31/12/2012	31/12/2013	31/12/2012
	LVL'000	LVL'000	EUR'000	EUR'000
Heating and other trade receivables:				
Fully performing receivables	25,921	31,588	36,883	44,946
Receivables past due but not impaired:				
- Receivables past due by 1-30 days	873	656	1,242	933
Impaired receivables:				
- Receivables past due by 31-90 days	284	96	404	137
- Receivables past due by more than 91 day	1,861	1,471	2,648	2,093
	28,939	**33,811**	**41,177**	**48,109**
Allowances for impaired heating and other trade receivables:				
- Receivables past due by 31-90 days	(142)	(41)	(203)	(59)
- Receivables past due by more than 91 day	(1,861)	(1,471)	(2,648)	(2,093)
	(2,003)	**(1,512)**	**(2,851)**	**(2,152)**
Heating and other trade receivables, net				
Fully performing receivables	25,921	31,588	36,883	44,946
Receivables past due but not impaired:				
- Receivables past due by 1-30 days	873	656	1,242	933
Net impaired receivables:				
- Receivables past due by 31-90 days	142	55	201	78
	26,936	**32,299**	**38,326**	**45,957**

The Group's Management has estimated allowances for impairment of receivables on the basis of aging of trade receivables and by evaluating liquidity and history of previous payments of each significant debtor (see point 2.11). The carrying amount of trade receivables, less allowances for impairment, is assumed to approximate their fair values.

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

Receivables credit quality:

	31/12/2013	31/12/2012	31/12/2013	31/12/2012
	LVL'000	LVL'000	EUR'000	EUR'000
Fully performing electricity receivables:				
- customers with no overdue receivables	29,758	30,054	42,342	42,763
- customers with overdue receivables	2,838	7,920	4,038	11,270
	32,596	**37,974**	**46,380**	**54,033**
Fully performing heating and other receivables:				
- customers with no overdue receivables	24,671	30,750	35,104	43,754
- customers with overdue receivables	1,250	838	1,779	1,192
Fully performing electricity receivables:	**25,921**	**31,588**	**36,883**	**44,946**

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

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

	2013	2012	2013	2012
	LVL'000	LVL'000	EUR'000	EUR'000
At the beginning of the year	**20,406**	**9,717**	**29,036**	**13,825**
Receivables written off during the year as uncollectible	(990)	(203)	(1,409)	(288)
Allowance for impaired receivables	11,151	10,892	15,867	15,499
At the end of the year	**30,567**	**20,406**	**43,494**	**29,036**

The charge and release of allowance for impaired trade receivables due to delayed payments have been recorded in the Consolidated Income Statement position 'Other operating expenses' as selling expenses and customer services costs (Note 10).

b) Other current receivables

	31/12/2013	31/12/2012	31/12/2013	31/12/2012
	LVL'000	LVL'000	EUR'000	EUR'000
Accrued income on mandatory procurement component*	31,593	-	44,953	-
Other accrued income	5,998	7,353	8,534	10,462
Pre-tax and overpaid taxes	10,132	12,944	14,417	18,418
Deferred expenses	703	609	1,001	867
Other current financial receivables	202	119	287	169
Other current non-financial receivables	1,940	2,846	2,760	4,049
Total other current receivables	**50,568**	**23,871**	**71,952**	**33,965**

* Accrued income from mandatory procurement component is calculated as difference between procurement expenditure above electricity market price and collected mandatory procurement component payments from electricity end users in 2013. According to the conditions included in the article No. 37 of transition terms of the Electricity Market Law of the Republic of Latvia, uncollected difference for the year 2013 will be compensated by newly established subsidiary Enerģijas publiskais tirgotājs AS in 12 months period starting from overtake of public supplier obligations as at 1st April 2014, using government grant implicit for mandatory procurement component reduction, stated per Law on the State Budget for 2014, as part of compensation.

None of the receivables are secured with pledges or otherwise. The carrying amounts of other receivables are assumed to approximate their fair values.

18. CASH AND CASH EQUIVALENTS

	31/12/2013	31/12/2012	31/12/2013	31/12/2012
	LVL'000	LVL'000	EUR'000	EUR'000
Cash at bank	62,425	25,316	88,823	36,021
Short-term bank deposits	117,087	145,109	166,600	206,472
Total cash and cash equivalents	**179,512**	**170,425**	**255,423**	**242,493**

Cash at bank balances earns daily interest mostly based on floating interbank deposit rates. Short-term deposits are placed for different periods between several days and three months depending on the immediate cash needs of the Group and cash flow forecasts. During 2013 the average annual effective interest rate earned on short-term cash deposits was 0.36% (2012: 1.05%). See also Note 3.1.b.

The carrying amounts of cash and cash equivalents are assumed to be approximate to their fair values.

19. SHARE CAPITAL

As at 31 December 2013, the registered share capital of the Latvenergo AS is LVL 905,219 thousand (EUR 1,288,011 thousand) (31/12/2012: LVL 904,605 thousand (EUR 1,287,137 thousand)) and consists of 905,219 thousand ordinary shares (31/12/2012: 904,605 thousand) with the nominal value of LVL 1 per share (31/12/2012: LVL 1 per share).

In October 2013, in accordance with the Directive No. 421 of the Cabinet of Ministers of the Republic of Latvia, dated 23 September 2013 – "On the Investment of the State's property units in the Share Capital of Latvenergo AS", real estate in the amount of LVL 614 thousand (EUR 874 thousand) was invested in the share capital of Latvenergo AS (2012: real estate in the amount of LVL 753 thousand (EUR 1,071 thousand)). The value of real estate was determined by independent certified valuation experts applying amortised cost model, based on construction or acquisition costs of similar assets. Increase in the share capital was approved by the Latvenergo AS Shareholders' Meeting on 31 May 2013 and registered with the Commercial Register of the Republic of Latvia on 9 October 2013.

20. RESERVES AND DIVIDENDS

As at 31 December 2013, the Group's reserves in the amount of LVL 458,522 thousand (EUR 652,418 thousand) (31/12/2012: LVL 452,685 thousand (EUR 644,113 thousand) consist of the property, plant and equipment revaluation reserve, hedge reserve, currency translation reserve and other reserves. The Group cannot distribute as dividends the property, plant and equipment revaluation, currency translation and hedge reserves. Other reserves are maintained with the aim to maintain stability in the operations of the Group entities.

	Note	Non-current assets revaluation reserve	Hedge reserve	Translation	Other reserves	TOTAL	Non-current assets revaluation reserve	Hedge reserve	Translation	Other reserves	TOTAL
		LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
As at 31 December 2011		**974,899**	**(8,247)**	**3**	**10,266**	**976,921**	**1,387,156**	**(11,734)**	**4**	**14,607**	**1,390,033**
Previous year profit		-	-	-	(10,257)	**(10,257)**	-	-	-	(14,594)	**(14,594)**
Investment in share capital	19	(577,990)	-	-	-	**(577,990)**	(822,406)	-	-	-	**(822,406)**
Non-current assets revaluation reserve*	14 a	87,794	-	-	-	**87,794**	124,920				**124,920**
Disposal of non-current assets revaluation reserve		(568)	-	-	-	**(568)**	(809)	-	-	-	**(809)**
Adjusted disposal of non-current assets revaluation reserve		828	-	-	-	**828**	1,178	-	-	-	**1,178**
Deferred tax related to non-current assets revaluation reserve	12	(19,225)	-	-	-	**(19,225)**	(27,354)	-	-	-	**(27,354)**
Currency translation differences		-	-	65	-	**65**	-	-	93	-	**93**
Loss from fair value changes in derivative financial instruments	21 c, l	-	(4,883)	-	-	**(4,883)**	-	(6,948)	-	-	**(6,948)**
As at 31 December 2012		**465,738**	**(13,130)**	**68**	**9**	**452,685**	**662,685**	**(18,682)**	**97**	**13**	**644,113**
Disposal of non-current assets revaluation reserve		(321)	-	-	-	**(321)**	(456)	-	-	-	**(456)**
Deferred tax related to non-current assets revaluation reserve	12	(68)	-	-	-	**(68)**	(97)	-	-	-	**(97)**
Currency translation differences		-	-	10	-	**10**	-	-	14	-	**14**
Gains from fair value changes in derivative financial instruments	21 c, l	-	6,216	-	-	**6,216**	-	8,844	-	-	**8,844**
As at 31 December 2013		**465,349**	**(6,914)**	**78**	**9**	**458,522**	**662,132**	**(9,838)**	**111**	**13**	**652,418**

* – includes increase in revalued Daugava hydropower plants in amount of LVL 64,467 thousand (EUR 91,728 thousand) and increase in revalued transmission and distribution assets in amount of LVL 23,327 thousand (EUR 33,192 thousand), net of deferred tax.

The dividends paid to equity holders of the Parent Company in 2013 were LVL 28,547 thousand (EUR 40,619 thousand) (2012: LVL 39,900 thousand (EUR 56,773 thousand)) and to non-controlling interests – LVL 220 thousand (EUR 313 thousand) (2012: nil).

The distribution of net profit for the 2013 is subject to a resolution of the Parent Company's Shareholders Meeting.

21. FINANCIAL ASSETS AND LIABILITIES

a) Held-to-maturity financial assets

As at 31 December 2013 the entire Group's held-to-maturity financial assets were State Treasury bonds with 5 year and 10 year maturity, which were purchased with the purpose to invest liquidity reserve in the low risk financial instruments with higher yield. During 2013 and 2012 there were no gains or losses recognised in association with the disposal of held-to-maturity financial assets. All held-to-maturity financial assets are denominated in the LVL. The maximum exposure to credit risk at the reporting date is the carrying amount of held-to-maturity financial assets.

In 2013 the fair value of held-to-maturity financial assets is greater than the carrying amount by LVL 3,294 thousand (EUR 4,687 thousand) (2012: LVL 3,899 thousand (EUR 5,548 thousand)).

The fair value of financial assets is calculated by discounting their future cash flows and using as discount factor the banks quoted prices of the financial instruments at the end of the reporting period.

Held to-maturity financial assets carrying amount:

	31/12/2013	31/12/2012	31/12/2013	31/12/2012
	LVL'000	LVL'000	EUR'000	EUR'000
Held-to-maturity financial assets:				
- current	-	-	-	-
- non-current	20,092	20,134	28,588	28,649
Total held-to-maturity financial assets	**20,092**	**20,134**	**28,588**	**28,649**

b) Borrowings

	31/12/2013	31/12/2012	31/12/2013	31/12/2012
	LVL'000	LVL'000	EUR'000	EUR'000
Non-current borrowings from financial institutions	492,237	506,797	700,390	721,107
Issued debt securities (bonds)	73,655	14,033	104,802	19,967
Total non-current borrowings	**565,892**	**520,830**	**805,192**	**741,074**
Current portion of non-current borrowings from financial institutions	96,290	73,208	137,008	104,165
Accrued interest on non-current borrowings	1,251	1,197	1,780	1,704
Accrued coupon interest on issued debt securities (bonds)	488	13	695	18
Total current borrowings	**98,029**	**74,418**	**139,483**	**105,887**
Total borrowings	**663,921**	**595,248**	**944,675**	**846,961**

Movement in borrowings:

	2013	2012	2013	2012
	LVL'000	LVL'000	EUR'000	EUR'000
At the beginning of the year	**595,248**	**513,334**	**846,961**	**730,408**
Borrowings received	82,439	116,947	117,300	166,401
Borrowings repaid	(73,917)	(48,056)	(105,174)	(68,378)
Change in accrued interest on borrowings	529	(1,010)	753	(1,437)
Issued debt securities (bonds)	59,622	14,033	84,835	19,967
At the end of the year	**663,921**	**595,248**	**944,675**	**846,961**

Borrowings by categories of lenders:

	31/12/2013	31/12/2012	31/12/2013	31/12/2012
	LVL'000	LVL'000	EUR'000	EUR'000
Foreign investment banks	378,458	338,617	538,497	481,808
Commercial banks	211,307	242,585	300,663	345,168
Issued debt securities (bonds)	74,156	14,046	105,515	19,985
Total borrowings	**663,921**	**595,248**	**944,675**	**846,961**

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

	31/12/2013	31/12/2012	31/12/2013	31/12/2012
	LVL'000	LVL'000	EUR'000	EUR'000
Fixed rate non-current and current borrowings:				
- < 1 year (current portion of non-current borrowings)	774	297	1,102	422
- 1–5 years	49,850	14,749	70,930	20,986
- > 5 years	24,240	-	34,490	-
Total fixed rate borrowings	**74,864**	**15,046**	**106,522**	**21,408**
Floating rate non-current and current borrowings:				
- < 1 year (current portion of non-current borrowings)	97,242	74,108	138,363	105,446
- 1–5 years	319,618	352,162	454,776	501,082
- > 5 years	172,197	153,932	245,014	219,025
Total floating rate borrowings	**589,057**	**580,202**	**838,153**	**825,553**
Total borrowings	**663,921**	**595,248**	**944,675**	**846,961**

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

	31/12/2013	31/12/2012	31/12/2013	31/12/2012
	LVL'000	LVL'000	EUR'000	EUR'000
- < 1 year	381,604	321,720	542,974	457,766
- 1–5 years	177,255	210,275	252,211	299,194
- > 5 years	105,062	63,253	149,490	90,001
Total borrowings:	**663,921**	**595,248**	**944,675**	**846,961**

At 31 December 2013 and at 31 December 2012 all of the Group's borrowings were denominated in Euros.

The fair value of current and non-current borrowings with floating rates equals their carrying amount, as their actual floating interest rates approximate the market price of similar financial instruments available to the Group, and the effect of fair value revaluation is not significant. The fair value of current and non-current borrowings with fixed rates (excluding the effect of derivative financial instruments) exceeds their carrying amounts by LVL 44.45 thousand (EUR 63.25 thousand) (2012: LVL 79.35 thousand (EUR 112.9 thousand)). The fair value calculations are based on discounted cash flows using discount factor of respective EUR swap rates increased by the Group`s credit risk margin. The average interest rate for discounting cash flows of non-current borrowings was 2.2% (2012: 2.4%).

l) Pledges

The Group's assets are not pledged to secure the borrowings, except the pledge assets of *Liepājas Enerģija SIA* of maximum secured claims in the amount of LVL 21.2 million (EUR 30.2 million) (31/12/2012: LVL 21.2 million (EUR 30.2 million)) to secure its current and non-current borrowings. As the end of the reporting period there has been pledged the property, plant and equipment in the net

book amount of LVL 18.6 million (EUR 26.5 million) and the claims on the receivables accounts in the amount of LVL 2.1 million (EUR 3.0 million) (31/12/2012: LVL 17.8 million (EUR 25.3 million) and LVL 3.4 million (EUR 4.8 million), respectively).

II) Un-drawn borrowing facilities

As at 31 December 2013 the undrawn portion of committed non-current credit facilities amounts to LVL 63.3 million (EUR 90.0 million) (31/12/2012: LVL 145.7 million (EUR 207.3 million)).

As at 31 December 2013 the Group had entered into three overdraft agreements with total notional amount of LVL 24.0 million (EUR 34.2 million) (31/12/2012: LVL 24.0 million or EUR 34.2 million)) and in respect of those all conditions precedent had been met. At the end of the reporting year overdrafts were not used.

III) Weighted average effective interest rate

During the reporting year the weighted average effective interest rate (including interest rate swaps) on non-current borrowings was 2.53% (2012: 2.87%), weighted average effective interest rate for current borrowings was 1.18% (2012: 1.08%). At 31 December 2013 interest rates for non-current borrowings in Euros were 3 and 6 month EURIBOR+0.97% (31/12/2012: +0.74%). At 31 December 2013 the total notional amount of interest rate swap agreements concluded by the Group amounts to LVL 244.4 million (EUR 347.7 million) (31/12/2012: LVL 269.1 million (EUR 382.8 million)) and the interest rate was fixed for the periods from 6 to 10 years.

IV) Bonds issued

In 2013 bonds in amount of EUR 50 million were issued with the maturity date – 15 December 2017 (2012: EUR 20 million) and in amount of 35 million with maturity date – 22 May 2020.

Thus the total nominal amount of issued bonds amounts to EUR 105 million. The annual coupon rate for issued bonds is 2.8%. All issued bonds are quoted in NASDAQ OMX Baltic Stock Exchange. At the end of reporting year the issued debt securities (bonds) is measured at amortised cost. The carrying amortised cost of issued bonds is assumed to be approximate to their fair values.

c) Derivative financial instruments

I) Outstanding fair values of derivatives and their classification

In the table below outstanding fair values of derivatives are disclosed as follows:

	Notes	31/12/2013		31/12/2012		31/12/2013		31/12/2012	
		LVL'000		LVL'000		EUR'000		EUR'000	
		Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Interest rate swaps	21 c, II	(434)	9,492	-	16,735	(617)	13,506	-	23,812
Electricity swaps	21 c, III	-	6,966	(4,195)	7,964	-	9,912	(5,969)	11,331
Forward foreign currencies exchange contracts	21 c, V	-	11	(42)	-	-	16	(59)	-
Total outstanding fair values of derivatives:		**(434)**	**16,469**	**(4,237)**	**24,699**	**(617)**	**23,434**	**(6,028)**	**35,143**

	31/12/2013		31/12/2012		31/12/2013		31/12/2012	
	LVL'000		LVL'000		EUR'000		EUR'000	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Non-current	-	4,384	-	12,555	-	6,238	-	17,864
Current	(434)	12,085	(4,237)	12,144	(617)	17,196	(6,028)	17,279
Total fair values of derivative financial instruments	**(434)**	**16,469**	**(4,237)**	**24,699**	**(617)**	**23,434**	**(6,028)**	**35,143**

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

	Notes	2013	2012	2013	2012
		LVL'000	LVL'000	EUR'000	EUR'000
Included in the Consolidated Income Statement					
Interest rate swaps	11	(1,347)	283	(1,917)	403
Electricity swaps	8	3,125	(1,525)	4,447	(2,170)
CO_2 emissions allowances forward contracts	8	-	(4,598)	-	(6,542)
Forward foreign currencies exchange contracts	11	11	105	16	149
		1,789	**(5,735)**	**2,546**	**(8,160)**
Included in the Statement of Other Comprehensive Income					
Interest rate swaps	20	(6,330)	4,633	(9,006)	6,592
Electricity	20	72	7	103	10
Forward foreign currencies exchange contracts	20	42	243	59	346
		(6,216)	**4,883**	**(8,844)**	**6,948**

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

II) Interest rate swaps

As at 31 December 2013 the Group had interest rate swap agreements with total notional amount of LVL 244.4 million (EUR 347.7 million) (31/12/2012: LVL 269.1 million (EUR 382.8 million)). Interest rate swaps are concluded with 6 to 10 year maturities and hedged floating rates are 6 month EURIBOR. As at 31 December 2013 fixed interest rates vary from 1.548% to 4.4925% (31/12/2012: from 1.548% to 4.4925%).

88% of all outstanding interest rate swap agreements or agreements with notional amount of LVL 216.3 million (EUR 307.7 million) are designated to comply with hedge accounting and were re-measured prospectively and retrospectively to test whether they are effective within the hedging period (31/12/2012: LVL 230.4 million (EUR 327.8 million)). All contracts are designed as cash flow hedges. It was established that they are fully effective and therefore there is no ineffective portion to be recognised within profit or loss in the Consolidated Income Statement.

Fair value changes of interest rate swaps:

	2013		2012		2013		2012	
	LVL'000		LVL'000		EUR'000		EUR'000	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Outstanding fair value at the beginning of the year	**-**	**16,735**	**-**	**11,819**	**-**	**23,812**	**-**	**16,817**
Included in the Consolidated Income Statement, net (Note 11)	-	(1,347)	-	283	-	(1,917)	-	403
Included in other comprehensive income (Note 20)	(434)	(5,896)	-	4,633	(617)	(8,389)	-	6,592
Outstanding fair value at the end of the year	**(434)**	**9,492**	**-**	**16,735**	**(617)**	**13,506**	**-**	**23,812**

The main interest rate hedging criteria stated in the Financial Risk Management policy is to ensure average fixed rate duration from 2 to 4 years and fixed rate portion at more than 35% of borrowings. As at 31 December 2013 43% (31/12/2012: 46%) of the Group's borrowings had fixed interest rates (taking into account the effect from the interest rate swaps), and average remaining time to interest re-pricing was 2.1 years (2012: 2.0 years).

III) Electricity swaps

As at 31 December 2013 the Group has entered into electricity swap contracts with total outstanding volume of 1,073,417 MWh (31/12/2012: 4,180,372 MWh) and notional value of LVL 31.2 million (EUR 44.4 million) (31/12/2012: LVL 129.3 million (EUR 184.0 million)). Electricity swaps contracts are concluded signed for the maturities from one quarter to one year during the period from 1 January 2014 to 31 December 2015.

Electricity swap contracts are agreed for hedging purposes through financial counterparties and by using the Nordic energy exchange Nord Pool Spot pricing. All purchased swap contracts were contracts with fixed amount of electricity and price in Euros.

As at 31 December 2013 none of the electricity swap contracts are designated to comply with hedge accounting treatment and not re-measured prospectively and retrospectively to test whether they are effective within the hedging period (31/12/2012: 29 contracts).

In previous periods contracts are also designed as cash flow hedges. If there was not recognised significant ineffectiveness of concluded contracts that must be recorded through profit or loss in the Consolidated Income Statement, then fair value gains or losses are recognised in the hedging reserve in 'Other comprehensive income' (Note 20). As at 31 December 2013 all outstanding fair value changes of valid electricity swap contracts are included in the Consolidated Income Statement (see Note 8).

Fair value changes of electricity swaps are disclosed:

	2013		2012		2013		2012	
	LVL'000		LVL'000		EUR'000		EUR'000	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Outstanding fair value at the beginning of the year	(4,195)	7,964	(2,060)	7,347	(5,969)	11,331	(2,931)	10,453
Included in the Consolidated Income Statement (Note 8)	-	3,125	-	(1,525)	-	4,447	-	(2,170)
Included in other comprehensive income (Note 20)	4,195	(4,123)	(2,135)	2,142	5,969	(5,866)	(3,038)	3,048
Outstanding fair value at the end of the year	-	6,966	(4,195)	7,964	-	9,912	(5,969)	11,331

IV) CO_2 emissions allowances forward contracts

As at 31 December 2013 the Group has no outstanding contracts of CO_2 emission allowances purchase or sale.

In 2012 CO_2 emission allowances forward contracts fair value changes are included in the Consolidated Income Statement in the amount of LVL 4,598 thousand (EUR 6,542 thousand) – see Note 8.

In the table below fair value changes of CO_2 emission allowances forward contracts are disclosed:

	2013	2012	2013	2012
	LVL'000	LVL'000	EUR'000	EUR'000
	Liabilities	Liabilities	Liabilities	Liabilities
Outstanding fair value at the beginning of the year	-	4,598	-	6,542
Included in the Consolidated Income Statement (Note 8)	-	(4,598)	-	(6,542)
Outstanding fair value at the end of the year	-	-	-	-

V) Forward foreign currencies exchange contracts

As at 31 December 2013 the Group has entered into one EUR/USD forward foreign currencies exchange contract with the notional principal amount as at 31 December 2013 LVL 0.3 million (USD 0.6 million) (for valid contracts at 31/12/2012: LVL 1.7 million (USD 3.2 million)).

All terminated during 2013 and outstanding EUR/USD forward foreign currencies exchange contracts at 31 December 2013 were designed as cash flow hedges for USD transactions of Riga TEC-2 combined heat and power plant second power generation unit reconstruction contract. As at the date of conclusion of these contracts it was not possible to use LVL/USD forward foreign currencies exchange contracts due to limited maturities and availability, then instead the EUR/USD forward foreign currencies exchange contracts were used to employ the existing peg between Latvian Lats and Euros.

Fair value gains and losses on EUR/USD forward foreign currencies exchange contracts until the commissioning of reconstruction project of Riga TEC-2 second power generation unit in September 2013 are recognised in the hedging reserve in 'Other comprehensive income' (Note 20) as they qualify under IAS 39 requirements of hedge accounting.

As at 31 December 2013 fair value changes of outstanding EUR/USD forward foreign currencies exchange contract are included in the Consolidated Income Statement (see Note 11).

Fair value changes of forward foreign currencies exchange contracts:

	2013		2012		2013		2012	
	LVL'000		LVL'000		EUR'000		EUR'000	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Outstanding fair value at the beginning of the year	(42)	-	(390)	-	(59)	-	(554)	-
Included in the Consolidated Income Statement (Note 11)	-	11	105	-	-	16	149	-
Included in other comprehensive income (Note 20)	42	-	243	-	59	-	346	-
Outstanding fair value at the end of the year	-	11	(42)	-	-	16	(59)	-

d) Fair values and fair value measurement

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

Quantitative disclosures fair value measurement hierarchy for assets as at 31 December 2013:

		Fair value measurement using				Fair value measurement using			
	Date of valuation	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	TOTAL	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	TOTAL
		LVL'000	LVL'000	LVL'000	LVL'000	EUR'000	EUR'000	EUR'000	EUR'000
Assets measured at fair value									
Derivative financial instruments, including:									
Interest rate swaps	31/12/2013	-	434	-	**434**	-	617	-	**617**
Assets for which fair values are disclosed									
Investment property	31/12/2013	-	-	2,101	**2,101**	-	-	2,990	**2,990**
Held-to-maturity financial assets	31/12/2013	-	23,386	-	**23,386**	-	33,275	-	**33,275**
Current financial investments (Note 15)	31/12/2013	-	-	5,665	**5,665**	-	-	8,060	**8,060**

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

Quantitative disclosures fair value measurement hierarchy for liabilities as at 31 December 2013:

		Fair value measurement using				Fair value measurement using			
	Date of valuation	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	TOTAL	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	TOTAL
		LVL'000	LVL'000	LVL'000	LVL'000	EUR'000	EUR'000	EUR'000	EUR'000
Liabilities measured at fair value									
Derivative financial instruments, including:									
Interest rate swaps	31/12/2013	-	9 492	-	**9 492**	-	13 506	-	**13 506**
Electricity swaps	31/12/2013	-	6 966	-	**6 966**	-	9 912	-	**9 912**
Forward foreign currencies exchange contracts	31/12/2013	-	11	-	**11**	-	16	-	**16**
Liabilities for which fair values are disclosed									
Issued debt securities (bonds)	31/12/2013	-	74 330	-	**74 330**	-	105 762	-	**105 762**
Floating rate borrowings	31/12/2013	-	589 070	-	**589 070**	-	838 171	-	**838 171**
Fixed rate borrowings	31/12/2013	-	747	-	**747**	-	1 063	-	**1 063**

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

The fair value hierarchy for the Group's financial instruments that are measured at fair value, by using specific valuation methods, is disclosed in Note 4 c.

Set out below, is a comparison by class of the carrying amounts and fair value of the Group's financial instruments, other than those with carrying amounts which approximates their fair values:

	Carrying amount				Fair value			
	31/12/2013	31/12/2012	31/12/2013	31/12/2012	31/12/2013	31/12/2012	31/12/2013	31/12/2012
	LVL'000	LVL'000	EUR'000	EUR'000	LVL'000	LVL'000	EUR'000	EUR'000
Financial assets								
Current financial investments	5,665	-	8,060	-	5,665	-	-	8,060
Held-to-maturity financial assets	20,092	20,134	28,588	28,649	23,386	24,033	33,275	34,196
Forward foreign currencies exchange contracts	-	42	-	59	-	42	-	59
Derivative financial instruments used for hedging	434	4,195	617	5,969	434	4,195	617	5,969
Financial liabilities								
Interest-bearing liabilities, including:								
- issued debt securities (bonds)	74,143	14,046	105,497	19,985	74,330	14,046	105,762	19,985
- floating rate borrowings	589,070	580,213	838,171	825,569	589,070	580,213	838,171	825,569
- fixed rate borrowings	708	989	1,007	1,407	747	1,063	1,063	1,513
Derivative financial instruments not designated for hedging, including:								
- electricity swaps	6,966	3,841	9,912	5,465	6,966	3,841	9,912	5,465
- interest rate swaps	2,144	3,491	3,051	4,967	2,144	3,491	3,051	4,967
Derivative financial instruments used for hedging, including:								
- interest rate swaps	7,348	13,244	10,455	18,845	7,348	13,244	10,455	18,845
- electricity swaps	-	4,123	-	5,866	-	4,123	-	5,866
- forward foreign currencies exchange contracts	11	-	16	-	11	-	16	-

The management assessed that cash and short-term deposits, trade receivables, trade payables, bank overdrafts and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments. The fair value of the financial assets and liabilities is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The following methods and assumptions were used to estimate the fair values:

a) The fair values of borrowings with floating interest rates are measured at amortised cost less impairment;

b) The borrowings with fixed interest rates had the fixed repayment period and the financial instrument is not traded in the active market; the financial instrument, which is not traded in the active market, the fair value is measured, using valuation techniques. The Groups uses various methods and models and make assumptions, which are based on the market conditions regarding the interest rates and other market conditions, existing at the end of reporting period. The fair value calculations are based on discounted cash flows using discount factor of respective EUR swap rates increased by the Group`s credit risk margin;

c) The Group enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. The derivative financial instruments are determined by using various valuation methods and models with market observable inputs. The models incorporate the credit quality of counterparties, foreign exchange spot and forward rates; the fair value of interest rate swaps is calculated as the present value of the estimated future cash flows, by discounting their future contractual cash flows at current market interest rates for similar financial instruments. The fair value of electricity swap agreements is calculated as discounted difference between actual market and settlement prices for the volume set in the agreements. Calculated fair values of financial instruments are compared to bank's revaluation reports. The bank's calculated fair values of the financial instruments are used in the financial reports.

d) The fair value of the bonds issued and held-to-maturity financial assets are calculated, based on the bank's quoted prices of the financial instruments at the end of the reporting period.

22. PROVISIONS

a) Provisions for post-employment benefits

	2013	2012	2013	2012
	LVL'000	LVL'000	EUR'000	EUR'000
At the beginning of the year	**7,760**	**7,734**	**11,042**	**11,004**
Current service cost	340	308	484	438
Interest cost	407	442	579	629
Post-employment benefits paid	(152)	(985)	(217)	(1,401)
Losses as a result of changes in actuarial assumptions	216	261	307	372
At the end of the year	**8,571**	**7,760**	**12,195**	**11,042**

Total charged/credited provisions are included in the Consolidated Income Statement position 'Personnel expenses' within state social insurance contributions and other benefits defined in the Collective agreement (Note 9), while losses as a result of changes in actuarial assumptions according to IAS 19 "Employee Benefits" are included in the Consolidated Statement of Comprehensive Income:

	2013	2012	2013	2012
	LVL'000	LVL'000	EUR'000	EUR'000
At the beginning of the year	**7,760**	**7,734**	**11,042**	**11,004**
Charged to the Consolidated Statement of Comprehensive Income	216	-	307	-
Charged to the Consolidated Income Statement	595	26	846	38
At the end of the year	**8,571**	**7,760**	**12,195**	**11,042**

Discount rate used for discounting benefit obligations was 4.75% (2012: 5.7%), considering the market yields on government bonds at the end of the reporting year. The Group's Collective Agreement provides indexation of employees' wages at least at the level of inflation. Long-term inflation determined at the level of 2.5% (2012: 3%) when calculating long-term post-employment benefits. In calculation of these liabilities also the probability, determined on the basis of previous experience, of retirement in different employees' aging groups was also considered.

A quantitative sensitivity analysis for significant assumptions as at 31 December 2013 is as shown below:

Assumptions		Discount rate		Future salary changes		Retirement probability changes	
		1% increase	1% decrease	1% increase	1% decrease	1% increase	1% decrease
Impact on provisions for post-employment benefits	LVL'000	1,294	(1,046)	1,293	(1,062)	1,474	(1,187)
	EUR'000	1,841	(1,488)	1,840	(1,511)	2,097	(1,689)

The sensitivity analysis above have been determined based on a method that extrapolates the impact on defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

b) Environmental provisions

	2013	2012	2013	2012
	LVL'000	LVL'000	EUR'000	EUR'000
At the beginning of the year	**2,748**	**1,783**	**3,910**	**2,537**
Charged to the Consolidated Income Statement	(357)	965	(508)	1,373
At the end of the year	**2,391**	**2,748**	**3,402**	**3,910**

The environmental provision in the amount of LVL 2,391 thousand (EUR 3,402 thousand) (2012: LVL 2,748 thousand (EUR 3,910 thousand)) represents the estimated cost of cleaning up Riga TEC-1 combined heat and power plant ash-fields in accordance with the requests made by the regional Environmental Authority of Riga and feasibility study on this project in the amount of LVL 1,034 thousand (EUR 1,472 thousand) (2012: LVL 1,000 thousand (EUR 1,423 thousand)) and "Liepājas Enerģija" SIA provision for the environmental recovery measures in the amount of LVL 1,357 thousand (EUR 1,930 thousand) (2012: LVL 1,748 thousand (EUR 2,487 thousand)). The amount of the provisions is calculated taking into account the construction cost index (data from the Central Statistical Bureau of the Republic of Latvia).

23. OTHER LIABILITIES AND DEFERRED INCOME

	31/12/2013	31/12/2012	31/12/2013	31/12/2012
	LVL'000	LVL'000	EUR'000	EUR'000
Deferred non-current income from connection fees	97,824	92,777	139,191	132,010
Deferred income on financing from European Union funds	21,492	15,320	30,580	21,798
Deferred income from plant and equipment received free of charge	268	310	381	442
Total other liabilities and deferred income:	**119,584**	**108,407**	**170,152**	**154,250**

Movement in deferred connection fees (non-current and current part):

	2013	2012	2013	2012
	LVL'000	LVL'000	EUR'000	EUR'000
At the beginning of the year	**99,156**	**92,277**	**141,086**	**131,298**
Received fees	12,596	13,713	17,923	19,512
Credited to the Consolidated Income Statement	(6,942)	(6,834)	(9,878)	(9,724)
At the end of the year	**104,810**	**99,156**	**149,131**	**141,086**

24. TRADE AND OTHER PAYABLES

	31/12/2013	31/12/2012	31/12/2013	31/12/2012
	LVL'000	LVL'000	EUR'000	EUR'000
Financial liabilities:				
Payables for materials and services	38,924	71,976	55,384	102,413
Payables for electricity	20,035	20,452	28,507	29,101
Accrued expenses	6,416	4,465	9,129	6,353
Other financial current payables	1,828	884	2,601	1,258
Total financial liabilities	**67,203**	**97,777**	**95,621**	**139,125**
Non-financial liabilities:				
Value added tax payable	35	11,554	50	16,440
State social security contributions and other taxes	7,249	5,586	10,314	7,948
Advances received	6,627	8,731	9,429	12,423
Deferred income from connection fees	6,986	6,379	9,940	9,076
Deferred income on financing from European Union funds:				
- The European Energy Development Program – 330 kV "Kurzeme Ring"	337	49	480	70
- The EU Cohesion Fund – reconstruction of SIA "Liepājas Enerģija" heat source	225	30	320	43
- The EU Cohesion Fund – construction of SIA "Liepājas Enerģija" biomass boiler house	138	122	197	173
- The EU Cohesion Fund – reconstruction of SIA "Liepājas Enerģija" heating network	163	163	232	232
- The EU's Climate change financial instrument – introduction of smart technologies	16	-	23	-
- The EU Regional Development Fund – woodchip boiler house construction in Kegums	9	12	13	17
Other non-financial current payables	2,845	2,601	4,048	3,701
TOTAL non-financial liabilities	**24,630**	**35,227**	**35,046**	**50,123**
TOTAL trade and other current payables:	**91,833**	**133,004**	**130,667**	**189,248**

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

25. RELATED PARTY TRANSACTIONS

The Parent Company and, indirectly, the other Group entities are controlled by the Latvian state. Related parties of the Group are associates, Shareholder of the Parent Company who could control or who has significant influence over the Group's entities in accepting operating business decisions, key management personnel of the Group's entities including members of Supervisory body – Audit committee and close family members of any above-mentioned persons, as well as entities over which those persons have control or significant influence.

The following transactions were carried out with related parties:

	2013	2012	2013	2012
	LVL'000	LVL'000	EUR'000	EUR'000
a) Sales of goods and services:				
- Sales of goods to associates (electricity)	945	2,856	1,344	4,064
- Sales of services to associates	-	-	-	-
Total sales	**945**	**2,856**	**1,344**	**4,064**
b) Purchases of goods and services:				
- Purchases of goods from associates (electricity)	891	824	1,268	1,172
- Purchases of services from associates	1,953	2,148	2,779	3,057
Total purchases	**2,844**	**2,972**	**4,047**	**4,229**

Balances at the end of the year arising from sales/purchases:

	31/12/2013	31/12/2012	31/12/2013	31/12/2012
	LVL'000	LVL'000	EUR'000	EUR'000
a) Trade receivables from related parties:				
- Associates	91	267	130	380
Total receivables	**91**	**267**	**130**	**380**
b) Trade payables to related parties:				
- Associates	113	493	161	701
Total payables	**113**	**493**	**161**	**701**

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

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

Remuneration to the key management personnel that is defined as Members of the Management Boards of the Group entities and Supervisory body is disclosed in Note 9.

26. ISSUED GUARANTEES

	31/12/2013	31/12/2012	31/12/2013	31/12/2012
	LVL'000	LVL'000	EUR'000	EUR'000
Issued guarantees by the Group to guarantee obligations to third parties:				
Outstanding amount of guarantee on behalf of Nordic Energy Link AS	-	8 994	-	12 797
Fair value of guarantee on behalf of Nordic Energy Link AS	-	200	-	285

Guarantee on behalf of Nordic Energy Link AS was provided for receiving long-term loan facility with validity term – 15 December 2014. Considering that Nordic Energy Link AS made a full repayment of the loan before its maturity issued guarantee is fulfilled and no longer is active, thereby outstanding amount of the issued guarantee is reduced to nil.

The fair value calculations were based on the estimated amount of service fee receivable discounted at Euro swap rates increased by the Group's credit risk margin, thus during 2012 the average interest rate for discounting cash flow was 2.23%.

27. CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

As at 31 December 2013 the Group had commitments amounting to LVL 45.6 million (EUR 64.9 million) (31/12/2012: LVL 197.4 million (EUR 280.9 million)) for capital expenditure contracted but not delivered at the end of the reporting period.

Latvenergo AS has issued support letters to its subsidiaries Sadales tīkls AS, Latvijas elektriskie tīkli AS and Liepājas enerģija SIA acknowledging that its position as shareholders is to ensure that subsidiaries are managed so that they have sufficient financial resources and are able to carry their operations and settle their obligations.

28. EVENTS AFTER THE REPORTING PERIOD

On 1 January 2014, Latvia has joined the Euro zone, converting the Latvian Lats (LVL) into the Euros at fixed exchange rate EUR 1 = LVL 0.702804. As of this date, the Group balance account values were converted into the Euro currency and financial reports for 2014 and the following years will be prepared in Euro currency.

On 9 January 2014 two agreements with Nordea Bank Finland Plc Latvian branch has been amended, extending loan repayment terms for two loans from the years 2015 (LVL 25.8 million (EUR 36.7 million)) and 2016 (LVL 9.3 million (EUR 13.3 million)) to the year 2018. Along with the extension of loan repayment terms refinancing risk of the year 2015 has been reduced.

On 25 February 2014 due to introduction of Euro in Latvia new articles of association for Latvenergo AS had been approved. As a result of conversion registered share capital amounted to EUR 1,288,011 thousand, consisting of 1,288,011 thousand ordinary shares with nominal value of EUR 1. All shares are paid in full.

On 25 February 2014 established new subsidiary of Latvenergo AS – Enerģijas publiskais tirgotājs AS that in accordance with the articles No. 36, 37 and 38 of transitional provisions for Electricity Market Law of the Republic of Latvia, approved on 6 November 2013, has overtaken public supplier obligations from Latvenergo AS since 1 April 2014 and in the period of next twelve months will compensate to Latvenergo AS difference between procurement expenditure above electricity market price and collected mandatory procurement component payments for the period from 1 January 2013 till 31 March 2014. As from 1 April 2014 are implemented changes in the Group's accounting policy for revenue and expenses recognition on mandatory procurement component and public supplier (Enerģijas publiskais tirgotājs AS) is recognising them in accordance to agent recognition principle in assets or liabilities.

On 25 March 2014 announced and as from 1 April 2014 are in force amendments to Electricity Market Law of the Republic of Latvia, determining full opening of electricity market in Latvia as from 1 January 2015. In accordance to those amendments from 1 January 2015 is expected full liberalisation of electricity market and ceasing of electricity supply price regulation for households, while other electricity price components – transmission and distribution network services and mandatory procurement components to subsidise eligible electricity producers – will remain state-regulated.

There have been no other significant events subsequent to the end of the reporting year that might have a material effect on the Group's Consolidated Financial Statements for the year ended 31 December 2013.

29. FINANCIAL INFORMATION ON THE PARENT COMPANY

Financial information disclosed on the Parent Company includes the primary separate Financial Statements of the Parent Company, the disclosure of which is required by the Annual Accounts Law of the Republic of Latvia. The primary Financial Statements of the Parent Company have been prepared using the same accounting policies that have been used in the preparation of the Consolidated Financial Statements. Investments in subsidiaries are reported at cost less any impairment charge in the separate Financial Statements of the Parent Company.

Income Statement

	2013	2012	2013	2012
	LVL'000	LVL'000	EUR'000	EUR'000
Revenue	663,773	655,415	944,464	932,572
Other income	2,293	1,775	3,263	2,526
Raw materials and consumables used	(361,214)	(343,152)	(513,961)	(488,262)
Personnel expense	(24,344)	(22,135)	(34,638)	(31,495)
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	(65,451)	(52,102)	(93,129)	(74,134)
Other operating expenses	(195,464)	(203,332)	(278,119)	(289,315)
Operating profit	**19,593**	**36,469**	**27,880**	**51,892**
Income from investments in subsidiaries	6,400	3,449	9,106	4,907
Finance income	7,942	9,025	11,300	12,841
Finance costs	(12,902)	(11,417)	(18,358)	(16,245)
Profit before tax	**21,033**	**37,526**	**29,928**	**53,395**
Income tax	(2,999)	(6,345)	(4,268)	(9,028)
Profit for the year	**18,034**	**31,181**	**25,660**	**44,367**

Statement of Financial Position

	31/12/2013	31/12/2012	31/12/2013	31/12/2012
	LVL'000	LVL'000	EUR'000	EUR'000
ASSETS				
Intangible assets	12,589	8,664	17,913	12,328
Property, plant and equipment	1,032,822	1,055,757	1,469,574	1,502,207
Investment property	841	896	1,197	1,275
Financial investment	836,167	845,375	1,189,758	1,202,861
Total non-current assets	**1,882,419**	**1,910,692**	**2,678,442**	**2,718,671**
Inventories	3,930	4,691	5,592	6,675
Trade and other receivables	208,219	178,337	296,270	253,750
Derivative financial instruments	434	4,237	617	6,029
Current financial investments	3,861	-	5,494	-
Cash and cash equivalents	172,014	163,437	244,754	232,550
Total current assets	**388,458**	**350,702**	**552,727**	**499,004**
TOTAL ASSETS	**2,270,877**	**2,261,394**	**3,231,169**	**3,217,675**
EQUITY				
Share capital	905,219	904,605	1,288,011	1,287,137
Non-current assets revaluation reserve	465,806	466,275	662,782	663,449
Hedge reserve	(6,914)	(13,130)	(9,838)	(18,682)
Other reserves	53,343	50,172	75,901	71,389
Retained earnings	18,034	31,181	25,660	44,367
Total equity	**1,435,488**	**1,439,103**	**2,042,516**	**2,047,660**
LIABILITIES				
Provisions	4,031	3,802	5,736	5,410
Borrowings	555,169	509,736	789,935	725,289
Deferred income tax liabilities	86,354	83,423	122,871	118,700
Derivative financial instruments	4,384	12,555	6,238	17,864
Other non-current liabilities	565	535	804	761
Total non-current liabilities	**650,503**	**610,051**	**925,584**	**868,024**
Borrowings	92,374	78,016	131,436	111,006
Trade and other payables	70,878	86,763	100,850	123,454
Derivative financial instruments	12,085	12,144	17,196	17,279
Other current liabilities	9,549	35,117	13,587	49,967
Issued guarantees	-	200	-	285
Total current liabilities	**184,886**	**212,240**	**263,069**	**301,991**
TOTAL EQUITY AND LIABILITIES	**2,270,877**	**2,261,394**	**3,231,169**	**3,217,675**

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INDEPENDENT AUDITORS' REPORT

To the shareholder of AS Latvenergo

Report on the financial statements

We have audited the accompanying consolidated financial statements of AS Latvenergo and its subsidiaries (the "Group"), set out on pages 86 through 147 of the accompanying 2013 Consolidated Annual Report, which comprise the consolidated statement of financial position as at 31 December 2013, and consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the 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.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of AS Latvenergo and its subsidiaries as of 31 December 2013, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Report on other legal and regulatory requirements

Furthermore, we have read the management report for the year ended 31 December 2013 (set out on pages 84 through 85 of the accompanying 2013 Consolidated Annual Report) and have not noted any material inconsistencies between the financial information included in it and the consolidated financial statements for the year ended 31 December 2013.

We have assured ourselves that the Group has prepared the corporate management report for the year 2013 and verified information presented in the report according to requirements listed in the section 56.1 first paragraph clauses 3, 4, 6, 8 and 9 and the section 56.2 second paragraph clause 5 in the Law on Financial Instruments Market of Republic of Latvia.

SIA Ernst & Young Baltic
Licence No. 17

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

Riga,
15 April 2014