

2013

Public Limited Company Latvenergo Annual Report

PREPARED IN ACCORDANCE WITH
THE ANNUAL ACCOUNTS LAW
OF THE REPUBLIC OF LATVIA

(TRANSLATED FROM LATVIAN)

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Prepared in accordance with the Annual Accounts Law of the Republic of Latvia
and Independent auditor's report

On 1 January 2014, Latvia joined the EU
ECOFIN, Latvian Lats exchange rate into the
Euros: **1 EUR = 0,702804 LVL**

www.latvenergo.lv

INFORMATION ON THE COMPANY

| | |
|--|---|
| Name of the Company | Public Limited Company Latvenergo |
| Legal status of the Company | Public Limited Company |
| Number, place and date of registration | 40003032949 8th October 1991 Reregistered in Commercial Register on 12th November 2002 |
| Legal address | Pulkveža Brieža street 12, Riga, LV-1230, Latvia |
| Shareholder | Republic of Latvia |
| Representative of State capital shareholder - till 3rd December 2013 | Juris Pūce State secretary of the Ministry of Economics of Republic of Latvia |
| - from 3rd December 2013 | Jurijs Spiridonovs Deputy state secretary of the Ministry of Economics of Republic of Latvia |
| Names of the members of Management Board | Āris Žīgurs - Chairman of the Board Zane Kotāne - Member of the Board Uldis Bariss - Member of the Board Māris Kuņickis - Member of the Board Arnis Kurgs - Member of the Board |
| Financial year | 1 January - 31 December 2013 |
| Name and address of the certified audit company and certified auditor in charge | Ernst & Young Baltic, SIA Licence No. 17 Muitas street 1A, Riga, LV-1010, Latvia Certified auditor in charge: Diāna Krišjāne Latvian Certified Auditor Certificate No. 124 |

KEY PERFORMANCE INDICATORS

Operational figures

| | | 2013 | 2012 | 2011 | 2010 | 2009 |
|--|-----|-------|-------|-------|-------|-------|
| Retail electricity supply | GWh | 5,873 | 6,708 | 6,685 | 6,920 | 6,659 |
| Electricity production | GWh | 4,811 | 5,039 | 5,252 | 5,851 | 4,872 |
| Aggregate heat supply | GWh | 2,310 | 2,451 | 2,320 | 2,679 | 2,372 |
| Number of employees at the end of the year | | 1,426 | 1,380 | 1,323 | 1,324 | 1,374 |

Financial 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 | 663,773 | 655,415 | 700,914 | 655,247 | 609,750 | 944,464 | 932,572 | 997,311 | 932,332 | 867,596 |
| Including electricity supply | 544,758 | 532,855 | 541,604 | 480,186 | 439,531 | 775,122 | 758,185 | 770,633 | 683,243 | 625,396 |
| heat supply | 73,205 | 79,689 | 59,702 | 60,810 | 60,307 | 104,161 | 113,387 | 84,948 | 86,525 | 85,809 |
| Result from transfer of business activity | - | - | 577,989 | - | - | - | - | 822,404 | - | - |
| EBITDA ¹⁾ | 86,149 | 89,799 | 188,809 | 204,757 | 143,478 | 122,579 | 127,772 | 268,651 | 291,343 | 204,151 |
| Operating profit ²⁾ | 20,698 | 37,697 | 87,669 | 62,619 | 32,055 | 29,452 | 53,639 | 124,742 | 89,099 | 45,610 |
| Profit for the year | 18,433 | 31,718 | 80,510** | 44,562 | 20,230 | 26,228 | 45,131 | 114,555** | 63,406 | 28,785 |
| Dividends | 16,590 | 28,546 | 39,900 | 35,000 | 20,230 | 23,605 | 40,617 | 56,773 | 49,801 | 28,785 |
| Non-current assets at the end of the year | 1,882,419 | 1,910,692 | 1,844,504 | 1,929,846 | 1,459,655 | 2,678,442 | 2,718,671 | 2,624,493 | 2,745,923 | 2,076,902 |
| Total assets at the end of the year | 2,270,877 | 2,261,394 | 2,143,457 | 2,270,323 | 1,694,273 | 3,231,169 | 3,217,674 | 3,049,865 | 3,230,379 | 2,410,733 |
| Equity at the end of the year | 1,435,430 | 1,439,103 | 1,397,101 | 1,340,374 | 887,235 | 2,042,434 | 2,047,660 | 1,987,896 | 1,907,180 | 1,262,422 |
| Borrowings at the end of the year | 647,055 | 587,739 | 515,425 | 540,359 | 503,932 | 920,677 | 836,277 | 733,384 | 768,862 | 717,030 |
| Cash flow from operating activities | 6,393 | 63,711 | 165,620 | 163,987 | 161,599 | 9,097 | 90,653 | 235,656 | 233,332 | 229,935 |
| Capital expenditure | 46,826 | 99,007 | 180,529 | 121,276 | 102,666 | 66,627 | 140,874 | 256,870 | 172,560 | 146,081 |

Financial ratios*

| | | 2013 | 2012 | 2011 | 2010 | 2009 |
|--|---|------|------|------|------|------|
| EBITDA margin ³⁾ | % | 13 | 14 | 27 | 31 | 23 |
| Operating margin ⁴⁾ | % | 3 | 6 | 12 | 10 | 5 |
| Profit for the year margin ⁵⁾ | % | 3 | 5 | 11 | 7 | 3 |
| Return on assets (ROA) ⁶⁾ | % | 0.8 | 1.4 | 3.6 | 2.3 | 1.2 |
| Return on equity (ROE) ⁷⁾ | % | 1.3 | 2.2 | 5.9 | 4.0 | 2.3 |

* on 1 October 2011 Latvenergo AS invested distribution system assets in the share capital of Sadales Tīkls AS and on 1 April 2011 transmission system assets in the share capital of Latvijas elektriskie tīkli AS, excluding real estate connected and related to distribution system network and transmission infrastructure, and hereafter those assets are managed by Sadales tīkls AS and Latvijas elektriskie tīkli AS, affecting financial figures and ratios in 2011

** not included profit from transfer of business activity

¹⁾ EBITDA – earnings before interest, income tax, share of result of associates, depreciation and amortisation, and impairment of intangible and property, plant and equipment and result from transfer of business activity

²⁾ Operating profit – earnings before income tax, finance income and costs and result from transfer of business activity

³⁾ EBITDA margin – EBITDA / revenue

⁴⁾ Operating margin – operating profit / revenue

⁵⁾ Profit for the year margin – profit for the year / revenue

⁶⁾ Return on assets (ROA) – profit for the year / average value of assets (assets at the beginning of the year + assets at the end of the year/2)

⁷⁾ Return on equity (ROE) – profit for the year / average value of equity (equity at the beginning of the year + equity at the end of the year/2)

Public limited company Latvenergo or Latvenergo AS (hereinafter – the Company) is a power supply utility operating in generation and supply of electricity and thermal energy in Latvia.

INCREASE OF LATVENERGO AS REVENUE

In 2013, the revenue of Latvenergo AS has increased by 1% reaching LVL 663.8 million (EUR 944.5 million), (2012: LVL 655.4 million (EUR 932.6 million)), net profit was LVL 18.4 million (EUR 26.2 million), while LVL 28.5 million (EUR 40.6 million) were paid in dividends into the state budget.

In 2013, the results of Latvenergo AS 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

Latvenergo Group has successfully retained its leadership in electricity supply on the Baltic market, supplying 7,954 GWh of electricity to Baltic retail customers. 5,873 GWh of electricity were supplied to retail customers in Latvia (2012: 6,708 GWh), while the supply volume outside Latvia reached 2,081 GWh, which represents more than a quarter of the retail electricity supply and has increased by 32% compared to 2012.

Change in electricity supply volume in Latvia was determined by 5% lower electricity consumption in Latvia and increased competition. However, the amount of electricity supplied by competing electricity suppliers in Latvia (1,407 GWh) was 674 GWh lower than the amount supplied abroad by Latvenergo Group.

In 2013, 4,811 GWh of electricity were generated at power plants of Latvenergo AS (2012: 5,039 GWh). Compared to 2012, electricity output at Riga combined heat and power plants increased by 39% or 548 GWh due to commissioning of the Riga TEC-2 second power unit and higher electricity price. While lower water inflow in the Daugava River determined a decrease of Daugavas HPPs output by 21% or 775 GWh. In 2013, the total amount of thermal energy generated by Latvenergo AS was 2,310 GWh – 6% lower than previous year. The decrease of thermal energy output was due to a

higher average temperature in Latvia during the heating season.

In 2013, the total amount of investments was LVL 48.8 million (EUR 66.6 million).

RIGA TEC-2 , THE MOST ADVANCED POWER PLANT IN THE BALTICS, HAS BEEN COMMISSIONED

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 Company 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).

TOTAL AMOUNT OF BONDS ISSUED REACHED EUR 105 MILLION

Latvenergo AS 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 AS has increased and reaches LVL 475 million (EUR 675.9 million) as at 31 December 2013 (2012: LVL 424.3 million (EUR

603.7 million)). The funds were attracted for Latvenergo Group investment financing. The capital ratio is 63% which is considered to be an appropriate rate for the industry and shows a stable capital structure. In 2013, all the binding financial covenants set in Latvenergo AS loan agreements have been met.

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

Activities of Latvenergo AS are exposed to a variety of financial risks, particularly, the credit risk, liquidity risk, foreign currency and interest rate risks as well as fair value risk of financial assets and liabilities.

The management of Latvenergo AS seeks to minimize potential adverse effects of financial risks on the financial position of the company through regular credit risk analysis and monitoring, as well as conducting regular customer credit control.

Latvenergo AS follows prudent risk management by providing appropriate and sufficient availability of funds to meet its obligations on a timely manner. (See Note 3).

The Management Board of Latvenergo AS:

(signed by)
Āris Žīgurs
Chairman of the Management Board

(signed by)
Zane Kotāne
Member of the Management Board

(signed by)
Uldis Bariss
Member of the Management Board

(signed by)
Māris Kuņickis
Member of the Management Board

(signed by)
Arnis Kurgs
Member of the Management Board

15 April 2014

In 2013, the overall Latvenergo AS performance has been successful and it has made a significant contribution to accomplishment of the strategic goals defined in the Latvenergo Group strategy. The development of Latvenergo AS 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 Company 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 Company are disclosed in the Notes to the Financial Statements of the Company (see Note 32).

Statement of management responsibility

Based on the information available to the Management Board of Latvenergo AS in all material aspects Latvenergo AS 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 Latvenergo AS.

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.

FINANCIAL STATEMENTS

Income Statement

| | Notes | 2013 | 2012 | 2013 | 2012 |
|--|--------|----------------|----------------|----------------|----------------|
| | | LVL'000 | LVL'000 | EUR'000 | EUR'000 |
| Revenue | 5 | 663,773 | 655,415 | 944,464 | 932,572 |
| Costs (capitalised) attributable to non-current assets | 13 | 6,728 | - | 9,573 | - |
| Other income | 6 | 2,750 | 2,312 | 3,913 | 3,290 |
| Raw materials and consumables used | 7 | (367,942) | (343,152) | (523,534) | (488,261) |
| Personnel expenses | 8 | (24,402) | (22,135) | (34,721) | (31,495) |
| Depreciation, amortisation and impairment of intangible assets and property, plant and equipment | 12, 13 | (65,451) | (52,102) | (93,128) | (74,134) |
| Other operating expenses | 9 | (194,758) | (202,641) | (277,115) | (288,333) |
| Operating profit | | 20,698 | 37,697 | 29,452 | 53,639 |
| Income from investments in subsidiaries | 14 c) | 6,400 | 3,449 | 9,106 | 4,907 |
| Finance income | 10 a) | 7,942 | 9,025 | 11,300 | 12,841 |
| Finance costs | 10 b) | (12,902) | (11,417) | (18,358) | (16,245) |
| Profit before taxes | | 22,138 | 38,754 | 31,500 | 55,142 |
| Real estate tax | | (706) | (691) | (1,004) | (983) |
| Corporate income tax | 11 | - | (7,404) | - | (10,535) |
| Deferred income tax | 11 | (2,999) | 1,059 | (4,268) | 1,507 |
| Profit for the year | | 18,433 | 31,718 | 26,228 | 45,131 |

Notes on pages 12 to 52 form an integral part of these financial statements.

The Management Board of Latvenergo AS:

| | | | | |
|----------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| _____ (signed by) _____ | _____ (signed by) _____ | _____ (signed by) _____ | _____ (signed by) _____ | _____ (signed by) _____ |
| Āris Žigurs | 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

Balance sheet as at 31 December 2013

| | 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 | 12 | 12,589 | 8,664 | 17,913 | 12,328 |
| Property, plant and equipment | | | | | |
| Land and buildings | | 664,995 | 618,683 | 946,203 | 880,307 |
| Equipment and machinery | | 325,026 | 156,284 | 462,470 | 222,372 |
| Other property, plant and equipment | | 24,044 | 20,332 | 34,212 | 28,930 |
| Assets under construction and advances for property, plant and equipment | | 18,757 | 260,458 | 26,689 | 370,598 |
| Total property, plant and equipment | 13 | 1,032,822 | 1,055,757 | 1,469,574 | 1,502,207 |
| Investment property | 13 d) | 841 | 896 | 1,197 | 1,275 |
| Non-current financial investments | | | | | |
| Investments in subsidiaries | 14 a) | 574,169 | 574,169 | 816,969 | 816,969 |
| Investments in associates and other non-current investments | 14 b) | 28 | 3,889 | 40 | 5,534 |
| Loans to subsidiaries | 27 f) | 241,878 | 247,183 | 344,161 | 351,710 |
| Investments in held-to-maturity financial assets | 29 | 20,092 | 20,134 | 28,588 | 28,648 |
| Total non-current financial investments | | 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 |
| Current assets | | | | | |
| Inventories | 15 | 3,930 | 4,691 | 5,592 | 6,675 |
| Receivables | | | | | |
| Trade receivables | 16 a) | 43,667 | 60,810 | 62,133 | 86,525 |
| Loans to subsidiaries | 27 f), g) | 93,526 | 84,253 | 133,076 | 119,881 |
| Receivables from subsidiaries | 27 c), d) | 25,527 | 14,190 | 36,322 | 20,191 |
| Corporate income tax overpayment | 25 | 7,700 | 7,010 | 10,956 | 9,974 |
| Other receivables | 16 b) | 37,799 | 12,074 | 53,783 | 17,180 |
| Total receivables | | 208,219 | 178,337 | 296,270 | 253,751 |
| Derivative financial instruments | 26 a) | 434 | 4,237 | 617 | 6,028 |
| Available-for-sale financial investments | 14 b) | 3,861 | - | 5,494 | - |
| Cash and cash equivalents | 17 | 172,014 | 163,437 | 244,754 | 232,550 |
| Total current assets: | | 388,458 | 350,702 | 552,727 | 499,003 |
| TOTAL ASSETS | | 2,270,877 | 2,261,394 | 3,231,169 | 3,217,674 |

Notes on pages 12 to 52 form an integral part of these financial statements.

**Balance sheet as at 31 December 2013
(continued)**

| | Notes | 31/12/2013 | 31/12/2012 | 31/12/2013 | 31/12/2012 |
|---|-------|------------------|------------------|------------------|------------------|
| | | LVL'000 | LVL'000 | EUR'000 | EUR'000 |
| EQUITY AND LIABILITIES | | | | | |
| Equity | | | | | |
| Share capital | 18 | 905,219 | 904,605 | 1,288,011 | 1,287,137 |
| Non-current assets revaluation reserve | 19 | 465,349 | 465,738 | 662,132 | 662,685 |
| Hedge reserve | 19 | (6,914) | (13,130) | (9,838) | (18,682) |
| Other reserves | 19 | 53,343 | 50,172 | 75,901 | 71,388 |
| Retained earnings | | 18,433 | 31,718 | 26,228 | 45,131 |
| Total equity: | | 1,435,430 | 1,439,103 | 2,042,434 | 2,047,659 |
| Provisions | | | | | |
| Provisions for post-employment benefits | 21 a) | 3,055 | 2,802 | 4,347 | 3,987 |
| Environmental provisions | 21 b) | 1,034 | 1,000 | 1,471 | 1,423 |
| Total provisions | | 4,089 | 3,802 | 5,818 | 5,410 |
| Non-current liabilities | | | | | |
| Borrowings from credit institutions | 20 | 481,514 | 495,703 | 685,133 | 705,322 |
| Issued debt securities (bonds) | 20 | 73,655 | 14,033 | 104,802 | 19,967 |
| Deferred income tax liabilities | 11 | 86,354 | 83,423 | 122,871 | 118,700 |
| Derivative financial instruments | 26 | 4,384 | 12,555 | 6,238 | 17,864 |
| Other non-current payables and deferred income | | 565 | 535 | 804 | 761 |
| Total non-current liabilities: | | 646,472 | 606,249 | 919,848 | 862,614 |
| Current liabilities | | | | | |
| Borrowings from credit institutions | 20 | 91,886 | 72,672 | 130,742 | 103,403 |
| Borrowings from subsidiaries | 27 h) | - | 5,331 | - | 7,585 |
| Issued debt securities (bonds) | 20 | 488 | 13 | 694 | 18 |
| Trade payables | 22 | 38,461 | 69,236 | 54,725 | 98,515 |
| Accounts payable to subsidiaries | 27 c) | 32,417 | 37,617 | 46,125 | 53,524 |
| Taxes and the state social security contributions | 25 | 3,419 | 1,258 | 4,865 | 1,790 |
| Other payables | 24 | 2,462 | 11,297 | 3,503 | 16,075 |
| Accrued liabilities | 23 | 3,668 | 2,472 | 5,219 | 3,518 |
| Derivative financial instruments | 26 | 12,085 | 12,144 | 17,195 | 17,279 |
| Issued guarantees | 28 | - | 200 | - | 285 |
| Total current liabilities: | | 184,886 | 212,240 | 263,069 | 301,992 |
| TOTAL EQUITY AND LIABILITIES | | 2,270,877 | 2,261,394 | 3,231,169 | 3,217,675 |

Notes on pages 12 to 52 form an integral part of these financial statements.

The Management Board of Latvenergo AS:

| | | | | |
|----------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| _____ (signed by) | _____ (signed by) | _____ (signed by) | _____ (signed by) | _____ (signed by) |
| Āris Žīgurs | Zane Kotāne | Uldis Bariss | Māris Kuņickis | Arnīs 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

Statement of Changes in Equity

| | Share capital | Reserves | Retained earnings | Total | Share capital | Reserves | Retained earnings | Total |
|--|----------------|----------------|-------------------|------------------|------------------|----------------|-------------------|------------------|
| | LVL'000 | LVL'000 | LVL'000 | LVL'000 | EUR'000 | EUR'000 | EUR'000 | EUR'000 |
| Balance as at 31 December 2011 | 325,862 | 412,739 | 658,499 | 1,397,100 | 463,660 | 587,276 | 936,960 | 1,987,896 |
| Increase of share capital | 578,743 | (577,989) | - | 754 | 823,477 | (822,404) | - | 1,073 |
| Dividends for 2011 | - | - | (39,900) | (39,900) | - | - | (56,773) | (56,773) |
| Transfer to reserves | - | 618,599 | (618,599) | - | - | 880,187 | (880,187) | - |
| Cash flow hedge | - | (4,883) | - | (4,883) | - | (6,948) | - | (6,948) |
| Revaluation of property, plant and equipment | - | 54,314 | - | 54,314 | - | 77,281 | - | 77,281 |
| Profit for the year | - | - | 31,718 | 31,718 | - | - | 45,131 | 45,131 |
| Balance as at 31 December 2012 | 904,605 | 502,780 | 31,718 | 1,439,103 | 1,287,137 | 715,392 | 45,131 | 2,047,660 |
| Increase of share capital | 614 | - | - | 614 | 874 | - | - | 874 |
| Dividends for 2012 | - | - | (28,547) | (28,547) | - | - | (40,619) | (40,619) |
| Transfer to reserves | - | 3,171 | (3,171) | - | - | 4,512 | (4,512) | - |
| Cash flow hedge | - | 6,216 | - | 6,216 | - | 8,844 | - | 8,844 |
| Revaluation of property, plant and equipment | - | (389) | - | (389) | - | (553) | - | (553) |
| Profit for the year | - | - | 18,433 | 18,433 | - | - | 26,228 | 26,228 |
| Balance as at 31 December 2013 | 905,219 | 511,778 | 18,433 | 1,435,430 | 1,288,011 | 728,195 | 26,228 | 2,042,434 |

Notes on pages 12 to 52 form an integral part of these financial statements.

Cash Flow Statement

| | Notes | 31/12/2013 | 31/12/2012 | 31/12/2013 | 31/12/2012 |
|---|-----------|-----------------|-----------------|-----------------|-----------------|
| | | LVL'000 | LVL'000 | EUR'000 | EUR'000 |
| Cash flows from operating activities | | | | | |
| Profit before taxation | | 22,138 | 38,754 | 31,500 | 55,142 |
| Adjustments for: | | | | | |
| - amortisation and depreciation | 12, 13 | 52,999 | 49,508 | 75,410 | 70,443 |
| - impairment of non-current assets | 13, 14 a) | 12,452 | 2,594 | 17,718 | 3,691 |
| - profit from disposal of non-current assets | | (793) | (359) | (1,128) | (511) |
| - interest expenses | 10 b) | 15,410 | 15,099 | 21,926 | 21,484 |
| - interest income | 10 a) | (6,272) | (7,797) | (8,924) | (11,094) |
| - (gains)/ losses from changes in the fair value of the financial instruments | 7, 10 | 1,589 | (5,870) | 2,260 | (8,352) |
| - Increase/ (decrease) in provisions | 21 | 287 | (116) | 408 | (165) |
| - income from investments in subsidiaries | 14 c) | (6,400) | (3,449) | (9,106) | (4,907) |
| - (gains) / losses from exchange rate fluctuations | 10 a) | (98) | (866) | (138) | (1,232) |
| Operating profit before working capital adjustments | | 91,312 | 87,498 | 129,927 | 124,499 |
| Decrease in inventories | | 761 | 6 | 1,083 | 9 |
| (Increase)/ decrease in receivables | | (18,774) | 2,536 | (26,713) | 3,608 |
| (Decrease) / increase in payables | | (47,077) | 1,176 | (66,985) | 1,673 |
| Cash generated from operating activities | | 26,222 | 91,216 | 37,311 | 129,789 |
| Interest paid | | (17,304) | (19,875) | (24,621) | (28,280) |
| Interest received | | 5,891 | 7,467 | 8,382 | 10,625 |
| Corporate income tax and real estate tax paid | | (8,416) | (15,097) | (11,975) | (21,481) |
| Net cash generated from operations | | 6,393 | 63,711 | 9,097 | 90,653 |
| Cash flows from investing activities | | | | | |
| Loans issued to subsidiaries | | (286,232) | (227,327) | (407,271) | (323,457) |
| Received repayment of the issued loans | | 282,811 | 241,581 | 402,404 | 343,739 |
| Proceeds from sale of non-current assets | | 772 | 378 | 1,098 | 538 |
| Acquisition of intangible assets and property, plant and equipment | | (39,432) | (92,527) | (56,107) | (131,654) |
| Costs of acquisition of shares and bonds | | - | (3,626) | - | (5,159) |
| Proceeds from the disposal of shares and bonds | | 42 | 44,974 | 60 | 63,992 |
| Received/ (repaid) European Union and other funding | | 107 | (6,355) | 152 | (9,042) |
| Proceeds from investments in subsidiaries | 14 c) | 6,400 | 7,349 | 9,106 | 10,456 |
| Net cash used in investing activities | | (35,532) | (35,553) | (50,558) | (50,587) |
| Cash flows from financing activities | | | | | |
| Proceeds on issued debt securities | | 59,622 | 14,033 | 84,835 | 19,967 |
| Proceeds from borrowings from financial institutions | 20 | 77,309 | 112,449 | 110,001 | 160,001 |
| Repayment of borrowings from financial institutions | 20 | (72,347) | (45,344) | (102,941) | (64,519) |
| Dividends paid * | | (21,537) | (39,900) | (30,644) | (56,773) |
| Net cash generated from financing activities | | 37,716 | 33,438 | 53,665 | 47,577 |
| Net increase / (decrease) in cash and cash equivalents | | 8,577 | 61,596 | 12,204 | 87,643 |
| Cash and cash equivalents at the beginning of the reporting year | | 163,437 | 101,841 | 232,550 | 144,907 |
| Cash and cash equivalents at the end of reporting year | 17 | 172,014 | 163,437 | 244,754 | 232,550 |

* dividends for the year 2012 LVL 7 million (EUR 10 million) are covered by corporate income tax overpayment

Notes on pages 12 to 52 form an integral part of these financial statements.

Notes to the Financial statements

1. GENERAL INFORMATION ON THE COMPANY

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

AS is engaged in the generation and supply of electricity and thermal energy in the Baltic states. Latvenergo AS is one of the largest corporate entities in the territory of Latvia.

The Annual report for year 2013 include the financial information in respect of Latvenergo AS for the annual period ending 31 December 2013 and

comparative information for year ending 31 December 2012.

Latvenergo AS Management Board has approved Annual report on 15 April 2014.

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

2. ACCOUNTING POLICIES

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

2.1. Financial statements preparation basis

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

The profit and loss account is prepared in accordance with the period costs method.

The cash flow statement has been prepared using indirect cash flow method.

Financial Statements are in compliance with comparability of indicators, in cases in accounting period is changed financial statement presentation of information, comparative figures have been also reclassified and are comparable.

All amounts shown in these Financial Statements are presented in Latvian Lats (LVL), and are

translated into Euros (EUR) using official currency rate of the Bank of Latvia 1EUR = 0.702804 LVL.

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

2.2. Financial investments

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

When there is objective evidence that the carrying amount of the investment in subsidiary undertaking or associated company has impaired, the impairment loss is calculated as a difference

between the carrying amount of the investment and its recoverable amount. The recoverable amount is determined as the higher of its fair value less costs to sell and its value in use. An impairment loss recognised in prior periods can be reversed only if there has been a change in the estimates used to determine the investment's recoverable amount since the last impairment loss was recognised.

2.3. Foreign currency translation into Lats

a) *Functional and presentation currency*

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

Bank of Latvia at the last day of the reporting year. The resulting gain or loss from the settlement of transaction denominated in foreign currencies and monetary assets and liabilities denominated in foreign currencies is charged to the Income Statement.

2.4. Intangible assets

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

a) Connection usage rights

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

b) Licenses and software

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

c) Greenhouse gas emission allowances

Emission rights for greenhouse gases (or allowances) are recognised at purchase cost. Allowances received from the Government free of charge are recognised at zero cost. Emission rights are recognised at cost when the Company is able to exercise the control. If the quantity of emitted greenhouse gases exceeds the quantity of allowances allocated by the state free of charge, the 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 12 a). The forward agreements for purchase or sale of emission allowances for trade rather than for own use in the Company are defined as derivatives (see points 2.19, 3.3 and Note 26 d).

2.5. Property, plant and equipment

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

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

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

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

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

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

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

Gains or losses on disposals are determined by comparing carrying amount with proceeds and gains from related asset's revaluation reserve write-off and are charged to the Income Statement.

2.6. Revaluation of property, plant and equipment

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

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

- buildings and facilities of hydropower plants,
- technology equipment and machinery of hydropower plants,
- other property, plant and equipment of hydropower plants.

Increase in the carrying amount arising on revaluation net of deferred tax is credited to "Long-

term investments revaluation reserve" in equity. Decreases that offset previous increases of the same asset are charged against the revaluation reserve directly in equity; all other decreases are charged to the current year's 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.

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

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

2.7. Leases

a) *The Company is the lessee*

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

b) *The Company is the lessor*

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

2.8. Impairment of non-financial assets

Assets that are subject to depreciation or amortisation and land are reviewed for impairment whenever events or changes in circumstances

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

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

2.9. Inventories

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

Purchase cost of inventories consists of the purchase price, import charges and other fees and charges, freight-in and related costs as well as other costs directly incurred in bringing the materials and goods to their present location and condition. The

value of inventories is assigned by charging trade discounts, reductions and similar allowances.

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

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

- inventories that haven't turned over during last 12 months are fully impaired,
- machinery and equipment of hydropower plants and thermal power plants that haven't turned over during last 12 months are impaired in amount of 90%,
- inventories that haven't turned over during last 6 months are impaired in amount of 50%,
- machinery and equipment of hydropower plants and thermal power plants that haven't turned over during last 6 months are impaired in amount of 45%,
- Allowances are not calculated for the inventory of heating materials necessary to ensure uninterrupted operations of Riga TEC (CHPP).

2.10. Trade receivables

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

An allowance for impairment of doubtful debts is calculated on the basis of trade receivables aging analysis according to estimates defined by the 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%. 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 (see Note 16 a).

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the 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 Income Statement.

Income occurred in the reporting period, but for what no invoice has been issued to the customers is disclosed in „Accrued income”.

2.11. Cash and cash equivalents

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

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

2.12. Dividend distribution

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

2.13. Pensions and employment benefits

a) Pension obligations

The Company makes monthly contributions to a closed defined contribution pension plan on behalf of its employees. The plan is managed by the non-profit public limited company *Pirmais Slēgtais Pensiju Fonds*, with the participation of the Company amounting for 50% of its share capital. A defined contribution plan is a pension plan under which the Company pays contributions into the plan. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior periods. The contributions amount to 5% of each pension plan member's salary. The Company recognises the contributions to the defined contribution plan as an expense when an employee has rendered services in exchange for those contributions.

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

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

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

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

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

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

2.14. Corporate income tax

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

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

tax asset is realised or the deferred income tax liability settled.

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

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

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

2.15. Borrowings and loans

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

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

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

Issued loans are recognised initially at fair value and subsequently measured at amortised cost. The amount between loans issued and loans repayment value is gradually recognised in the Income Statement during the period of the loan. Loans are classified as current receivables and non-current receivables if the Company has an unconditional

right to defer settlement of the liability at least for 12 months after the end of reporting period.

2.16. Provisions

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

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

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

2.17. Provision for vacation

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

2.18. 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.

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

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

2.19. Derivative financial instruments and hedging activities

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

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

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

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

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

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

a) Cash flow hedge

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

Amounts accumulated in equity are recycled in the 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 is recognised in the Income Statement position 'Raw materials and consumables used' (see Note 7). The gain or loss relating to the ineffective portion of interest rate swaps hedging variable rate borrowings is recognised in the 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 Income Statement.

b) Financial assets at fair value through profit and loss

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

Changes in the fair value of derivatives at fair value through profit or loss, ineffective part of changes in the fair value of hedging derivatives and amounts accumulated in equity that are recycled to the Income Statement, are classified according to the purpose of the derivatives – gains/losses from electricity SWAP agreements and CO2 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'.

2.20. Revenue recognition

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

Revenue is recognised as follows:

a) Electricity sales

The Company records electricity sales to residential customers on the basis of reported meter readings. Where relevant, this includes an estimate of the electricity supplied between the date of the last meter reading and the year-end. Electricity sales to corporate customers are recognised on the basis of

issued invoices according to information provided by distribution system operators on meter readings of customers. Revenues from electricity sales to associated users are based on regulated tariffs approved by Public Utilities Commission, while revenues from market participants - on contractual prices included in electricity trade agreements. Revenues from trade of electricity in *NordPool* energy exchange are based on the calculated market prices.

b) Heat sales

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

c) Sales of IT & telecommunication services

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

d) Other revenue

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

e) Interest income

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

f) Dividend income

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

g) Accrued income on mandatory procurement public service obligation fee

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

Income 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.

2.21. Expenses recognition

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

Operating and other expenses disclosed in the Income Statement notes are shown detailed according to its nature.

2.22. Non-current and current liabilities

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

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

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

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

2.23. Related parties

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

2.24. Non-current assets held for sale

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

2.25. Investment property

Investment properties are land or a building or part of a building held by the Company as the owner to earn rentals or for capital appreciation, rather than for use in the production of goods or supply of services or for administrative purposes, or sale in the ordinary course of business. The investment properties are initially recognised and subsequently measured at acquisition cost net of accumulated depreciation and impairment losses. The applied

depreciation rates are based on estimated useful life set for respective fixed asset categories – from 15 to 80 years.

2.26. Share capital

The Company's share capital consists of ordinary shares.

2.27. Held-to-maturity investments

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

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

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

Purchases and sales of financial assets held-to-maturity are recognised on trade date – the date on which the Company commits purchase of the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired. Held-to-maturity financial assets are carried

at amortised cost using the effective interest rate method, net of accumulated impairment losses. Gains and losses arising from changes in the amortised value of the financial instruments are included in the Income Statement in the period in which they arise.

3. FINANCIAL RISK MANAGEMENT

3.1. Financial risk factors

The Company'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 Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance. The Company uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by the Company's Treasury department (the Treasury) according to the *Financial Risk Management Policy* approved by the Company's Management Board. The Treasury identifies, evaluates and hedges financial risks in close co-operation with the Company's operating units/subsidiaries. The 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 derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

a) Market risk

I) Foreign exchange risk

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

2.28. Issued guarantees

Guarantees issued are initially recognised at fair value, which is usually equal to the premium

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 20).

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

The Treasury's *Financial Risk Management Policy* is to hedge all anticipated cash flows (capital expenditure and purchase of inventory) in each major foreign currency that might create significant currency risk. During 2013 the Company had one committed capital expenditure project whose expected transactions in USD created significant currency risk and qualified as 'highly probable' forecast transactions for hedge accounting purposes (Note 26 e).

The Company has certain investment in subsidiary, which are exposed to foreign currency risks. Nevertheless currency exposure arising from the net assets of the Company's foreign operations in Lithuania is limited as subsidiary have insignificant

received. Subsequently they are measured at the higher of the amount expected to be paid and the amount initially recognised less accumulated amortisation.

amount of assets and Lithuania has fixed currency peg to Euro.

II) Cash flow and fair value interest rate risk

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

During 2013, if Lats and Euro interest rates had been 50 basis points higher or lower with all other variables held constant, the Company's income from the cash reserves held at bank for the year considering the issued intra-group loans would have been LVL 194 thousand (EUR 276 thousand) higher or lower (2012: LVL 210 thousand (EUR 299 thousand)).

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

risk, the Company has entered into interest rate swap agreements with the total notional amount LVL 244.4 million (EUR 347.7 million) (2012: LVL 269.1 million (EUR 382.8 million)) (see Note 26 b).

44% of the Company's borrowings as at 31 December 2013 had fixed interest rate (taking into account the effect of the interest rate swaps) (31/12/2012: 46%) and average fixed rate duration 2.1 years (2012: 2.0 years).

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

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

During 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 Company's post-tax profit for the year would have been LVL 1,333 thousand (EUR 1,897 thousand (2012: LVL 1,156 thousand (EUR 1,645 thousand)) lower or higher. The Company's borrowings with floating rates do not impose fair value interest rate risk. Derivatives such as interest rate swaps are the only source of fair value interest rate risk.

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 the Company's Income Statement and LVL 3,624 thousand (EUR 5,156 thousand) (2012: LVL 4,096 thousand (EUR 5,828 thousand)) to the Company's equity as hedge accounting item.

III) Price risk

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

as the purchases of resources used in production is impacted by the price risk.

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

As at 31 December 2013 the Company has no outstanding CO₂ emission allowance purchase or sale forward contracts. In 2012 fair value changes of CO₂ emission allowances forward contracts are included in the Income Statement (see Notes 7 and 26 d).

b) Credit risk

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

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

Assessment of maximum possible exposure to credit risk:

| | Notes | 31/12/2013 | 31/12/2012 | 31/12/2013 | 31/12/2012 |
|-------------------------------------|-------------------|----------------|----------------|----------------|----------------|
| | | LVL'000 | LVL'000 | EUR'000 | EUR'000 |
| External trade receivables | 16 a) | 43,667 | 60,810 | 62,133 | 86,525 |
| Receivables from subsidiaries | 27 c), d), f), g) | 360,931 | 345,626 | 513,559 | 491,782 |
| Accrued income | 16 b) | 36,953 | 7,574 | 52,579 | 10,776 |
| Other current financial receivables | 16 b) | 267 | 140 | 380 | 199 |
| Cash and cash equivalents | 17 | 172,014 | 163,437 | 244,754 | 232,550 |
| Derivative financial instruments | 26 | 434 | 4,237 | 618 | 6,029 |
| Held-to-maturity financial assets | 29 | 20,092 | 20,134 | 28,588 | 28,648 |
| | | 634,358 | 601,958 | 902,611 | 856,509 |

Maximum credit risk related to the issued guaranties amounts to the outstanding loan balances as at the end of the year (Note 28). For banks and financial institutions, independently rated parties with own or parent bank's minimum rating of investment grade are accepted. Otherwise, if there is no independent rating, management performs risk control to assess the credit quality of the financial counterparty, taking into account its financial position, past co-operation experience and other factors. After performed assessment individual credit limits are set based on internal ratings in accordance with principles set by

the *Financial Risk Management Policy*. The basis for estimating the credit quality of financial assets not past due and not impaired is credit ratings assigned by the rating agencies or, in their absence, the earlier credit behaviour of clients and other parties to the contract.

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

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

Credit limits are regularly monitored.

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

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

| | 31/12/2013 | 31/12/2012 | 31/12/2013 | 31/12/2012 |
|--|----------------|----------------|----------------|----------------|
| | LVL'000 | LVL'000 | EUR'000 | EUR'000 |
| Investment level credit rating | 146,090 | 133,742 | 207,867 | 190,298 |
| No or non-investment level credit rating | 25,924 | 29,695 | 36,887 | 42,252 |
| | 172,014 | 163,437 | 244,754 | 232,550 |

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

c) Liquidity risk

The Company's policy of liquidity risk management is to maintain sufficient amount of cash and cash equivalents, the availability of long and short term funding through an adequate amount of committed

credit facilities (Note 20) to meet commitments according to the Company's strategic plans as well as to compensate the fluctuations in the cash flows due to occurrence of variety of financial risks.

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

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

Liquidity analysis (contractual undiscounted cash flows):

| | Less than 1 year | From 1 to 2 years | From 3 to 5 years | Over 5 years | TOTAL | Less than 1 year | From 1 to 2 years | From 3 to 5 years | Over 5 years | 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 2013 | | | | | | | | | | |
| Borrowings from banks | 97,296 | 157,038 | 169,901 | 184,809 | 609,044 | 138,439 | 223,445 | 241,747 | 262,960 | 866,591 |
| Issued debt securities (bonds) | 2,066 | 2,066 | 54,018 | 25,976 | 84,126 | 2,940 | 2,940 | 76,861 | 36,960 | 119,701 |
| 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* | 73,178 | - | - | - | 73,178 | 104,123 | - | - | - | 104,123 |
| | 188,273 | 163,932 | 228,595 | 212,079 | 792,879 | 267,888 | 233,255 | 325,261 | 301,761 | 1,128,165 |
| As at 31 December 2012 | | | | | | | | | | |
| Borrowings from banks | 81,018 | 91,216 | 275,322 | 168,316 | 615,872 | 115,278 | 129,788 | 391,748 | 239,492 | 876,306 |
| Issued debt securities (bonds) | 394 | 394 | 14,843 | - | 15,631 | 561 | 561 | 21,120 | - | 22,242 |
| Derivative financial instruments | 22,088 | 7,720 | 5,854 | - | 35,662 | 31,428 | 10,985 | 8,329 | - | 50,742 |
| Issued guarantees | 8,994 | - | - | - | 8,994 | 12,797 | - | - | - | 12,797 |
| Trade and other payables* | 117,136 | - | - | - | 117,136 | 166,670 | - | - | - | 166,670 |
| | 229,630 | 99,330 | 296,019 | 168,316 | 793,295 | 326,734 | 141,334 | 421,197 | 239,492 | 1,128,757 |

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

3.2. Capital risk management

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

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

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

| | 31/12/2013 | 31/12/2012 | 31/12/2013 | 31/12/2012 |
|--|------------|------------|------------|------------|
| | LVL'000 | LVL'000 | EUR'000 | EUR'000 |
| Total equity | 1,435,430 | 1,439,103 | 2,042,434 | 2,047,660 |
| Total assets and outstanding financial guarantees issued | 2,270,877 | 2,270,388 | 3,231,169 | 3,230,472 |
| Capital Ratio (%) | 63% | 64% | 63% | 64% |

3.3. Fair value estimation of financial instruments

The fair value of financial instruments is defined as 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 (Note 4 c).

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of reporting period. The quoted market

prices used for financial assets held by the Company is the current bid prices.

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

The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows,

by discounting their future contractual cash flows at current market interest rates for similar financial instruments.

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

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

a) Estimates concerning property, plant and equipment

I) Useful lives of property, plant and equipment

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

II) Recoverable amount of property, plant and equipment

When the events and circumstances indicate a potential impairment, the Company performs impairment tests for items of property, plant and equipment. According to these tests assets are written down to their recoverable amounts, if necessary. When carrying out impairment tests management uses various estimates for the cash flows arising from the use of the assets, sales, maintenance, and repairs of the assets, as well as in respect of the inflation and growth rates. The estimates are based on the forecasts of the general economic environment, consumption and the sales price of electricity. If the situation changes in the future, either additional impairment could be recognised, or the previously recognised impairment could be partially or fully reversed. Such factors as high maintenance and reconstruction costs, low load

of several auxiliaries, comparatively substantial maintenance expense, limited facilities to sell property, plant and equipment in the market and other essential factors have an impact of decreasing of the recoverable amounts. If discount rate used for the purposes of impairment charge calculation would be lower or higher by one per cent point the current year's impairment charge on technological equipment would be by 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 13 b.

III) Revaluation of property, plant and equipment

External, certified valuers have performed revaluation of the Company's property, plant and equipment by applying the depreciated replacement cost model. Valuation has been performed according to international standards on property

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

b) Recoverable amount of trade receivables

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

c) Fair values of financial instruments

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

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

d) Recognition of connection service fees

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

e) Evaluation of effectiveness of hedging instruments

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

5. REVENUE

| | 2013 | 2012 | 2013 | 2012 |
|-------------------|----------------|----------------|----------------|----------------|
| | LVL'000 | LVL'000 | EUR'000 | EUR'000 |
| Electricity sales | 544,758 | 532,855 | 775,122 | 758,185 |
| Heat sales | 73,205 | 79,689 | 104,161 | 113,387 |
| Lease of assets | 11,210 | 6,357 | 15,950 | 9,045 |
| Other revenue | 34,600 | 36,514 | 49,231 | 51,955 |
| | 663,773 | 655,415 | 944,464 | 932,572 |

Geographical distribution of revenues

| | 2013 | 2012 | 2013 | 2012 |
|--------------------------------|----------------|----------------|----------------|----------------|
| | LVL'000 | LVL'000 | EUR'000 | EUR'000 |
| Latvia | 614,492 | 595,458 | 874,344 | 847,261 |
| Lithuania | 6,922 | 20,904 | 9,849 | 29,744 |
| Estonia | 21,615 | 15,030 | 30,755 | 21,386 |
| Other European Union countries | 679 | 1,772 | 966 | 2,521 |
| Other countries | 20,065 | 22,251 | 28,550 | 31,660 |
| | 663,773 | 655,415 | 944,464 | 932,572 |

6. OTHER INCOME

| | 2013 | 2012 | 2013 | 2012 |
|---|--------------|--------------|--------------|--------------|
| | LVL'000 | LVL'000 | EUR'000 | EUR'000 |
| Gain from sale of investment property and property, plant and equipment | 645 | 186 | 918 | 265 |
| Gain from disposal of non-current assets revaluation reserve (Note 19) | 457 | 569 | 650 | 810 |
| Gain from sale of current assets and recovered inventories | 806 | 345 | 1,147 | 491 |
| Compensation of losses, fines and penalties and other income | 842 | 1,212 | 1,198 | 1,724 |
| | 2,750 | 2,312 | 3,913 | 3,290 |

7. RAW MATERIALS AND CONSUMABLES USED

| | 2013 | 2012 | 2013 | 2012 |
|--|----------------|----------------|----------------|----------------|
| | LVL'000 | LVL'000 | EUR'000 | EUR'000 |
| Electricity: | | | | |
| Purchased electricity | 211,071 | 207,630 | 300,326 | 295,431 |
| Fair value loss / (income) on electricity swaps (Note 26 c) | 3,125 | (1,525) | 4,447 | (2,170) |
| | 214,196 | 206,105 | 304,773 | 293,261 |
| Fuel expense | 142,948 | 131,257 | 203,398 | 186,762 |
| Fair value income on CO ₂ emission allowances forward contracts (Note 26 d) | - | (4,598) | - | (6,542) |
| Raw materials, spare parts and maintenance costs | 10,798 | 10,388 | 15,363 | 14,780 |
| | 367,942 | 343,152 | 523,534 | 488,261 |

8. PERSONNEL EXPENSES

| | 2013 | 2012 | 2013 | 2012 |
|---|---------------|---------------|---------------|---------------|
| | LVL'000 | LVL'000 | EUR'000 | EUR'000 |
| Wages and salaries | 18,335 | 16,940 | 26,089 | 24,103 |
| Expenditure of employment termination | 736 | 249 | 1,047 | 355 |
| Pension costs – defined contribution plan | 799 | 746 | 1,137 | 1,061 |
| State social insurance contributions and other benefits defined in the Collective Agreement | 4,532 | 4,200 | 6,448 | 5,976 |
| Total (including remuneration to the management): | 24,402 | 22,135 | 34,721 | 31,495 |
| Remuneration to the management: | | | | |
| - wages and salaries | 388 | 224 | 552 | 319 |
| - pension costs – defined contribution plan | 19 | 9 | 27 | 13 |
| - state social insurance contributions and other benefits defined in the Collective Agreement | 93 | 55 | 132 | 78 |
| | 500 | 288 | 711 | 410 |

| | 2013 | 2012 |
|---|-------|-------|
| Number of employees at the end of the year | 1,428 | 1,380 |
| Average number of employees during the year | 1,426 | 1,348 |

Remuneration to the management includes remuneration to the members of the Company's Management Board.

9. OTHER OPERATING EXPENSES

| | 2013 | 2012 | 2013 | 2012 |
|---|----------------|----------------|----------------|----------------|
| | LVL'000 | LVL'000 | EUR'000 | EUR'000 |
| Selling expenses and customer service costs | 12,568 | 12,880 | 17,883 | 18,327 |
| Transmission system service costs | 1,759 | 2,897 | 2,503 | 4,122 |
| Distribution system service costs | 160,468 | 168,181 | 228,325 | 239,300 |
| Telecommunication and information technology maintenance expenses | 3,898 | 3,930 | 5,546 | 5,592 |
| Transportation expenses | 1,805 | 1,711 | 2,568 | 2,435 |
| Environment protection and work safety expenses | 2,326 | 2,015 | 3,310 | 2,867 |
| Rent, maintenance and other utilities and service costs | 4,176 | 2,821 | 5,942 | 4,014 |
| Electricity transit and capacity utilisation costs | 2,608 | 2,333 | 3,711 | 3,320 |
| Public utilities regulation fee | 672 | 427 | 956 | 608 |
| Other expenses | 4,478 | 5,446 | 6,371 | 7,748 |
| | 194,758 | 202,641 | 277,115 | 288,333 |

10. FINANCE INCOME AND COSTS

a) Finance income

| | 2013 | 2012 | 2013 | 2012 |
|---|--------------|--------------|---------------|---------------|
| | LVL'000 | LVL'000 | EUR'000 | EUR'000 |
| Interest income | 5,189 | 6,700 | 7,383 | 9,533 |
| Coupon interest income from held-to-maturity financial assets | 1,083 | 1,097 | 1,541 | 1,561 |
| Fair value gain on interest rate swaps (Note 26 b) | 1,347 | - | 1,917 | - |
| Fair value gain on issued guarantees (Note 28) | 200 | 136 | 285 | 194 |
| Net gain on redemption of held-to-maturity financial assets | - | 226 | - | 321 |
| Net gain on issued debt securities (bonds) | 25 | - | 36 | - |
| Net gain from currency exchange rate fluctuations | 98 | 866 | 138 | 1,232 |
| | 7,942 | 9,025 | 11,300 | 12,841 |

b) Finance costs

| | 2013 | 2012 | 2013 | 2012 |
|--|---------------|---------------|---------------|---------------|
| | LVL'000 | LVL'000 | EUR'000 | EUR'000 |
| Interest expense on borrowings | 8,940 | 10,235 | 12,720 | 14,563 |
| Interest expense on interest rate swaps | 6,470 | 4,864 | 9,206 | 6,921 |
| Management commission on borrowings | 23 | 106 | 33 | 151 |
| Fair value loss on interest rate swaps (Note 26 b) | - | 283 | - | 403 |
| Fair value loss on forward foreign currencies exchange contracts (Note 26 e) | 11 | 105 | 16 | 149 |
| Capitalised borrowing and finance costs | (2,584) | (4,176) | (3,677) | (5,942) |
| Net losses on redemption of held-to-maturity financial assets | 42 | - | 60 | - |
| | 12,902 | 11,417 | 18,358 | 16,245 |

11. INCOME TAX

| | 2013 | 2012 | 2013 | 2012 |
|---------------------|--------------|--------------|--------------|--------------|
| | LVL'000 | LVL'000 | EUR'000 | EUR'000 |
| Current income tax | - | 7,404 | - | 10,535 |
| Deferred income tax | 2,999 | (1,059) | 4,268 | (1,507) |
| | 2,999 | 6,345 | 4,268 | 9,028 |

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

| | 2013 | 2012 | 2013 | 2012 |
|--|---------------|---------------|---------------|---------------|
| | LVL'000 | LVL'000 | EUR'000 | EUR'000 |
| Profit before tax | 22,138 | 38,754 | 31,500 | 55,142 |
| Corporate income tax at the statutory rate 15% | 3,321 | 5,813 | 4,725 | 8,271 |
| Real estate tax | (106) | (104) | (151) | (148) |
| Expenses non-deductible for tax purpose | 143 | 217 | 203 | 309 |
| Dividends received from subsidiaries | (960) | (517) | (1,366) | (736) |
| Tax deductions for donations | - | (175) | - | (249) |
| Allowances for trade receivables | 1,466 | 1,616 | 2,087 | 2,299 |
| Tax losses transferred to subsidiaries | 2,723 | - | 3,874 | - |
| Other expenses | (50) | (17) | (71) | (24) |
| Tax incentives for new technological equipment * | (3,538) | (488) | (5,033) | (694) |
| | 2,999 | 6,345 | 4,268 | 9,028 |

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

In accordance with section 14.¹ of the Law Of Corporate Income Tax of the Republic of Latvia, in 2013 Latvenergo AS transferred its tax losses to subsidiaries free of charge in the amount of LVL 18,153 thousand (EUR 25,829 thousand).

Deferred income tax assets and liabilities are offset in the Company when there is a legally enforceable right to offset current tax assets against current tax

liabilities and when the deferred income taxes relate to the same taxation authority.

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

| | 2013 | 2012 | 2013 | 2012 |
|--|---------------|---------------|----------------|----------------|
| | LVL'000 | LVL'000 | EUR'000 | EUR'000 |
| At the beginning of the year | 83,423 | 74,896 | 118,700 | 106,567 |
| Expenses charged / (income credited) to the Income Statement | 2,999 | (1,059) | 4,268 | (1,507) |
| Attributable to non-current assets revaluation reserve in equity | (68) | 9,586 | (97) | 13,640 |
| Deferred tax liabilities at the end of the year | 86,354 | 83,423 | 122,871 | 118,700 |

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 | | |
| At the beginning of the year | 85,641 | 78,005 | 121,856 | 110,992 |
| Expenses charged / (income credited) to the Income Statement | 3,338 | (1,950) | 4,750 | (2,776) |
| Attributable to non-current assets revaluation reserve in equity | (69) | 9,586 | (98) | 13,640 |
| At the end of the year | 88,910 | 85,641 | 126,508 | 121,856 |
| Deferred tax assets: | | | | |
| | | Accruals/provisions | | |
| At the beginning of the year | (2,218) | (3,109) | (3,156) | (4,424) |
| (Income credited) / expenses charged to the Income Statement | (338) | 891 | (481) | 1,268 |
| At the end of the year | (2,556) | (2,218) | (3,637) | (3,156) |
| Deferred tax liabilities at the end of the year | 86,354 | 83,423 | 122,871 | 118,700 |

12. INTANGIBLE ASSETS

| | Connection usage rights and licenses | Software | Assets under construction and advance payments | TOTAL | Connection usage rights and licenses | Software | Assets under construction and advance payments | TOTAL |
|------------------------------------|--------------------------------------|--------------|--|-----------------|--------------------------------------|--------------|--|-----------------|
| | LVL'000 | LVL'000 | LVL'000 | LVL'000 | EUR'000 | EUR'000 | EUR'000 | EUR'000 |
| At 31 December 2011 | | | | | | | | |
| Cost | 3,992 | 19,139 | 497 | 23,628 | 5,681 | 27,232 | 707 | 33,620 |
| Accumulated amortisation | (815) | (14,748) | - | (15,563) | (1,160) | (20,985) | - | (22,145) |
| Net book amount | 3,177 | 4,391 | 497 | 8,065 | 4,521 | 6,247 | 707 | 11,475 |
| Year ended 31 December 2012 | | | | | | | | |
| Opening net book amount | 3,177 | 4,391 | 497 | 8,065 | 4,521 | 6,247 | 707 | 11,475 |
| Additions | 2 | 1,012 | 2,088 | 3,102 | 3 | 1,440 | 2,971 | 4,414 |
| Disposals* | (281) | (1) | - | (282) | (400) | (1) | - | (401) |
| Amortisation charge | - | (2,221) | - | (2,221) | - | (3,160) | - | (3,160) |
| Closing net book amount | 2,898 | 3,181 | 2,585 | 8,664 | 4,124 | 4,526 | 3,678 | 12,328 |
| At 31 December 2012 | | | | | | | | |
| Cost | 3,994 | 19,855 | 2,585 | 26,434 | 5,683 | 28,251 | 3,678 | 37,612 |
| Accumulated amortisation | (1,096) | (16,674) | - | (17,770) | (1,559) | (23,725) | - | (25,284) |
| Net book amount | 2,898 | 3,181 | 2,585 | 8,664 | 4,124 | 4,526 | 3,678 | 12,328 |
| Year ended 31 December 2013 | | | | | | | | |
| Opening net book amount | 2,898 | 3,181 | 2,585 | 8,664 | 4,124 | 4,526 | 3,678 | 12,328 |
| Additions | 2,144 | 2,228 | 1,283 | 5,655 | 3,051 | 3,170 | 1,826 | 8,047 |
| Disposals* | (299) | - | - | (299) | (426) | - | - | (426) |
| Amortisation charge | - | (1,431) | - | (1,431) | - | (2,036) | - | (2,036) |
| Closing net book amount | 4,743 | 3,978 | 3,868 | 12,589 | 6,749 | 5,660 | 5,504 | 17,913 |
| At 31 December 2013 | | | | | | | | |
| Cost | 6,139 | 20,815 | 3,868 | 30,822 | 8,735 | 29,617 | 5,504 | 43,856 |
| Accumulated amortisation | (1,396) | (16,837) | - | (18,233) | (1,986) | (23,957) | - | (25,943) |
| Net book amount | 4,743 | 3,978 | 3,868 | 12,589 | 6,749 | 5,660 | 5,504 | 17,913 |

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

a) *Greenhouse gas emission allowances:*

| | 2013 | 2012 |
|-------------------------------------|----------------------|----------------------|
| | Number of allowances | Number of allowances |
| At the beginning of the year | 2,950,301 | 505,263 |
| Allowances allocated free of charge | 502,865 | 2,858,891 |
| Purchased allowances | - | 562,188 |
| Used allowances | (1,075,392) | (906,041) |
| Sales of allowances | - | (70,000) |
| At the end of the year | 2,377,774 | 2,950,301 |

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 the end of reporting year the number of allowances in the Company received in 2013 from the Government free of charge was 502,865 (31/12/2012: 2,858,891). Therefore their carrying amount as at the end of reporting year was nil (31/12/2012: nil).

The fair value of greenhouse gas emission allowances as at 31 December 2013 was LVL 1,774 thousand (EUR 2,524 thousand) (31/12/2012: LVL 13,462 thousand (EUR 19,155 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 31 December 2013 – 5.02 EUR/t (30/12/2012: 6.7 EUR/t).

In 24 October 2012 in accordance with Directive No. 51 of the Ministry of Environmental Protection and Regional Development of the Republic of Latvia "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.

13. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

| LVL | Revalued Daugava hydropower plants' buildings and facilities | Non-revalued buildings and facilities | Land, buildings and facilities, total | Revalued Daugava hydropower plants' technology equipment, machinery | Non-revalued technology equipment, machinery | Technology equipment and machinery, total | Revalued Daugava hydropower plants' other PPE | Non-revalued other property, plant and equipment | Other property, plant and equipment, total | Assets under construction and advance payments | Property, plant and equipment, TOTAL |
|--|--|---------------------------------------|---------------------------------------|---|--|---|---|--|--|--|--------------------------------------|
| | LVL'000 | LVL'000 | LVL'000 | LVL'000 | LVL'000 | LVL'000 | LVL'000 | LVL'000 | LVL'000 | LVL'000 | LVL'000 |
| As at 31 December 2011 | | | | | | | | | | | |
| Cost or valuation | 1,041,813 | 222,846 | 1,264,659 | 158,771 | 216,532 | 375,303 | 7,477 | 76,916 | 84,393 | 193,932 | 1,918,287 |
| Accumulated depreciation and impairment | (592,764) | (57,285) | (650,049) | (120,410) | (127,354) | (247,764) | (3,675) | (60,041) | (63,716) | (4,710) | (966,239) |
| Net book amount | 449,049 | 165,561 | 614,610 | 38,361 | 89,178 | 127,539 | 3,802 | 16,875 | 20,677 | 189,222 | 952,048 |
| Year ended 31 December 2012 | | | | | | | | | | | |
| Opening net book amount | 449,049 | 165,561 | 614,610 | 38,361 | 89,178 | 127,539 | 3,802 | 16,875 | 20,677 | 189,222 | 952,048 |
| Revaluation of PPE | 12,634 | - | 12,634 | 51,294 | - | 51,294 | 539 | - | 539 | - | 64,467 |
| Additions | 4,044 | 4,013 | 8,057 | 2,633 | 709 | 3,342 | 21 | 6,647 | 6,668 | 77,836 | 95,903 |
| Invested in <i>Latvijas elektriskie tīkli AS</i> | - | - | - | - | - | - | - | - | - | (6,662) | (6,662) |
| Invested in share capital | - | 1,062 | 1,062 | - | - | - | - | - | - | - | 1,062 |
| Transfers | 1,418 | (1,330) | 88 | (928) | 932 | 4 | 282 | (374) | (92) | - | - |
| Reclassified to investment property | - | (896) | (896) | - | - | - | - | - | - | - | (896) |
| Disposals | (7) | (32) | (39) | (19) | (58) | (77) | - | (14) | (14) | (154) | (284) |
| Impairment charge | - | 304 | 304 | - | (3,114) | (3,114) | - | - | - | 216 | (2,594) |
| Depreciation | (10,980) | (6,157) | (17,137) | (7,060) | (15,644) | (22,704) | (459) | (6,987) | (7,446) | - | (47,287) |
| Closing net book amount | 456,158 | 162,525 | 618,683 | 84,281 | 72,003 | 156,284 | 4,185 | 16,147 | 20,332 | 260,458 | 1,055,757 |
| As at 31 December 2012 | | | | | | | | | | | |
| Cost or valuation | 1,051,763 | 221,289 | 1,273,052 | 227,803 | 215,928 | 443,731 | 9,598 | 77,628 | 87,226 | 264,953 | 2,068,962 |
| Accumulated depreciation and impairment | (595,605) | (58,764) | (654,369) | (143,522) | (143,925) | (287,447) | (5,413) | (61,481) | (66,894) | (4,495) | (1,013,205) |
| Net book amount | 456,158 | 162,525 | 618,683 | 84,281 | 72,003 | 156,284 | 4,185 | 16,147 | 20,332 | 260,458 | 1,055,757 |
| Year ended 31 December 2013 | | | | | | | | | | | |
| Opening net book amount | 456,158 | 162,525 | 618,683 | 84,281 | 72,003 | 156,284 | 4,185 | 16,147 | 20,332 | 260,458 | 1,055,757 |
| Additions | - | 7 | 7 | - | 7 | 7 | - | 6,189 | 6,189 | 34,354 | 40,557 |
| Invested in share capital | - | 614 | 614 | - | - | - | - | - | - | - | 614 |
| Transfers | 2,363 | 61,030 | 63,393 | 4,557 | 202,992 | 207,549 | - | 5,007 | 5,007 | (275,949) | - |
| Disposals | - | (8) | (8) | - | - | - | - | (17) | (17) | (61) | (86) |
| Impairment charge | - | - | - | - | (12,407) | (12,407) | - | - | - | (45) | (12,452) |
| Depreciation | (11,030) | (6,664) | (17,694) | (7,293) | (19,114) | (26,407) | (356) | (7,111) | (7,467) | - | (51,568) |
| Closing net book amount | 447,491 | 217,504 | 664,995 | 81,545 | 243,481 | 325,026 | 3,829 | 20,215 | 24,044 | 18,757 | 1,032,822 |
| As at 31 December 2013 | | | | | | | | | | | |
| Cost or valuation | 1,053,855 | 282,753 | 1,336,608 | 231,539 | 408,703 | 640,242 | 9,598 | 84,677 | 94,275 | 23,296 | 2,094,421 |
| Accumulated depreciation and impairment | (606,364) | (65,249) | (671,613) | (149,994) | (165,222) | (315,216) | (5,769) | (64,462) | (70,231) | (4,539) | (1,061,599) |
| Net book amount | 447,491 | 217,504 | 664,995 | 81,545 | 243,481 | 325,026 | 3,829 | 20,215 | 24,044 | 18,757 | 1,032,822 |

| EUR | Revalued Daugava hydropower plants' buildings and facilities | Non-revalued buildings and facilities | Land, buildings and facilities, total | Revalued Daugava hydropower plants' technology equipment, machinery | Non-revalued technology equipment, machinery | Technology equipment and machinery, total | Revalued Daugava hydropower plants' other PPE | Non-revalued other property, plant and equipment | Other property, plant and equipment, total | Assets under construction and advance payments | Property, plant and equipment, TOTAL |
|--|--|---------------------------------------|---------------------------------------|---|--|---|---|--|--|--|--------------------------------------|
| | EUR'000 | EUR'000 | EUR'000 | EUR'000 | EUR'000 | EUR'000 | EUR'000 | EUR'000 | EUR'000 | EUR'000 | EUR'000 |
| As at 31 December 2011 | | | | | | | | | | | |
| Cost or valuation | 1,482,366 | 317,081 | 1,799,447 | 225,911 | 308,097 | 534,008 | 10,639 | 109,442 | 120,081 | 275,940 | 2,729,476 |
| Accumulated depreciation and impairment | (843,427) | (81,509) | (924,936) | (171,328) | (181,208) | (352,536) | (5,229) | (85,431) | (90,660) | (6,702) | (1,374,834) |
| Net book amount | 638,939 | 235,572 | 874,511 | 54,583 | 126,889 | 181,472 | 5,410 | 24,011 | 29,421 | 269,238 | 1,354,642 |
| Year ended 31 December 2012 | | | | | | | | | | | |
| Opening net book amount | 638,939 | 235,572 | 874,511 | 54,583 | 126,889 | 181,472 | 5,410 | 24,011 | 29,421 | 269,238 | 1,354,642 |
| Revaluation of PPE | 17,977 | - | 17,977 | 72,985 | - | 72,985 | 767 | - | 767 | - | 91,729 |
| Additions | 5,754 | 5,710 | 11,464 | 3,746 | 1,009 | 4,755 | 30 | 9,458 | 9,488 | 110,750 | 136,457 |
| Invested in <i>Latvijas elektriskie tīkli AS</i> | - | - | - | - | - | - | - | - | - | (9,479) | (9,479) |
| Invested in share capital | - | 1,511 | 1,511 | - | - | - | - | - | - | - | 1,511 |
| Transfers | 2,018 | (1,892) | 126 | (1,321) | 1,326 | 5 | 401 | (532) | (131) | - | - |
| Reclassified to investment property | - | (1,275) | (1,275) | - | - | - | - | - | - | - | (1,275) |
| Disposals | (10) | (46) | (56) | (27) | (83) | (110) | - | (20) | (20) | (218) | (404) |
| Impairment charge | - | 433 | 433 | - | (4,431) | (4,431) | - | - | - | 307 | (3,691) |
| Depreciation | (15,623) | (8,761) | (24,384) | (10,045) | (22,259) | (32,304) | (653) | (9,942) | (10,595) | - | (67,283) |
| Closing net book amount | 649,055 | 231,252 | 880,307 | 119,921 | 102,451 | 222,372 | 5,955 | 22,975 | 28,930 | 370,598 | 1,502,207 |
| As at 31 December 2012 | | | | | | | | | | | |
| Cost or valuation | 1,496,525 | 314,866 | 1,811,391 | 324,133 | 307,238 | 631,371 | 13,657 | 110,455 | 124,112 | 376,994 | 2,943,868 |
| Accumulated depreciation and impairment | (847,470) | (83,614) | (931,084) | (204,212) | (204,787) | (408,999) | (7,702) | (87,480) | (95,182) | (6,396) | (1,441,661) |
| Net book amount | 649,055 | 231,252 | 880,307 | 119,921 | 102,451 | 222,372 | 5,955 | 22,975 | 28,930 | 370,598 | 1,502,207 |
| Year ended 31 December 2013 | | | | | | | | | | | |
| Opening net book amount | 649,055 | 231,252 | 880,307 | 119,921 | 102,451 | 222,372 | 5,955 | 22,975 | 28,930 | 370,598 | 1,502,207 |
| Additions | - | 10 | 10 | - | 10 | 10 | - | 8,806 | 8,806 | 48,881 | 57,707 |
| Invested in share capital | - | 874 | 874 | - | - | - | - | - | - | - | 874 |
| Transfers | 3,362 | 86,838 | 90,200 | 6,484 | 288,832 | 295,316 | - | 7,124 | 7,124 | (392,640) | - |
| Disposals | - | (12) | (12) | - | - | - | - | (24) | (24) | (86) | (122) |
| Impairment charge | - | - | - | - | (17,654) | (17,654) | - | - | - | (64) | (17,718) |
| Depreciation | (15,694) | (9,482) | (25,176) | (10,377) | (27,197) | (37,574) | (507) | (10,117) | (10,624) | - | (73,374) |
| Closing net book amount | 636,723 | 309,480 | 946,203 | 116,028 | 346,442 | 462,470 | 5,448 | 28,764 | 34,212 | 26,689 | 1,469,574 |
| As at 31 December 2013 | | | | | | | | | | | |
| Cost or valuation | 1,499,501 | 402,321 | 1,901,822 | 329,450 | 581,532 | 910,982 | 13,657 | 120,485 | 134,142 | 33,147 | 2,980,093 |
| Accumulated depreciation and impairment | (862,778) | (92,841) | (955,619) | (213,422) | (235,090) | (448,512) | (8,209) | (91,721) | (99,930) | (6,458) | (1,510,519) |
| Net book amount | 636,723 | 309,480 | 946,203 | 116,028 | 346,442 | 462,470 | 5,448 | 28,764 | 34,212 | 26,689 | 1,469,574 |

According to The State Land Service data the cadastral value of *Latvenergo AS* real estate in 2013 amounted to LVL 65,816 thousand (EUR 93,648 thousand) (2012: LVL 68,926 thousand (EUR 98,073 thousand)).

In 2013 the Company has capitalised borrowing and finance costs in the amount of LVL 2,584 thousand (EUR 3,677 thousand) (2012: LVL 4,176 thousand (EUR 5,942 thousand)) and has capitalised fuel costs in the amount of LVL 6,728 thousand (EUR 9,573 thousand) during the adjustment of new power unit for Riga 2nd combined heat and power plant.

a) Property, plant and equipment revaluation

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

As at the end of the reporting period carrying value of the Daugava hydropower plants 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 equity and the increase in the amount of LVL 31 thousand (EUR 44 thousand), that has been previously charged to expenses, in the Company's Income Statement under position 'Increase of non-current assets value due revaluation'.

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

| | Buildings and facilities | Technology equipment and machinery | Other property, plant and equipment | TOTAL | 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: | | | | | | | | |
| As at 31 December 2012 | | | | | | | | |
| Revalued | 1,051,763 | 227,803 | 9,598 | 1,289,164 | 1,496,524 | 324,134 | 13,657 | 1,834,315 |
| Accumulated depreciation | (595,605) | (143,522) | (5,413) | (744,540) | (847,470) | (204,213) | (7,702) | (1,059,385) |
| Revalued net book amount | 456,158 | 84,281 | 4,185 | 544,624 | 649,054 | 119,921 | 5,955 | 774,930 |
| As at 31 December 2013 | | | | | | | | |
| Revalued | 1,053,855 | 231,539 | 9,598 | 1,294,992 | 1,499,501 | 329,450 | 13,657 | 1,842,608 |
| Accumulated depreciation | (606,364) | (149,994) | (5,769) | (762,127) | (862,778) | (213,422) | (8,209) | (1,084,409) |
| Revalued net book amount | 447,491 | 81,545 | 3,829 | 532,865 | 636,723 | 116,028 | 5,448 | 758,199 |
| At amounts stated on historical cost basis: | | | | | | | | |
| As at 31 December 2012 | | | | | | | | |
| Cost | 72,063 | 101,198 | 7,558 | 180,819 | 102,536 | 143,992 | 10,754 | 257,282 |
| Accumulated depreciation | (23,057) | (69,804) | (6,336) | (99,197) | (32,807) | (99,322) | (9,015) | (141,144) |
| Net book amount | 49,006 | 31,394 | 1,222 | 81,622 | 69,729 | 44,670 | 1,739 | 116,138 |
| As at 31 December 2013 | | | | | | | | |
| Cost | 74,420 | 105,447 | 7,558 | 187,425 | 105,890 | 150,038 | 10,754 | 266,682 |
| Accumulated depreciation | (24,362) | (72,697) | (6,460) | (103,519) | (34,664) | (103,439) | (9,192) | (147,295) |
| Net book amount | 50,058 | 32,750 | 1,098 | 83,906 | 71,226 | 46,599 | 1,562 | 119,387 |

b) Impairment

Impairment review performed in accordance with IAS 36 'Impairment of Assets' and 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 Saeima (the Parliament 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%).

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

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

| | <i>Latvijas elektriskie tīkli AS</i> | | | <i>Sadales tīkls AS</i> | | | <i>Latvijas elektriskie tīkli AS</i> | | | <i>Sadales tīkls AS</i> | | |
|-------------------------------|--------------------------------------|--|---------------|-------------------------|---------------|-------|--------------------------------------|--|---------------|-------------------------|---------------|-------|
| | LVL'000 | | LVL'000 | LVL'000 | | TOTAL | EUR'000 | | EUR'000 | EUR'000 | | TOTAL |
| As at 31 December 2013 | | | | | | | | | | | | |
| Cost or valuation | 24,205 | | 65,232 | | 89,437 | | 34,441 | | 92,817 | | 127,258 | |
| Accumulated depreciation | (5,666) | | (31,330) | | (36,996) | | (8,062) | | (44,579) | | (52,641) | |
| Net book amount | 18,539 | | 33,902 | | 52,441 | | 26,379 | | 48,238 | | 74,617 | |

In order to provide its operating activities *Latvenergo AS* on 1 April 2011 entered into agreement with subsidiary *Latvijas elektriskie tīkli AS* for lease of the real estate related to transmission system network infrastructure with duration of five years. Real estate and non-current assets rent for the period from 2013 until 2016 is calculated on the basis of the Company's

management estimates for the foreseeable value changes of leased assets.

On 1 October 2011 *Latvenergo AS* invested most of the distribution system assets in its subsidiary *Sadales tīkls AS*, which continues the management and maintenance of assets. Rent for lease of the real

estate related to distribution system network infrastructure is calculated for 2012 on the basis of the Company's management estimates as at the date of preparation of financial statements for the foreseeable value changes of assets as a result of capital investment projects realised by the Company.

d) Investment property

Property, plant and equipment had not used in operating activities in 2012 were reclassified to investment property.

| Type of property, plant and equipment | Land | | Buildings | | TOTAL land and buildings | | Land | | Buildings | | TOTAL land and buildings | |
|--|------------|------------|------------|------------|--------------------------|------------|------------|------------|--------------|--------------|--------------------------|--------------|
| | 31/12/2013 | 31/12/2012 | 31/12/2013 | 31/12/2012 | 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 | LVL'000 | LVL'000 | LVL'000 | LVL'000 | EUR'000 | EUR'000 | EUR'000 | EUR'000 | EUR'000 | EUR'000 |
| At the beginning of the year | 187 | - | 709 | - | 896 | - | 266 | - | 1,009 | - | 1,275 | - |
| Reclassified from property, plant and equipment to investment property | - | 187 | - | 709 | - | 896 | - | 266 | - | 1,009 | - | 1,275 |
| Released | (20) | - | (35) | - | (55) | - | (28) | - | (50) | - | (78) | - |
| At the end of the year | 167 | 187 | 674 | 709 | 841 | 896 | 238 | 266 | 959 | 1,009 | 1,197 | 1,275 |

Based on fair value estimations for real estate assets prepared by external, certified valuers the fair value of the investment property at the end of 2013 assessed

in the amount of LVL 1,844 thousand (EUR 2,624 thousand). As the estimated fair value is higher than assets closing net book amount therefore investment

property is recognised and accounted at amounts stated on historical cost basis less accumulated depreciation and impairment loss.

14. INVESTMENTS

The Company's participating interest in subsidiaries and associates (%):

| | | | 31/12/2013 | 31/12/2012 |
|---|-----------|--|------------|------------|
| Subsidiaries: | | | | |
| <i>Latvijas elektriskie tīkli AS</i> | Latvia | Management of transmission system assets | 100% | 100% |
| <i>Sadales tīkls AS</i> | Latvia | Electricity distribution | 100% | 100% |
| <i>Elektrum Eesti OÜ</i> | Estonia | Electricity supply | 100% | 100% |
| <i>Elektrum Latvija SIA</i> | Latvia | Electricity supply | 100% | 100% |
| <i>Elektrum Lietuva UAB</i> | Lithuania | Electricity supply | 100% | 100% |
| <i>Liepājas enerģija SIA</i> | Latvia | Thermal energy and electricity generation and supply | 51% | 51% |
| Associates: | | | | |
| <i>Pirmais Slēgtais Pensiju Fonds AS</i> | Latvia | Management of pension plans | 46.30% | 46.30% |
| <i>Nordic Energy Link AS – investment held for sale</i> | Estonia | Electricity transmission | 25% | 25% |

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

Investments in subsidiaries

On 30 November 2012 the Company increased its investment in subsidiary *Latvijas elektriskie tīkli AS* with property investment in the amount of LVL 3,631 thousand (EUR 5,167 thousand) which was defined as the positive difference between the net investment in

project's „330 kV *Kurzeme Ring* construction” assets under construction in the amount of LVL 6,661 thousand (EUR 9,478 thousand) and relevant liabilities of project in the amount of LVL 3,030 thousand (EUR 4,311 thousand).

Movement on investments in subsidiaries:

| | 2013 | 2012 | 2013 | 2012 |
|---|----------------|----------------|----------------|----------------|
| | LVL'000 | LVL'000 | EUR'000 | EUR'000 |
| At the beginning of the year | 574,169 | 570,538 | 816,969 | 811,802 |
| Increase of subsidiaries' share capital | - | 3,631 | - | 5,167 |
| At the end of the year | 574,169 | 574,169 | 816,969 | 816,969 |

a) Investments in associates and other non-current financial investments

| | 31/12/2013 | 31/12/2012 | 31/12/2013 | 31/12/2012 |
|---|--------------|--------------|--------------|--------------|
| | LVL'000 | LVL'000 | EUR'000 | EUR'000 |
| Investments in associates: | | | | |
| Investment in <i>Nordic Energy Link AS</i> | - | 3,861 | - | 5,494 |
| Investment in <i>Pirmais Slēgtais Pensiju Fonds AS</i> | 25 | 25 | 36 | 36 |
| Other non-current financial investments: | | | | |
| Investment in <i>Rīgas siltums AS</i> | 3 | 3 | 4 | 4 |
| | 28 | 3,889 | 40 | 5,534 |
| Financial investments held for sale*: | | | | |
| Reclassified investment in <i>Nordic Energy Link AS</i> | 3,861 | - | 5,494 | - |
| | 3,889 | - | 5,534 | - |

* 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. As at 31 December 2013 investment in *Nordic Energy Link AS* is presented as the current asset held for sale and measured at lower carrying amount or net recoverable amount. 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*”.

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

| | 2013 | 2012 | 2013 | 2012 |
|--|--------------|--------------|--------------|--------------|
| | LVL'000 | LVL'000 | EUR'000 | EUR'000 |
| Dividends received: | | | | |
| <i>Latvijas elektriskie tīkli AS</i> | 4,940 | 2,534 | 7,028 | 3,605 |
| <i>Sadales tīkls AS</i> | 498 | - | 709 | - |
| <i>Elektrum Lietuva UAB</i> | 428 | 712 | 609 | 1,013 |
| <i>Elektrum Eesti OÜ</i> | 305 | 203 | 434 | 289 |
| <i>Liepājas enerģija SIA</i> | 229 | - | 326 | - |
| | 6,400 | 3,449 | 9,106 | 4,907 |
| Income on sale of investment in <i>Augstsprieguma tīkls AS</i> | - | 3,900 | - | 5,549 |
| Sold investment in <i>Augstsprieguma tīkls AS</i> | - | (3,900) | - | (5,549) |

| Name of the Company | Equity | | Net profit / (loss) for the year | | Net share of interest from investment | | Equity | | Net profit / (loss) for the year | | Net share of interest from investment | |
|---|----------------|----------------|----------------------------------|--------------|---------------------------------------|----------------|----------------|----------------|----------------------------------|---------------|---------------------------------------|----------------|
| | 31/12/2013 | 31/12/2012 | 2013 | 2012 | 31/12/2013 | 31/12/2012 | 31/12/2013 | 31/12/2012 | 2013 | 2012 | 31/12/2013 | 31/12/2012 |
| | LVL'000 | LVL'000 | LVL'000 | LVL'000 | LVL'000 | LVL'000 | EUR'000 | EUR'000 | EUR'000 | EUR'000 | EUR'000 | EUR'000 |
| Subsidiaries: | | | | | | | | | | | | |
| <i>Latvijas elektriskie tīkli AS</i> | 139,699 | 136,228 | 8,411 | 5,489 | 130,457 | 130,457 | 198,774 | 193,835 | 11,968 | 7,810 | 185,624 | 185,624 |
| <i>Sadales tīkls AS</i> | 407,841 | 399,896 | 8,443 | 553 | 441,119 | 441,119 | 580,305 | 569,001 | 12,013 | 787 | 627,656 | 627,656 |
| <i>Elektrum Eesti OÜ</i> | 603 | 740 | 169 | 340 | 25 | 25 | 858 | 1,053 | 240 | 484 | 36 | 36 |
| <i>Elektrum Lietuva UAB</i> | 452 | 641 | 240 | 476 | 69 | 69 | 643 | 912 | 341 | 677 | 98 | 98 |
| <i>Liepājas enerģija SIA</i> | 9,256 | 7,064 | 2,645 | 901 | 2,499 | 2,499 | 13,170 | 10,051 | 3,763 | 1,282 | 3,556 | 3,556 |
| | 557,851 | 544,569 | 19,908 | 7,759 | 574,169 | 574,169 | 793,750 | 774,852 | 28,325 | 11,040 | 816,970 | 816,970 |
| Financial investments held for sale: | | | | | | | | | | | | |
| <i>Nordic Energy Link AS</i> | 22,659 | 19,838 | 2,821 | 1,174 | 3,861 | 3,861 | 32,241 | 28,227 | 4,014 | 1,670 | 5,494 | 5,494 |
| | 22,659 | 19,838 | 2,821 | 1,174 | 3,861 | 3,861 | 32,241 | 28,227 | 4,014 | 1,670 | 5,494 | 5,494 |

15. 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 | 3,252 | 2,869 | 4,628 | 4,082 |
| Technological fuel, petrol, oils and lubricants | 3,212 | 4,124 | 4,570 | 5,868 |
| Advance payments for inventories | 7 | 9 | 10 | 13 |
| Allowance for raw materials, spare parts, technological fuel | (2,541) | (2,311) | (3,616) | (3,288) |
| | 3,930 | 4,691 | 5,592 | 6,675 |

Movements on allowances for inventories:

| | 2013 | 2012 | 2013 | 2012 |
|-------------------------------------|--------------|--------------|--------------|--------------|
| | LVL'000 | LVL'000 | EUR'000 | EUR'000 |
| At the beginning of the year | 2,311 | 2,241 | 3,288 | 3,189 |
| Inventories written off | (5) | (13) | (6) | (19) |
| Charged to the Income Statement | 235 | 83 | 334 | 118 |
| At the end of the year | 2,541 | 2,311 | 3,616 | 3,288 |

16. TRADE RECEIVABLES AND OTHER CURRENT RECEIVABLES

a) Trade receivables

| | 31/12/2013 | 31/12/2012 | 31/12/2013 | 31/12/2012 |
|--|-----------------|-----------------|-----------------|-----------------|
| | LVL'000 | LVL'000 | EUR'000 | EUR'000 |
| Receivables | | | | |
| - Electricity customers | 57,843 | 58,637 | 82,303 | 83,433 |
| - Heating customers | 10,846 | 16,579 | 15,432 | 23,590 |
| - Other trade receivables | 3,994 | 4,870 | 5,684 | 6,929 |
| | 72,683 | 80,086 | 103,419 | 113,952 |
| Allowances for impaired receivables | | | | |
| - Electricity customers | (28,405) | (18,770) | (40,417) | (26,707) |
| - Heating customers | (229) | (249) | (326) | (354) |
| - Other trade receivables | (382) | (257) | (544) | (366) |
| | (29,016) | (19,276) | (41,286) | (27,427) |
| Receivables, net | | | | |
| - Electricity customers | 29,438 | 39,867 | 41,887 | 56,726 |
| - Heating customers | 10,617 | 16,330 | 15,106 | 23,236 |
| - Other trade receivables | 3,612 | 4,613 | 5,140 | 6,563 |
| | 43,667 | 60,810 | 62,133 | 86,525 |

The Company's Management has estimated allowances for impaired receivables on the basis of aging of trade receivables and by evaluating liquidity and history of previous payments of each significant

debtor (see point 2.10). The carrying amount of trade receivables, less provision for impairment, is assumed to approximate their fair values.

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

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

| | 2013 | 2012 | 2013 | 2012 |
|--|---------------|---------------|---------------|---------------|
| | LVL'000 | LVL'000 | EUR'000 | EUR'000 |
| At the beginning of the year | 19,276 | 8,674 | 27,427 | 12,342 |
| Receivables written off as uncollectible | (957) | (487) | (1,361) | (693) |
| Allowances for impaired receivables | 10,697 | 11,089 | 15,220 | 15,778 |
| At the end of the year | 29,016 | 19,276 | 41,286 | 27,427 |

The charge and release of allowance for impaired trade receivables due to delayed payments have been recorded in the Company's Income Statement position

'Other operating expenses' as selling expenses and customer services costs (Note 9).

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 coupon interest from issued debt securities (bonds) | 807 | 809 | 1,148 | 1,151 |
| Accrued income on mandatory procurement component* | 31,593 | - | 44,953 | - |
| Other accrued income | 4,553 | 6,765 | 6,478 | 9,626 |
| Deducted pre-tax | - | 3,830 | - | 5,450 |
| Overpaid taxes (Note 25) | - | 1 | - | 1 |
| Deferred expenses | 579 | 529 | 824 | 753 |
| Other receivables | 267 | 140 | 380 | 199 |
| | 37,799 | 12,074 | 53,783 | 17,180 |

* 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 amendments to the Electricity Market Law of the Republic of Latvia, approved on 6 November 2013, uncollected difference for the year 2013 will be compensated by newly established subsidiary in 12 months period starting from overtake of public supplier obligations as at 1 April 2014, using government grant implicit for mandatory procurement component reduction, stated per Law on the State Budget for 2014, as part of compensation.

17. 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 | 153,686 | 145,109 | 218,676 | 206,472 |
| Short-term bank deposits | 18,328 | 18,328 | 26,078 | 26,078 |
| | 172,014 | 163,437 | 244,754 | 232,550 |

Cash at bank balances earns daily interest for the Company mostly based on floating interbank deposit rates. Short-term deposits are placed by the Company

for different periods between several days and three months depending on the immediate cash needs of the Company and cash flow forecasts. 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.

18. SHARE CAPITAL

As at 31 December 2013 the registered share capital of *Latvenergo AS* is LVL 905,219 thousand (EUR 1,288,011 thousand) (31/12/2012: LVL 904,605 thousand (EUR 1,287,137 thousand)).

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.

19. RESERVES AND DIVIDENDS

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

| | Non-current assets revaluation reserve | Hedge reserve | Other reserves* | TOTAL | Non-current assets revaluation reserve | Hedge reserve | Other reserves* | TOTAL |
|--|--|-----------------|-----------------|----------------|--|-----------------|-----------------|----------------|
| | LVL'000 | LVL'000 | LVL'000 | LVL'000 | EUR'000 | EUR'000 | EUR'000 | EUR'000 |
| As at 31 December 2011 | 411,426 | (8,247) | 9,562 | 412,741 | 585,406 | (11,734) | 13,606 | 587,278 |
| Transfer from previous year profit | - | - | 40,610 | 40,610 | - | - | 57,783 | 57,783 |
| Revaluation of non-current assets (Note 13) | 64,467 | - | - | 64,467 | 91,729 | - | - | 91,729 |
| Change of non-current assets revaluation reserve (Note 6) | (569) | - | - | (569) | (810) | - | - | (810) |
| Deferred tax related to non-current assets revaluation reserve (Note 11) | (9,586) | - | - | (9,586) | (13,640) | - | - | (13,640) |
| Loss from fair value changes in derivative financial instruments | - | (4,883) | - | (4,883) | - | (6,948) | - | (6,948) |
| As at 31 December 2012 | 465,738 | (13,130) | 50,172 | 502,780 | 662,685 | (18,682) | 71,389 | 715,392 |
| Transfer from previous year profit | - | - | 3,171 | 3,171 | - | - | 4,512 | 4,512 |
| Change of non-current assets revaluation reserve (Note 6) | (457) | - | - | (457) | (650) | - | - | (650) |
| Deferred tax related to non-current assets revaluation reserve (Note 11) | 68 | - | - | 68 | 97 | - | - | 97 |
| Income from fair value changes in derivative financial instruments | - | 6,216 | - | 6,216 | - | 8,844 | - | 8,844 |
| As at 31 December 2013 | 465,349 | (6,914) | 53,343 | 511,778 | 662,132 | (9,838) | 75,901 | 728,195 |

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

The dividends paid in 2013 were LVL 28,547 thousand (EUR 40,619 thousand), in 2012 – LVL 39,900 thousand (EUR 56,773 thousand).

Latvenergo AS is fulfilling the requirements of the Law on state and municipality owned shares and

companies, Regulations No. 1074 of the Cabinet of Ministers of Latvia dated 25 November 2010 On amendments of regulations No. 1471 dated 15 December 2009 On Procedure how the payable part of the profit for the use of the state’s capital is

determined and paid into the state’s budget and the Law on state’s budget for 2013.

The distribution of net profit for the 2013 is subject to a resolution of the Company’s Shareholders meeting.

20. 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 | 481,514 | 495,703 | 685,133 | 705,322 |
| Issued debt securities (bonds) | 73,655 | 14,033 | 104,802 | 19,967 |
| Total non-current borrowings | 555,169 | 509,736 | 789,935 | 725,289 |
| Accrued coupon interest on issued debt securities (bonds) | 488 | - | 694 | - |
| Current portion of non-current borrowings from financial institutions | 90,680 | 71,529 | 129,026 | 101,777 |
| Accrued interest on non-current borrowings | 1,206 | 1,143 | 1,716 | 1,626 |
| Total current borrowings | 92,374 | 72,672 | 130,742 | 103,403 |
| Total borrowings | 647,543 | 582,408 | 921,371 | 828,692 |

Movement in borrowings:

| | 2013 | 2012 | 2013 | 2012 |
|--|----------------|----------------|----------------|----------------|
| | LVL'000 | LVL'000 | EUR'000 | EUR'000 |
| At the beginning of the year | 582,408 | 502,294 | 828,692 | 714,700 |
| Borrowings received | 77,309 | 112,449 | 110,001 | 160,001 |
| Borrowings repaid | (72,347) | (45,344) | (102,941) | (64,519) |
| Change in accrued interest on borrowings and coupon interest liabilities | 551 | (1,024) | 784 | (1,457) |
| Issued debt securities (bonds) | 59,622 | 14,033 | 84,835 | 19,967 |
| At the end of the year | 647,543 | 582,408 | 921,371 | 828,692 |

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 | 481,809 |
| Commercial banks | 194,942 | 229,758 | 277,378 | 326,916 |
| Issued debt securities (bonds) | 74,143 | 14,033 | 105,496 | 19,967 |
| Total borrowings: | 647,543 | 582,408 | 921,371 | 828,692 |

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 | 774 | 297 | 1,101 | 423 |
| - 1- 5 years | 49,837 | 14,736 | 70,912 | 20,967 |
| - > 5 years | 24,240 | - | 34,490 | - |
| | 74,851 | 15,033 | 106,503 | 21,390 |
| Floating rate non-current and current borrowings: | | | | |
| - < 1 year (current portion of non-current borrowings) | 91,599 | 72,376 | 130,334 | 102,982 |
| - 1- 5 years | 310,999 | 344,832 | 442,512 | 490,652 |
| - > 5 years | 170,094 | 150,167 | 242,022 | 213,668 |
| | 572,692 | 567,375 | 814,868 | 807,302 |
| Total borrowings: | 647,543 | 582,408 | 921,371 | 828,692 |

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 | 365,225 | 308,880 | 519,669 | 439,497 |
| - 1– 5 years | 177,255 | 210,276 | 252,211 | 299,196 |
| - > 5 years | 105,063 | 63,252 | 149,491 | 89,999 |
| Total borrowings: | 647,543 | 582,408 | 921,371 | 828,692 |

At 31 December 2013 and at 31 December 2012 the Company had none of their borrowings denominated in other currencies than Euro.

The fair value of current and non-current borrowings with floating rates equals their carrying amount, as their actual floating interest rates approximate the

market price of similar financial instruments available to the Company, and the effect of fair value revaluation is not significant. The fair value of current and non-current borrowings with fixed rates (excluding the effect of derivative financial instruments) exceeds their carrying amounts by 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 market average added interest rate. Therefore the average interest rate for discounting cash flows of non-current borrowings was 2.2% (2012: 2.4%).

Borrowings from related parties:

| | 31/12/2013 | 31/12/2012 | 31/12/2013 | 31/12/2012 |
|---|------------|--------------|------------|--------------|
| | LVL'000 | LVL'000 | EUR'000 | EUR'000 |
| Current borrowings from related parties (Note 27 h) | - | 5,331 | - | 7,585 |
| | - | 5,331 | - | 7,585 |

a) Pledges

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

b) 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 140.8 million (EUR 200.3 million)).

At 31 December 2013 the Company had entered into three overdraft agreements with total notional amount of LVL 24 million (EUR 34.2 million) (31/12/2012: LVL 24 million (EUR 34.2 million)) and in respect of those

all conditions precedent had been met. At the end of the reporting year overdrafts were not used.

c) Weighted average effective interest rate

During the reporting year the weighted average effective interest rate (including interest rate swaps) on non-current borrowings was 2.5% (2012: 2.86%), 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 Euro were 3 and 6 month EURIBOR+0.92% (31/12/2012: 3 and 6 month EURIBOR+0.70%).

d) Issued debt securities (bonds)

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.

21. 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 | 2,802 | 2,890 | 3,987 | 4,112 |
| Current service cost | 123 | 112 | 175 | 159 |
| Interest cost | 145 | 160 | 206 | 228 |
| Post-employment benefits paid | (73) | (394) | (104) | (560) |
| Losses as a result of changes in actuarial assumptions | 58 | 34 | 83 | 48 |
| At the end of the year | 3,055 | 2,802 | 4,347 | 3,987 |

Total charged provisions are included in the Company's Income Statement position 'Personnel expenses' (Note 8):

| | 2013 | 2012 | 2013 | 2012 |
|--|--------------|--------------|--------------|--------------|
| | LVL'000 | LVL'000 | EUR'000 | EUR'000 |
| At the beginning of the year | 2,802 | 2,890 | 3,987 | 4,112 |
| Provisions received from <i>Sadales tīkls AS</i> | - | 50 | - | 71 |
| Charged to the Income Statement | 253 | (138) | 360 | (196) |
| At the end of the year | 3,055 | 2,802 | 4,347 | 3,987 |

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 Company's Collective Agreement provides

indexation of employees' wages at least at the level of inflation. Long-term inflation determined at the level of 3% (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.

b) Environmental provisions

| | 2013 | 2012 | 2013 | 2012 |
|-------------------------------------|--------------|--------------|--------------|--------------|
| | LVL'000 | LVL'000 | EUR'000 | EUR'000 |
| At the beginning of the year | 1,000 | 1,028 | 1,423 | 1,463 |
| Charged to the Income Statement | 34 | (28) | 48 | (40) |
| At the end of the year | 1,034 | 1,000 | 1,471 | 1,423 |

Total charged provisions are included in the Company's Income Statement position 'Other operating expenses'. The environmental provision in the amount of LVL 1,034 thousand (EUR 1,471 thousand) (2012: LVL 1,000 thousand (EUR 1,423

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. The amount of the

provisions is calculated taking into account the construction cost index (data from the Central Statistical Bureau).

22. TRADE PAYABLES

| | 31/12/2013 | 31/12/2012 | 31/12/2013 | 31/12/2012 |
|---|---------------|---------------|---------------|---------------|
| | LVL'000 | LVL'000 | EUR'000 | EUR'000 |
| Payables for materials and services | 20,199 | 49,968 | 28,740 | 71,099 |
| Payables for electricity | 18,100 | 18,254 | 25,754 | 25,973 |
| Advances received from deliveries of materials and services | 162 | 1,014 | 231 | 1,443 |
| | 38,461 | 69,236 | 54,725 | 98,515 |

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

23. ACCRUED LIABILITIES

| | 31/12/2013 | 31/12/2012 | 31/12/2013 | 31/12/2012 |
|--|--------------|--------------|--------------|--------------|
| | LVL'000 | LVL'000 | EUR'000 | EUR'000 |
| Accrued liabilities on expenses | 2,382 | 1,333 | 3,389 | 1,898 |
| Accrued liabilities on unpaid vacations | 886 | 800 | 1,261 | 1,138 |
| Accruals for bonuses on financial results of previous years | 350 | 296 | 498 | 421 |
| Accruals for benefits and post-employment plan contributions | 50 | 43 | 71 | 61 |
| | 3,668 | 2,472 | 5,219 | 3,518 |

24. OTHER PAYABLES

| | 31/12/2013 | 31/12/2012 | 31/12/2013 | 31/12/2012 |
|--|--------------|---------------|--------------|---------------|
| | LVL'000 | LVL'000 | EUR'000 | EUR'000 |
| Calculated value added tax | 32 | 9,955 | 46 | 14,166 |
| Payables to personnel | 977 | 839 | 1,390 | 1,194 |
| Deferred income and other current payables | 1,453 | 503 | 2,067 | 716 |
| | 2,462 | 11,297 | 3,503 | 16,075 |

25. TAXES AND STATE SOCIAL SECURITY CONTRIBUTIONS

| | 31/12/2012 | Calculated | Paid | 31/12/2013 | 31/12/2012 | Calculated | Paid | 31/12/2013 |
|-------------------------------------|----------------|-----------------|---------------|----------------|----------------|-----------------|---------------|----------------|
| | LVL'000 | LVL'000 | LVL'000 | LVL'000 | EUR'000 | EUR'000 | EUR'000 | EUR'000 |
| Corporate income tax | 7,010 | - | 690 | 7,700 | 9,974 | - | 982 | 10,956 |
| Value added tax * | (161) | (20,353) | 18,355 | (2,159) | (229) | (28,960) | 26,117 | (3,072) |
| Tax on electricity | - | (367) | 343 | (24) | - | (522) | 488 | - |
| State social security contributions | (667) | (6,495) | 6,398 | (764) | (949) | (9,242) | 9,104 | (1,087) |
| Personal income tax | (414) | (3,819) | 3,780 | (453) | (589) | (5,434) | 5,378 | (645) |
| Real estate tax | (1) | (705) | 703 | (3) | (1) | (1,003) | 1,000 | (4) |
| Natural resources tax | (15) | (72) | 71 | (16) | (21) | (102) | 101 | (23) |
| | 5,752 | (31,811) | 30,340 | 4,281 | 8,185 | (45,263) | 43,170 | 6,125 |
| Tax receivables | 7,010 | - | - | 7,700 | 9,974 | - | - | 10,956 |
| Tax liabilities | (1,258) | - | - | (3,419) | (1,790) | - | - | (4,865) |

* Includes value added tax overpayment as at 31 December 2012 in the amount of LVL 1 thousand.

26. DERIVATIVE FINANCIAL INSTRUMENTS

a) Outstanding fair values of derivatives and their classification

In the next two tables are disclosed outstanding fair values of derivatives:

| | 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 | 26 b) | (434) | 9,492 | - | 16,735 | (617) | 13,506 | - | 23,812 |
| Electricity swaps | 26 c) | - | 6,966 | (4,195) | 7,964 | - | 9,912 | (5,969) | 11,331 |
| Forward foreign currencies exchange contracts | 26 e) | - | 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: | (434) | 16,469 | (4,237) | 24,699 | (617) | 23,434 | (6,028) | 35,143 |

According to amendments to IAS 1 a financial liability or asset that is not held for trading purposes should be presented as current or non-current on the basis of its settlement date. The Company implemented the

above-mentioned amendments to IAS 1 in its Financial Statements from 2008. Derivatives that have a maturity of more than twelve months and are expected to be held for more than twelve months after

the end of the reporting period have been classified as non-current assets or liabilities.

b) Interest rate swaps

As at 31 December 2013 the Company 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 Income Statement.

In the table below fair value changes of interest rate 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 | - | 16,735 | - | 11,819 | - | 23,812 | - | 16,817 |
| Included in the Income Statement, net (Note 10) | - | (1,347) | - | 283 | - | (1,917) | - | 403 |
| Included in hedge reserve (Note 19) | (434) | (5,896) | - | 4,633 | (618) | (8,389) | - | 6,592 |
| Outstanding fair value at the end of the year | (434) | 9,492 | - | 16,735 | (618) | 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 44% (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).

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.

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).

As at 31 December 2013 all outstanding fair value changes of valid electricity swap contracts are included in the Consolidated Income Statement (see Note 7).

c) Electricity swaps

As at 31 December 2013 the Group has entered into electricity swap contracts with total outstanding

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.

In the table below 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 Income Statement (Note 7) | - | 3,125 | - | (1,525) | - | 4,447 | - | (2,170) |
| Included in hedge reserve (Note 19) | 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 |

d) CO₂ emissions allowances forward contracts

As at 31 December 2013 the Company has no outstanding forward contracts of CO₂ emission allowances purchase or sale.

In 2012 CO₂ emission allowances forward contracts fair value changes are included in the Income Statement in the amount of LVL 4,598 thousand (EUR 6,542 thousand) – see Note 7.

In the table below fair value changes of CO₂ emission allowances forward contracts are disclosed:

| | 2013 | | 2012 | |
|--|---------|-------------|---------|-------------|
| | LVL'000 | | LVL'000 | |
| | Assets | Liabilities | Assets | Liabilities |
| Outstanding fair value at the beginning of the year | - | - | 4,598 | 6,542 |
| Included in the Income Statement (Note 7) | - | - | (4,598) | (6,542) |
| Outstanding fair value at the end of the year | - | - | - | - |

e) Forward foreign currencies exchange contracts

As at the end of reporting period the Company 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 hedge reserve (Note 19) 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 Income Statement (see Note 10).

In the table below fair value changes of forward foreign currencies exchange contracts 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 | (42) | - | (390) | - | (59) | - | (554) | - |
| Included in the Income Statement (Note 10) | - | 11 | 105 | - | - | 16 | 149 | - |
| Included in hedge reserve (Note 19) | 42 | - | 243 | - | 59 | - | (346) | - |
| Outstanding fair value at the end of the year | - | 11 | (42) | - | - | 16 | (59) | - |

27. RELATED PARTY TRANSACTIONS

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

| | 2013 | 2012 | 2013 | 2012 |
|---|----------------|----------------|----------------|----------------|
| | LVL'000 | LVL'000 | EUR'000 | EUR'000 |
| a) Sales of goods and services and finance income: | | | | |
| - subsidiaries | 95,921 | 82,787 | 136,483 | 117,795 |
| - associates | - | - | - | - |
| | 95,921 | 82,787 | 136,483 | 117,795 |
| b) Purchases of goods and services and finance costs: | | | | |
| - subsidiaries | 195,216 | 183,173 | 277,767 | 260,632 |
| - associates | 1,938 | 2,148 | 2,758 | 3,056 |
| | 197,154 | 185,321 | 280,525 | 263,688 |
| c) Balances at the end of the year arising from sales/purchases of goods and services: | | | | |
| Trade receivables: | | | | |
| - subsidiaries | 15,400 | 9,614 | 21,912 | 13,679 |
| - associates | - | - | - | - |
| | 15,400 | 9,614 | 21,912 | 13,679 |
| Trade payables: | | | | |
| - subsidiaries | 32,417 | 37,617 | 46,125 | 53,524 |
| - associates | - | 131 | - | 186 |
| | 32,417 | 37,748 | 46,125 | 53,710 |
| d) Accrued income arising from related party transactions: | | | | |
| - subsidiaries | 10,127 | 4,576 | 14,409 | 6,511 |
| | 10,127 | 4,576 | 14,409 | 6,511 |
| e) Accrued expenses arising from related party transactions: | | | | |
| - subsidiaries | 22,382 | 18,799 | 31,847 | 26,749 |
| | 22,382 | 18,799 | 31,847 | 26,749 |

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

Receivables and payables with related parties are current balances for services and goods. None of the amounts at the end of the reporting year are secured.

Remuneration to the key management personnel that is defined as Members of the Management Board of the Company and Supervisory body is disclosed in Note 8.

f) Non-current loans to related parties

In accordance with the Agreement of non-current debt financing related to transmission system, dated 1 April 2011, the Company signed with its subsidiary *Latvijas elektriskie tīkli AS*, the Company in 2011 issued non-current loan to *Latvijas elektriskie tīkli AS* in the amount of LVL 68,500 thousand (EUR 97,467 thousand). During the reporting year *Latvijas elektriskie tīkli AS* was repaid on this loan LVL 8,744 thousand (EUR 12,442 thousand) (2012: LVL 5,453 thousand (EUR 7,759 thousand)).

On 3 September 2013 the Company entered into agreement with subsidiary on reclassification of current loan to subsidiary as the non-current loan with a maturity date – 10 September 2023. During 2013 in accordance with this agreement LVL 16,024 thousand (EUR 22,800 thousand) are reclassified as non-current loan. Total non-current loans as at 31 December 2013 amounted to LVL 65,422 thousand (EUR 93,087 thousand) (31/12/2012: LVL 58,142 thousand (EUR 82,729 thousand)), including current

portion of the loan repayable in 2014 – LVL 10,258 thousand (EUR 14,596 thousand) (2012: LVL 8,744 thousand (EUR 12,442 thousand)). As at 31 December 2013 for 76% of the loans issued to subsidiary (31/12/2012: 100%) was set floating interest rate, which was influenced by 6 months EURIBOR interbank rate fluctuations. During 2013 the effective average interest rate of non-current loans was 1.31% (2012: 1.58%).

Non-current loans to *Latvijas elektriskie tīkli AS* by maturity:

| | 31/12/2013 | 31/12/2012 | 31/12/2013 | 31/12/2012 |
|---|---------------|---------------|---------------|---------------|
| | LVL'000 | LVL'000 | EUR'000 | EUR'000 |
| Non-current loan: | | | | |
| - < 1 year (including accrued interest liabilities) | 10,591 | 8,744 | 15,070 | 12,442 |
| - 1 – 5 years | 40,009 | 40,384 | 56,928 | 57,461 |
| - > 5 years | 15,155 | 9,014 | 21,563 | 12,826 |
| | 65,755 | 58,142 | 93,561 | 82,729 |

In accordance with the Agreement of non-current debt financing related to distribution system economic activities, dated 29 September 2011, the Company signed with its subsidiary *Sadales tīkls AS*, the Company in 2011 issued non-current loan to *Sadales tīkls AS* in the amount of LVL 222,277 thousand (EUR 316,272 thousand). On 10 May 2012 the Company entered into agreement with *Sadales tīkls AS* on reissuing of current loan portion to non-current loan in the amount of LVL 30,000 thousand (EUR 42,686

thousand). On 18 September 2013 the Company entered into agreement with subsidiary on reclassification of current loan to non-current loan in the amount of LVL 30,000 thousand (EUR 42,686 thousand) with a maturity date – 10 August 2023. Total non-current loans as at 31 December 2013 amounted to LVL 227,786 thousand (EUR 324,110 thousand) (31/12/2012: LVL 230,751 thousand (EUR 328,330 thousand)), including current portion of the loan repayable in 2014 – LVL 41,072 thousand (EUR

58,440 thousand) (2012: LVL 32,966 thousand (EUR 46,906 thousand)). As at 31 December 2013 for 76% of the loans issued to subsidiary (31/12/2012: 87%) was set floating interest rate, which was influenced by 6 months EURIBOR interbank rate fluctuations. During 2013 the effective average interest rate of non-current loans was 1.56% (2012: 1.78%).

Non-current loans to *Sadales tīkls AS* by maturity:

| | 31/12/2013 | 31/12/2012 | 31/12/2013 | 31/12/2012 |
|---|----------------|----------------|----------------|----------------|
| | LVL'000 | LVL'000 | EUR'000 | EUR'000 |
| Non-current loan: | | | | |
| - < 1 year (including accrued interest liabilities) | 42,151 | 33,832 | 59,976 | 48,138 |
| - 1 – 5 years | 140,285 | 143,047 | 199,608 | 203,538 |
| - > 5 years | 46,429 | 54,738 | 66,062 | 77,885 |
| | 228,865 | 231,617 | 325,646 | 329,561 |

g) Current loans to related parties

Financial transactions between related parties have also been carried out by using current loans - overdrafts. The Company issues and receives loans from subsidiaries in accordance with the applicable annual interest rate for Latvenergo Group, that consists from RIGIBOR O/N or EURIBOR indexes and average added interest rate used for external current financing of *Latvenergo AS*.

At the end of the reporting period *Latvenergo AS* has loaned LVL 25,788 thousand (EUR 36,693 thousand) to *Sadales tīkls AS* (31/12/2012: LVL 37,026 thousand (EUR 52,683 thousand)), LVL 8,337 thousand (EUR 11,862 thousand) to *Latvijas elektriskie tīkli AS*, LVL 1,864 thousand (EUR 2,652 thousand) to *Elektrum Eesti OÜ* and LVL 4,795 thousand (EUR 6,823 thousand) to *Elektrum Lietuva UAB* (31/12/2012: LVL

4,651 thousand (EUR 6,618 thousand)). During 2013 the effective average interest rate was 1.06% (2012: 1.24%) in loan transactions with *Sadales tīkls AS* and *Latvijas elektriskie tīkls AS* and 0.73% in transactions with *Elektrum Eesti OÜ* and *Elektrum Lietuva UAB* (2012: 0.93%). Interest income on intra-group borrowing transactions are included in 'Finance income' (Note 10.a).

Interest received from related parties:

| | 2013 | 2012 | 2013 | 2012 |
|-------------------|------------|------------|------------|------------|
| | LVL'000 | LVL'000 | EUR'000 | EUR'000 |
| Interest received | 427 | 221 | 608 | 314 |
| | 427 | 221 | 608 | 314 |

h) Current loans from related parties

Financial transactions between related parties have also been carried out by using current loans - overdrafts. The Company issues and receives loans from subsidiaries in accordance with the applicable annual interest rate for Latvenergo Group, that consists from RIGIBOR O/N or EURIBOR indexes and

average added interest rate used for external current financing of *Latvenergo AS*. At the end of the reporting period *Latvenergo AS* has not loans from related parties. During 2013 the effective average interest rate was 1.06% (2012: 1.24%) in loan transactions with *Sadales tīkls AS* and *Latvijas elektriskie tīkli AS* and 0.73% in transactions with *Elektrum Eesti OÜ* and

Elektrum Lietuva UAB (2012: 0.93%). Interest costs on intra-group borrowing transactions are included in 'Finance costs' (Note 10.b).

Interest paid to related parties:

| | 2013 | 2012 | 2013 | 2012 |
|---------------|----------|------------|----------|------------|
| | LVL'000 | LVL'000 | EUR'000 | EUR'000 |
| Interest paid | 6 | 121 | 9 | 172 |
| | 6 | 121 | 9 | 172 |

28. ISSUED GUARANTEES

| | 2013 | 2012 | 2013 | 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 <i>Nordic Energy Link AS</i> | - | 8,994 | - | 12,797 |
| Fair value of guarantee on behalf of <i>Nordic Energy Link AS</i> | - | 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 (outstanding amount of

guarantee as at 31 December 2012 was LVL 8,994 thousand (EUR 12,797 thousand)). Outstanding amount of the issued guarantee is reduced to nil (31/12/2012: LVL 199.9 thousand (EUR 284.4 thousand)). The fair value calculations are based on the estimated amount of service fee receivable

discounted at EUR swap rates increased by the Company's credit risk margin, thus during 2012 the average interest rate for discounting cash flow was 2.23%.

29. HELD-TO-MATURITY FINANCIAL ASSETS

It was not necessary to prepare reclassification for financial assets which are recognised at amortised cost during 2013 (2012: nil). 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.

As at 31 December 2013 the entire Company's held-to-maturity financial assets were State Treasury bonds

with 5 year and 10 year maturity, which were purchased with the purpose to invest liquidity reserve in the low risk financial instruments with higher yield.

| | 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 |

30. COMMITMENTS AND CONTINGENT LIABILITIES

As at 31 December 2013 the Company had commitments amounting to LVL 13.8 million (EUR 19.6 million) (31/12/2012: LVL 63.1 million (EUR 89.8 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.

31. FEES TO CERTIFIED AUDITOR'S COMPANIES

| | 2013 | 2012 | 2013 | 2012 |
|-----------------------------------|-----------|-----------|-----------|-----------|
| | LVL'000 | LVL'000 | EUR'000 | EUR'000 |
| Audit of the financial statements | 25 | 26 | 36 | 37 |
| Consultancy and training services | 31 | 36 | 44 | 51 |
| | 56 | 62 | 80 | 88 |

32. 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 Company's 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 had been registered share capital of *Latvenergo AS* in the amount of EUR 1.288 million, 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 a new subsidiary of *Latvenergo AS – Enerģijas publiskais tirgotājs AS* that 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.

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 Company's Financial Statements for the year ended 31 December 2013.

INDEPENDENT AUDITORS' REPORT

To the shareholder of AS Latvenergo

Report on the financial statements

We have audited the accompanying financial statements of AS Latvenergo (the "Company"), set out on pages 7 through 52 of the accompanying 2013 Annual Report, which comprise the balance sheet as at 31 December 2013, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditors' responsibility

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

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of AS Latvenergo as of 31 December 2013, and of its financial performance and its cash flows for the year then ended in accordance with the Law of the Republic of Latvia on Annual Reports.

Report on other legal and regulatory requirements

Furthermore, we have read the management report for the year ended 31 December 2013 (set out on pages 5 through 7 of the accompanying 2013 Annual Report) and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2013.

SIA Ernst & Young Baltic
Licence No. 17

/Signed by/

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

Rīga,
15 April 2013