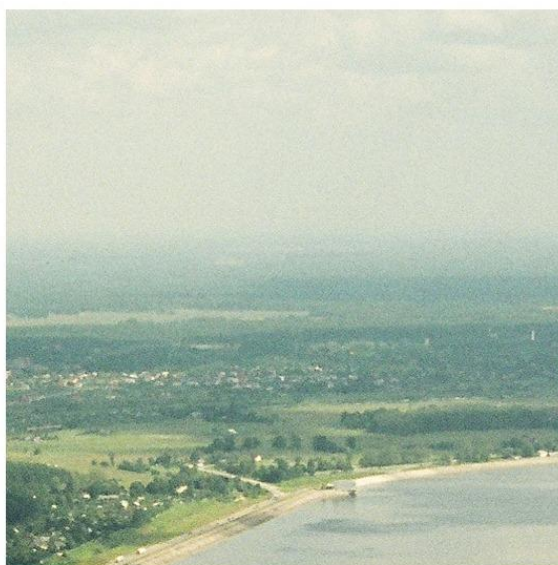




**Public Limited Company
Latvenergo
Annual Report 2012**

**PREPARED IN ACCORDANCE WITH
THE LAW OF THE REPUBLIC OF LATVIA
ON ANNUAL REPORTS
AND
INDEPENDENT AUDITORS' REPORT
(TRANSLATED FROM LATVIAN)**



This version of report is a translation from the original, which was prepared in Latvian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of report takes precedence over this translation.

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General information

Name of the Company	Public Limited Company Latvenergo
Legal status of the Company	Public Limited Company
Number, place and date of registration	40003032949 8 th October 1991 Reregistered in Commercial Register on 12 th November 2002
Legal address	Pulkveža Brieža street 12, Riga, LV–1230, Latvia
Shareholder	Republic of Latvia
Representative of State capital shareholder	Juris Pūce State secretary of the Ministry of Economics of Republic of Latvia
Names of Board members	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 2012
Name and address of the certified audit company and certified auditor in charge	Ernst & Young Baltic, SIA Muitas street 1A, Riga, LV–1010, Latvia Licence No. 17 Diāna Krišjāne Latvian Sworn Auditor Certificate No. 124

Key performance indicators

OPERATING INDICATORS		2008	2009	2010	2011	2012
Retail electricity supply	GWh	7 461	6 659	6 920	6 685	6 708
Electricity production	GWh	4 566	4 872	5 851	5 252	5 039
Aggregate heat supply	GWh	2 393	2 372	2 679	2 320	2 451
Number of employees at the end of the year		1 500	1 374	1 324	1 323	1 380

FINANCIAL INDICATORS	2008		2009		2010		2011		2012	
	LVL'000	EUR'000	LVL'000	EUR'000	LVL'000	EUR'000	LVL'000	EUR'000	LVL'000	EUR'000
Revenue	570,349	811,534	609,750	867,596	655,247	932,332	700,914	997,311	657,457	935,477
Including electricity supply	420,462	598,264	439,531	625,396	480,186	683,243	541,604	770,633	532,855	758,184
Heat supply	61,103	86,942	60,307	85,809	60,810	86,525	59,702	84,948	79,689	113,387
Result from transfer of business activity	-	-	-	-	-	-	577,989	822,404	-	-
EBITDA ¹⁾	108,002	153,673	143,478	204,151	204,757	291,343	188,809	268,651	89,334	127,111
Operating profit ³⁾	20,844	29,658	32,055	45,610	62,619	89,099	87,669	124,742	37,232	52,976
Profit for the year	9,183	13,066	20,230	28,785	44,562	63,406	80,510*	114,555*	31,718	45,131
Dividends	13,001	18,499	20,230	28,785	35,000	49,801	39,900	56,773	28,546	40,617
Non-current assets at the end of the year	1,473,465	2,096,552	1,459,655	2,076,902	1,929,846	2,745,923	1,844,504	2,624,493	1,909,796	2,717,395
Total assets at the end of the year	1,673,406	2,381,042	1,694,273	2,410,733	2,270,323	3,230,379	2,143,457	3,049,865	2,261,394	3,217,674
Equity at the end of the year	865,545	1,231,560	887,235	1,262,422	1,340,374	1,907,180	1,397,101	1,987,896	1,439,102	2,047,658
Borrowings at the end of the year	489,726	696,817	502,183	714,542	537,695	765,071	502,294	714,700	568,375	808,725
Cash flow from operating activities	101,791	144,836	161,599	229,935	163,987	233,332	165,620	235,656	63,724	90,671
Capital expenditure	194,272	276,424	102,666	146,081	121,276	172,560	180,529	256,870	99,007	140,874

FINANCIAL RATIOS	2008	2009	2010	2011	2012
EBITDA margin ²⁾	19%	23%	31%	27%	14%
Operating margin ⁴⁾	4%	5%	10%	12%	6%
Profit for the year margin ⁵⁾	2%	3%	7%	11%	5%
Return on assets (ROA) ⁶⁾	0.6%	1.2%	2.3%	3.6%	1.4%
Return on equity (ROE) ⁷⁾	1.2%	2.3%	4.0%	5.9%	2.2%

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⁾ EBITDA margin – EBITDA / revenue

³⁾ Operating profit – earnings before income tax, finance income and costs and result from transfer of business activity

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)

* not included profit from transfer of business activity

Management Report

Aspect of activity

The public limited company Latvenergo (hereinafter – the Company or *Latvenergo AS*) is an energy power supply enterprise engaged in generation and sale of electricity and thermal energy in Latvia.

2012 was the eighth reporting year with *Latvenergo AS* as the Parent Company of a corporate group. *Latvenergo Group* (hereinafter – the Group) as at 31 December 2012 also includes six subsidiaries: *Sadales tīkls AS*, *Latvijas elektriskie tīkli AS*, *Elektrum Eesti OÜ* and its subsidiary *Elektrum Latvija SIA*, *Elektrum Lietuva UAB* and *Liepājas enerģija SIA*.

Sadales tīkls AS, 100% subsidiary of *Latvenergo AS* has been registered in the Commercial Register of Latvia on 18 September 2006 and it provides the electricity distribution system services in the territory of the Republic of Latvia for approximately 900 thousand customers in accordance with tariffs approved by the Public Utilities Commission. *Sadales tīkls AS* is the largest distribution system operator in Latvia.

Latvijas elektriskie tīkli AS, 100% subsidiary of *Latvenergo AS* has been registered in the Commercial Register of Latvia on 10 February 2011. *Latvijas elektriskie tīkli AS* business activity is characterised by the management and maintenance of transmission system assets placed in the territory of Latvia (330 kV and 110 kV electric energy transmission lines, substations and distribution stations); construction and renewal of transmission system assets on demand and with requirements of *Augstsprieguma tīkls AS*; lease of assets to the transmission system operator – *Augstsprieguma tīkls AS*.

Elektrum Eesti OÜ, 100% subsidiary of *Latvenergo AS* has been registered in the Commercial Register of Estonia on 27 June 2007. *Elektrum Eesti OÜ* performs electricity sales activities in Estonia, therefore ensuring achievement of *Latvenergo Group* ambitions. *Elektrum Eesti OÜ* is one of the largest electricity suppliers in Estonia.

Elektrum Lietuva UAB, 100% subsidiary of *Latvenergo AS* has been registered in the Register of Legal Persons of Lithuania on 7 January 2008. *Elektrum Lietuva UAB* performs electricity sales activities in Lithuania, therefore ensuring achievement of *Latvenergo Group* ambitions. *Elektrum Lietuva UAB* is one of the largest electricity suppliers in Lithuania.

Liepājas enerģija SIA, with *Latvenergo AS* having the controlling interest of 51%, was registered in the Commercial Register of Latvia on 6 July 2005. Since 1 November 2005 it renders thermal energy generation and sales in Liepāja city, while since 2010 *Liepājas enerģija SIA* restored electricity cogeneration.

Financial results

Latvenergo AS revenue in 2012 amounted to LVL 657.5 million, which is LVL 43.4 million less than in 2011 (LVL 700.9 million). Decrease of revenue was mainly affected by decrease of income on assets lease by LVL 53.2 million, as transmission system assets and distribution system assets and relevant liabilities invested in share capital of *Latvijas elektriskie tīkli AS* (on 1 April 2011) and *Sadales tīkls AS* (on 1 October 2011), respectively.

Latvenergo AS net profit in 2012 was LVL 31.7 million, that is significantly lower than in 2011 (LVL 658.5 million). The high profit level of *Latvenergo AS* in 2011 was caused by recognition of revaluation reserve in the Company's income, through transmission and distribution system assets investment in *Latvijas elektriskie tīkli AS* and *Sadales tīkls AS* share capital, respectively. *Latvenergo AS* profit amount to be paid out as dividends was LVL 28.5 million (2011: LVL 39.9 million).

Latvenergo AS financial results in 2012 are positively affected mainly due to a higher generated electricity volume in *Daugava Hydro Power Plants* (HPPs), while negatively affected by higher costs of the electricity purchased in the mandatory procurement process, relatively low market prices of electricity and increase in natural gas price in Latvia.

An unusually high water inflow in the Nordic countries and falling coal and CO₂ allowance prices in 2012 resulted in a significant decrease in the market price of electricity both in the Baltic and in the Nordic countries, while an increase in natural gas price by nearly 30% was determined by a rise of crude oil price.

In 2012 *Latvenergo AS* supplied 6,708 GWh electricity to retail clients in Latvia, that approximately matches to the amount of supplied electricity in 2011 (6,685 GWh) and obtained 88% of electricity consumption in Latvia.

In 2013 the market share of the Baltic regulated market will continue to drop. Since 1 January 2013 the electricity market in Estonia is deregulated for all customers, while in Lithuania – for all commercial customers. Full opening of the electricity market in Latvia is expected to occur on 1 September 2013. With a further liberalisation of the Baltic electricity market, in 2013 *Latvenergo AS* will continue to carry out targeted electricity sales activities and strengthen its position in the Baltic electricity market.

In 2012 *Latvenergo AS* power plants generated electricity in a total amount of 5,039 GWh, a 4% decrease in compared to 2011 (5,252 GWh in 2011). In 2012 thermal energy was generated in amount of 2,451 GWh, that is 6% more than in 2011 (2,320 GWh). Electricity generation volume was negatively affected by decline in the market price of electricity and rise in natural gas price, while positively – increased power generation in Daugava HPP.

Capital investments in 2012 amounted to LVL 99.0 million (LVL 180.5 million in 2011). Investment decrease is mainly related with investments in transmission and distribution network assets, resulting as investments in transmission and distribution assets are made by *Latvijas elektriskie tīkli AS* and *Sadales tīkls AS*. Most significant capital investment project is reconstruction of Riga CHPP-2, where in 2012 invested LVL 50.8 million. The completion of project is scheduled for 2013. In 2012 based on Decision protocol No. 16, 2.§, of Shareholder meeting dated 27 November 2012, made change of implementer for capital investments project “330 kV Kurzeme Ring construction” financed by European Union funds, transferring project to *Latvijas elektriskie tīkli AS*. In 2012 capital investments in the project amounted to LVL 16.1 million.

To diversify its sources of funding, at the end of 2012 and at the beginning of 2013 *Latvenergo AS* has successfully executed two series of the issuance of corporate bonds in amount of EUR 50 million under the total LVL 50 million programme. *Latvenergo AS* maintains a stable capital structure and good liquidity ratios.

In 2012 with the issuance of corporate bonds *Latvenergo AS* net debt has increased to LVL 404.9 million (2011: LVL 400.5 million). In 2012 all the binding financial covenants set in *Latvenergo AS* loan agreements have been met. In 2012 *Latvenergo AS* rate by the *Moody's Investors Service* remains Baa3 with a stable outlook.

Latvenergo Group Strategy until 2016, approved at the end of 2012, forms a transparent and rational vision of pan-Baltic development during the opening of the Baltic electricity market and development of new electricity interconnections. Main perspectives of the strategy - strengthening its position in the Baltic electricity market, diversification of generating sources and balanced development of networks.

Overall we can conclude that operations of *Latvenergo AS* in 2012 are successful and have contributed to achieve objectives defined in *Latvenergo Group strategy*. We run our business by acknowledging of client needs, impact of our operations on environment and society. Development of *Latvenergo AS* will be continued in 2013.

Financial risk management

The Company faces various financial risks, mostly credit risk, liquidity risk, currency and interest rate risk, as well as risk of fair value fluctuation of financial assets and liabilities. The Company's management strives to minimise possible negative influence of financial risks on the Company's financial position by executing regular credit risk analysis and control, as well as regular customer credit control activities. The Company follows prudent liquidity risk control to assure appropriate and sufficient availability of funds to meet its obligations.

Financial instruments

The major financial instruments of the Company are non-current and current borrowings from financial institutions, trade receivables and payables, as well as derivative financial instruments (interest rate swaps) and cash. The main objective of borrowings is to finance the Company's operating activities and investments in property, plant and equipment.

Events after the reporting period

On 19 April 2013 the Shareholders Meeting of *Latvenergo AS* decided to increase the aggregate principal amount of the notes to be issued under the Programme from 50 million lats or its equivalent in Euro to 85 million lats or its equivalent in euro with book-entry within *Latvian Central Depository AS* and listing on *NASDAQ OMX Riga AS*.

There are no other post balance sheet events that would materially affect the financial position of the Company as at 31 December 2012.

Statement of management responsibility

Based on the information available to the Management Board of *Latvenergo AS* in all material aspects *Latvenergo AS* Annual Report 2012 have been prepared in accordance with applicable laws and regulations and gives a true and fair view of assets, liabilities, financial position and profit and loss of the Company. All information included in the Management report is true.

Profit distribution

Fulfilling the requirements of the Law on state and municipality owned shares and companies, Regulations No. 1074 of the Cabinet of Ministers of 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 Management Board of *Latvenergo AS* proposes to allocate LVL 28,546,620 or EUR 40,618,180 to be paid out in dividends and the rest of profit transfer to the Company's reserves.

The distribution of net profit for the 2012 is subject to a resolution of the Company's Shareholders meeting.

The Management Board of *Latvenergo AS*:

(signed by)
Āris Žīgurs
Chairman of the Board

(signed by)
Zane Kotāne
Member of the Board

(signed by)
Uldis Bariss
Member of the Board

(signed by)
Māris Kuņickis
Member of the Board

(signed by)
Arnis Kurgs
Member of the Board

23 April 2013

Income Statement

	Note	2012		2011	
		LVL'000	EUR'000	LVL'000	EUR'000
Revenue	5	657,457	935,477	700,914	997,311
Other operating income	6	2,552	3,631	3,757	5,346
Transfer of business activity	7	-	-	577,989	822,404
Raw materials and consumables used	8	(345,183)	(491,151)	(325,818)	(463,597)
Personnel expenses	9	(22,135)	(31,495)	(21,454)	(30,526)
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	13, 14	(52,102)	(74,134)	(100,559)	(143,083)
Other operating expenses	10	(202,666)	(288,368)	(168,494)	(239,745)
Income from investments in subsidiaries	11 a)	3,449	4,907	725	1,032
Finance income	11 b)	8,799	12,520	5,706	8,118
Finance costs	11 c)	(11,417)	(16,245)	(13,885)	(19,757)
Profit before taxes		38,754	55,142	658,881	937,503
Real estate tax		(691)	(983)	(677)	(963)
Current income tax	12	(7,404)	(10,535)	(12,780)	(18,184)
Deferred income tax	12	1,059	1,507	13,075	18,604
Profit for the year		31,718	45,131	658,499	936,960

Notes on pages 13 to 53 form an integral part of these financial statements.

The Management Board of *Latvenergo AS*:

(signed by)
 Āris Žīgurs
 Chairman of the Board

(signed by)
 Zane Kotāne
 Member of the Board

(signed by)
 Uldis Bariss
 Member of the Board

(signed by)
 Māris Kuņickis
 Member of the Board

(signed by)
 Arnis Kurgs
 Member of the Board

23 April 2013

Balance sheet

	Note	31/12/2012		31/12/2011	
		LVL'000	EUR'000	LVL'000	EUR'000
ASSETS					
Non-current investments					
<i>Intangible assets</i>	13	8,664	12,328	8,065	11,476
<i>Property, plant and equipment</i>					
Land and buildings		618,683	880,307	614,610	874,511
Equipment and machinery		156,284	222,372	127,539	181,472
Other property, plant and equipment		20,332	28,930	20,677	29,421
Assets under construction and advances for property, plant and equipment		260,458	370,598	189,222	269,239
	14	1,055,757	1,502,207	952,048	1,354,643
<i>Investment property</i>	14d	896	1,275	-	-
Non-current financial investments					
Investments in subsidiaries capital	15 a)	574,169	816,969	570,538	811,803
Investments in associates and other non-current investments	15 b)	3,889	5,534	3,889	5,534
Non-current loans to affiliated companies	29 f)	247,183	351,710	290,394	413,193
Investments in held-to-maturity financial assets	31	20,134	28,648	15,670	22,296
Available-for-sale financial assets	15 a)	-	-	3,900	5,549
		845,375	1,202,861	884,391	1,258,375
Total non-current financial investments		1,910,692	2,718,671	1,844,504	2,624,494
Current assets					
<i>Inventories</i>	16	4,691	6,675	4,697	6,683
<i>Receivables</i>					
Trade receivables	17 a)	60,810	86,525	60,894	86,644
Loans to affiliated companies	29 f), g)	83,387	118,649	54,432	77,450
Receivables from affiliated companies	29 c)	9,614	13,679	12,788	18,196
Corporate income tax overpayment	27	7,010	9,974	7	10
Other receivables	17 b)	17,516	24,923	17,104	24,337
		178,337	253,750	145,225	206,637
Investments in held-to-maturity financial assets	31	-	-	44,714	63,622
Derivative financial instruments	28a	4,237	6,029	2,450	3,486
Available-for-sale financial assets		-	-	26	38
Cash and cash equivalents	18	163,437	232,550	101,841	144,907
Total current assets		350,702	499,004	298,953	425,373
TOTAL ASSETS		2,261,394	3,217,675	2,143,457	3,049,867

Notes on pages 13 to 53 form an integral part of these financial statements.

Balance sheet (continued)

	Note	31/12/2012		31/12/2011	
		LVL'000	EUR'000	LVL'000	EUR'000
EQUITY AND LIABILITIES					
Equity					
Share capital	19	904,605	1,287,137	325,862	463,660
Non-current assets revaluation reserve	20	465,738	662,685	411,424	585,404
Hedge reserve	20	(13,130)	(18,682)	(8,247)	(11,734)
Other reserves		50,172	71,389	9,562	13,606
Retained earnings		31,718	45,131	658,499	936,960
Total equity		1,439,103	2,047,660	1,397,100	1,987,896
Provisions					
Provisions for post-employment benefits	22 a)	2,802	3,987	2,890	4,112
Environmental provisions	22 b)	1,000	1,423	1,028	1,463
Total provisions		3,802	5,410	3,918	5,575
Non-current liabilities					
Loans from credit institutions	21	495,703	705,322	454,783	647,098
Issued debt securities (bonds)	21	14,033	19,967	-	-
Deferred income tax liabilities	12	83,423	118,700	74,896	106,567
Derivative financial instruments	28	12,555	17,864	10,629	15,124
Other non-current payables and deferred income	23	535	761	3,933	5,596
Total non-current liabilities		606,249	862,614	544,241	774,385
Current liabilities					
Loans from credit institutions	21	72,672	103,403	47,511	67,602
Borrowings from affiliated companies	29 h)	5,331	7,585	13,131	18,684
Trade payables	24	67,945	96,678	57,071	81,205
Accounts payable to affiliated companies	29 c)	18,818	26,776	40,149	57,127
Taxes and the state compulsory social insurance contributions	27	1,258	1,790	2,754	3,919
Other payables	26	11,297	16,074	16,871	24,005
Accrued liabilities	25	22,575	32,121	7,241	10,303
Derivative financial instruments	28, 30	12,344	17,564	13,470	19,166
Total current liabilities		212,240	301,991	198,198	282,011
TOTAL EQUITY AND LIABILITIES		2,261,394	3,217,675	2,143,457	3,049,867

Notes on pages 13 to 53 form an integral part of these financial statements.

The Management Board of *Latvenergo AS*:

(signed by)
 Āris Žīgurs
 Chairman of the Board

(signed by)
 Zane Kotāne
 Member of the Board

(signed by)
 Uldis Bariss
 Member of the Board

(signed by)
 Māris Kuņickis
 Member of the Board

(signed by)
 Arnis Kurgs
 Member of the Board

23 April 2013

Statement of changes in equity

	Note	Share capital		Reserves		Retained earnings		Total	
		LVL'000	EUR'000	LVL'000	EUR'000	LVL'000	EUR'000	LVL'000	EUR'000
Balance as at 31 December 2010	19, 20	323,544	460,362	972,267	1,383,412	44,562	63,407	1,340,373	1,907,181
Increase of share capital	19	2,318	3,298	-	-	-	-	2,318	3,298
Dividends for 2010	20	-	-	-	-	(35,000)	(49,801)	(35,000)	(49,801)
Transfer to reserves		-	-	9,562	13,606	(9,562)	(13,606)	-	-
Cash flow hedge	20	-	-	(4,335)	(6,168)	-	-	(4,335)	(6,168)
Disposal of revalued property, plant and equipment	20	-	-	(564,755)	(803,574)	-	-	(564,755)	(803,574)
Profit for the year		-	-	-	-	658,499	936,960	658,499	936,960
Balance as at 31 December 2011	19, 20	325,862	463,660	412,739	587,276	658,499	936,960	1,397,100	1,987,896
Increase of share capital		578,743	823,477	(577,989)	(822,404)	-	-	754	1,073
Dividends for 2011		-	-	-	-	(39,900)	(56,773)	(39,900)	(56,773)
Transfer to reserves		-	-	618,599	880,187	(618,599)	(880,187)	-	-
Cash flow hedge		-	-	(4,883)	(6,948)	-	-	(4,883)	(6,948)
Revaluation of property, plant and equipment		-	-	54,314	77,281	-	-	54,314	77,281
Profit for the year		-	-	-	-	31,718	45,131	31,718	45,131
Balance as at 31 December 2012		904,605	1,287,137	502,780	715,392	31,718	45,131	1,439,103	2,047,660

Notes on pages 13 to 53 form an integral part of these financial statements.

Cash flow statement

	Note	2012		2011	
		LVL'000	EUR'000	LVL'000	EUR'000
Cash flows from operating activities					
Profit before taxation		38,754	55,142	658,881	937,503
Adjustments for:					
- amortisation and depreciation	13, 14	49,508	70,444	88,186	125,477
- impairment of non-current assets	14	2,594	3,691	12,373	17,605
- (profit) / loss from disposal of non-current assets		(359)	(511)	311	443
- transfer of business activity	7	-	-	(577,989)	(822,404)
- interest expenses	11 c)	15,099	21,484	15,999	22,764
- interest income	11 b)	(7,797)	(11,094)	(5,435)	(7,733)
- losses / (gains) from changes in the fair value of the financial instruments	8, 11	(5,870)	(8,353)	9,284	13,210
- change in provisions	22	(116)	(165)	(96)	(137)
- change in investments	10	-	-	(28,195)	(40,118)
- income from investments in subsidiaries	11 a)	(3,449)	(4,907)	(725)	(1,032)
- foreign exchange (gains) / losses	11 b)	(866)	(1,232)	737	1,049
- real estate tax	27	(691)	(983)	(677)	(963)
Inventories decrease		6	8	82	117
Trade receivables' decrease / (increase)		2,536	3,608	(1,096)	(1,559)
Trade payables, accrued liabilities, deferred income and other payables' increase		1,189	1,692	21,985	31,282
Cash generated from operations		90,538	128,824	193,625	275,504
Interest paid		(19,875)	(28,280)	(14,307)	(20,357)
Interest received		7,467	10,625	2,376	3,381
Corporate income tax paid		(14,406)	(20,498)	(16,074)	(22,871)
Net cash generated from operations		63,724	90,671	165,620	235,657
Cash flows from investing activities					
Investments in subsidiaries		-	-	(4,025)	(5,727)
Loans issued to subsidiaries		(227,327)	(323,457)	(120,975)	(172,132)
Received repayment of the issued loans		241,581	343,739	75,681	107,684
Proceeds from sale of non-current assets		378	538	22,339	31,786
Acquisition of intangible and property, plant and equipment		(92,527)	(131,654)	(149,383)	(212,553)
Costs of acquisition of shares and bonds		(3,626)	(5,159)	(74,567)	(106,099)
Proceeds from the disposal of shares and bonds		44,974	63,992	17,180	24,445
Repayments of European Union funding		(6,355)	(9,042)	-	-
Proceeds from investments in subsidiaries	11 a)	7,349	10,456	725	1,032
Net cash used in investing activities		(35,553)	(50,587)	(233,025)	(331,564)
Cash flows from financing activities					
Borrowings received from subsidiaries		112,642	160,275	38,777	55,175
Repayments of borrowings from subsidiaries		(120,442)	(171,374)	(28,309)	(40,280)
Proceeds on issued debt securities (bonds)		14,020	19,949	-	-
Proceeds on borrowings from financial institutions	21	112,449	160,001	-	-
Repayment of borrowings from financial institutions	21	(45,344)	(64,519)	(35,679)	(50,767)
Dividends paid		(39,900)	(56,773)	(35,000)	(49,801)
Net cash generated from / (used in) financing activities		33,425	47,559	(60,211)	(85,673)
Net increase / (decrease) in cash and cash equivalents		61,596	87,643	(127,616)	(181,580)
Cash and cash equivalents at the beginning of the reporting year		101,841	144,907	229,457	326,488
Cash and cash equivalents at the end of reporting year	18	163,437	232,550	101,841	144,907

Notes on pages 13 to 53 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 Economy. 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 the business operations of national importance and, therefore, is not subject to privatisation. The Company is engaged in the production and sale of electrical power and heat in the territory of Latvia.

The Annual report for year 2012 include the financial information in respect of Latvenergo AS for the annual period ending 31 December 2012 and comparative information for year ending 31 December 2011.

Latvenergo AS Management Board has approved Annual report on 23 April 2013

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

2. SUMMARY OF SIGNIFICANT 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 Act 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 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. In case the quantity of emitted greenhouse gases exceeds the quantity of allowances allocated by the state free of charge, a provision is set up for the difference based on the market price of greenhouse gas emission allowances at the reporting period. Allowances are accounted for within 'Intangible assets' (see Note 13 a). The forward agreements for purchase or sale of emission allowances for trade rather than for own uses in the Company are defined as derivatives (see points 2.19., 3.3. and Note 28 d).

2.5. Property, plant and equipment

All property, plant and equipment (PPE) are stated at historical cost or revalued amount (see point 2.8) 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 – 5

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 2.7).

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. 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.

2.7. 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).

2.8. 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.

Any accumulated depreciation at the date of revaluation is restated proportionately with the increase or decrease 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.

2.9. 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 inventory count.

During the reporting year at least each month has revaluation of the inventories been performed with purpose to identify obsolete and damaged inventories. Provisions for an impairment loss are recognised for those inventories.

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

- a) inventories that haven't turned over during last 12 months are fully impaired,
- b) 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%,
- c) inventories that haven't turned over during last 6 months are impaired in amount of 50%,
- d) 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%,
- e) Allowances are not calculated for the inventory of heating materials necessary to ensure uninterrupted operations of Riga CHPP.

2.10. Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for impairment. A provision 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 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 17 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.

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. Past-service costs are recognised in the Statement using linear method over the employees' expected average remaining working lives until benefits are guaranteed. If benefits are guaranteed promptly after establishment or changes of defined benefit plan, the Company immediately recognises past-service costs in the Income Statement.

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

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.

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.

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

2.17. 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

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

Grants are recognised at fair value as deferred income and are credited to the Company's Income Statement on a straight-line basis over the expected lives of the related assets.

Financing provided by European Union funds

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

Accounting of the transactions related to the projects financed by the European Union is ensured using separately identifiable accounts. The 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, electricity swaps and CO₂ emission allowances forward contracts 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 28. Movements on the hedging reserve in shareholders' equity are shown in Note 20. 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 and 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 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 energy exchanges 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) Telecommunication services

Revenues derived from telecommunication services to customers are recognised on the basis of invoices which are prepared for clients upon usage of services listed in telecommunications billing system.

d) Interest income

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

e) 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 11 a)).

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

The parties are considered related when one party has a possibility to control the other one or has significant influence over the other party in making financial and operating decisions.

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.

2.28. Issued guarantees

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

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

1) Foreign exchange risk

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

The peg of Lat to Euro at the beginning of the year 2005 resulted in limited EUR / LVL currency risk, as the Company had no any substantial liabilities in any other foreign currency except Euro. At 31 December 2012 the Company had none of their borrowings denominated in other currencies than the Euro (see Note 21).

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 or Euro.

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 2012 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 28.e).

The Company has certain investments in associates and subsidiaries outside Latvia (Estonia and Lithuania); who are exposed to foreign currency risks. Currency exposure arising from the net assets of the Company's foreign operations in Estonia and Lithuania is limited as subsidiaries outside Latvia have insignificant amount of assets. Estonia has joined Euro zone, but 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 substantially 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.

However, during 2012, if Euro and Lats 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 210 thousand or EUR 299 thousand higher or lower (2011: LVL 307 thousand or EUR 437 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 17 interest rate swap agreements with the total notional amount LVL 269.1 million or EUR 382.8 million (2011: 15 interest rate swap agreements in total amount of LVL 241.5 million or EUR 343.6 million) (see Note 28.b).

As at 31 December 2012 47% (31/12/2011: 49%) of the Company's borrowings had fixed interest rate (taking into account the effect of the interest rate swaps) and average fixed rate duration 2 years (2011: 2.19 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. For each simulation, the same interest rate shift is used for all currencies. The scenarios are run only for liabilities that represent the major interest-bearing positions.

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 2012, 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 1,156 thousand or EUR 1,645 thousand (2011: LVL 1,222 thousand or EUR 1,739 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 2012, 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 4,577 thousand or EUR 6,512 thousand higher or lower (31/12/2011: LVL 4,112 thousand or EUR 5,851 thousand). Furthermore LVL 481 thousand or EUR 684 thousand (2011: LVL 649 thousand or EUR 924 thousand) would have been attributable to the Company's Income Statement and LVL 4,096 thousand or EUR 5,828 thousand (2011: LVL 3,463 thousand or EUR 4,927 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 and CO₂ emission allowances. To hedge the risk the Parent Company has purchased electricity swap contracts and CO₂ emission allowance forward contracts that are used to hedge the risk related to changes in the price of electricity (Note 28.c) and CO₂ allowances forward contracts (Note 28.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 17), 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 17).

The maximum credit risk exposure related to financial assets comprises of carrying amounts of cash and cash equivalents (see table below and Note 18), trade and other receivables (Note 17), nominal amounts of issued guarantees (Note 30).

Assessment of maximum possible exposure to credit risk:

	Note	31/12/2012		31/12/2011	
		LVL'000	EUR'000	LVL'000	EUR'000
External trade receivables	17 a)	60,810	86,525	60,894	86,644
Receivables from subsidiaries	29 c), f), g)	341,050	485,270	357,613	508,837
Accrued income	17 b)	12,150	17,288	8,301	11,811
Other current financial receivables	17 b)	140	199	835	1,189
Cash and cash equivalents	18	163,437	232,550	101,841	144,907
Derivative financial instruments	28	4,237	6,029	2,450	3,486
Held-to-maturity financial assets	31	20,134	28,648	60,384	85,918
		601,958	856,509	592,317	842,792

Maximum credit risk related to the issued guarantees 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:

	31/12/2012		31/12/2011	
	LVL'000	EUR'000	LVL'000	EUR'000
Investment level credit rating	133,742	190,298	89,463	127,294
No or non-investment level credit rating	29,695	42,252	12,378	17,612
	163,437	232,550	101,841	144,906

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 21) 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 21), and cash and cash equivalents (Note 18).

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		Between 1 and 2 years		Between 3 and 5 years		Over 5 years		Total	
31/12/2012	LVL'000	EUR'000	LVL'000	EUR'000	LVL'000	EUR'000	LVL'000	EUR'000	LVL'000	EUR'000
Borrowings	81,412	115,839	91,610	130,349	290,165	412,868	168,316	239,492	631,503	898,548
Derivative financial instruments	22,088	31,428	7,720	10,985	5,854	8,329	-	-	35,662	50,742
Issued guarantees	8,994	12,797	-	-	-	-	-	-	8,994	12,797
Trade and other payables*	97,039	138,074	-	-	-	-	-	-	97 039	138 074
	209,533	298,138	99,330	141,334	296,019	421,197	168,316	239,492	773,198	1,100,161

	Less than 1 year		Between 1 and 2 years		Between 3 and 5 years		Over 5 years		Total	
31/12/2011	LVL'000	EUR'000	LVL'000	EUR'000	LVL'000	EUR'000	LVL'000	EUR'000	LVL'000	EUR'000
Borrowings	55,449	78,897	79,079	112,519	295,846	420,951	139,260	198,149	569,634	810,516
Derivative financial instruments	22,009	31,316	11,371	16,179	5,197	7,395	1,085	1,544	39,662	56,434
Issued guarantees	9,922	14,118	-	-	-	-	-	-	9,922	14,118
Trade and other payables*	113,431	161,398	-	-	-	-	-	-	113,431	161,398
	200,811	285,729	90,450	128,698	301,043	428,346	140,345	199,693	732,649	1,042,466

* 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.

	31/12/2012		31/12/2011	
	LVL'000	EUR'000	LVL'000	EUR'000
Total equity	1,439,103	2,047,660	1,397,100	1,987,896
Total assets	2,261,394	3,217,675	2,143,457	3,049,867
Outstanding financial guarantees issued	8,994	12,797	9,922	14,118
Capital ratio (%)	64%		65%	

3.3. Fair value estimation of financial instruments

The fair value of financial instruments is defined as the amount at which an instrument could be exchanged in a current transaction between financially uncommitted, knowledgeable, willing parties other than by forced or liquidation sale. 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.

The fair value of CO₂ emission allowances for greenhouse gases forward contracts is calculated as discounted difference between actual market and settlement prices for CO₂ emission allowances multiplied by the volume of the forward contract.

Calculated fair values of financial instruments are compared to bank's revaluation reports.

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

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 27.9 million or EUR 39.7 million higher or lower (2011: LVL 32.0 million or EUR 45.5 million). Impairment charges recognised during the current reporting year are disclosed in Note 14 b.

III) Revaluation

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 valuation, depreciated replacement cost was determined for each asset. Depreciated replacement cost is calculated as land's instant market value at its current use, increased by the replacement cost of existing buildings and refinements on the said land plot and decreased by the depreciation expenses and other impairment losses. Results of revaluation are described in Note 14 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 17).

c) Fair value estimation for 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. Changes in assumptions about these factors could affect reported fair value of financial instruments (Note 28).

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 significant number of swap transactions to hedge the risk of the changes in prices of electricity and interest rate fluctuations to which cash flow hedge risk accounting is applied. The gains and losses from changes in the fair value of the effective hedging instruments and items secured against risk are included in respective equity reserve. The evaluation of the effectiveness of the hedging is based on the Company's Management estimates with regard to future purchase transactions of electricity and signed variable interest loan agreements. When hedging instruments turn out to be ineffective, gains/losses from the changes in the fair value is recognised in the Company's Income Statement (Note 28).

5. REVENUE

	2012		2011	
	LVL'000	EUR'000	LVL'000	EUR'000
Electricity sales	532,855	758,185	541,604	770,633
Heat sales	79,689	113,387	59,702	84,948
Lease of assets	6,357	9,045	59,580	84,775
Sales of other services	38,556	54,860	40,028	56,955
	657,457	935,477	700,914	997,311

Geographical distribution of revenues

	2012		2011	
	LVL'000	EUR'000	LVL'000	EUR'000
Latvia	597,500	850,166	610,826	869,127
Lithuania	20,904	29,744	59,240	84,291
Estonia	15,030	21,386	19,673	27,992
Other European Union countries	1,772	2,521	2,215	3,152
Other countries	22,251	31,660	8,960	12,749
	657,457	935,477	700,914	997,311

6. OTHER OPERATING INCOME

	2012		2011	
	LVL'000	EUR'000	LVL'000	EUR'000
Gain from sale of assets held for sale and property, plant and equipment	186	265	290	413
Gain from disposal of non-current assets revaluation reserve (Note 20)	569	810	536	762
Gain from sale of current assets and other income	1,571	2,234	1,631	2,321
Income on redemption of held-to-maturity financial assets	226	322	1,300	1,850
	2,552	3,631	3,757	5,346

7. TRANSFER OF BUSINESS ACTIVITY

	2012		2011	
	LVL'000	EUR'000	LVL'000	EUR'000
Increase of property, plant and equipment value	-	-	23,327	33,191
Disposal of non-current assets revaluation reserve	-	-	663,884	944,622
Deferred tax related to non-current assets revaluation reserve	-	-	(99,583)	(141,694)
Deferred tax related to invested property, plant and equipment	-	-	(9,639)	(13,715)
	-	-	577,989	822,404

8. RAW MATERIALS AND CONSUMABLES USED

	2012		2011	
	LVL'000	EUR'000	LVL'000	EUR'000
Electricity:				
Purchased electricity	209,261	297,752	183,998	261,806
Fair value (income) / loss on electricity swaps (Note 28.c)	(1,525)	(2,170)	7,759	11,040
	207,736	295,582	191,757	272,846
Fuel expense	131,258	186,763	120,410	171,328
Fair value (income) / loss on CO ₂ emission allowances forward contracts (Note 28.d)	(4,597)	(6,541)	1,155	1,643
Raw materials, spare parts and maintenance costs	10,786	15,347	12,496	17,780
	345,183	491,151	325,818	463,597

9. PERSONNEL EXPENSES

	2012		2011	
	LVL'000	EUR'000	LVL'000	EUR'000
Wages and salaries	16,940	24,104	16,186	23,030
Expenditure of employment termination	249	354	432	615
Pension costs – defined contribution plan	746	1,061	730	1,039
State social insurance contributions and other benefits defined in the Collective Agreement	4,200	5,976	4,106	5,842
Total (including remuneration to the management)	22,135	31,495	21,454	30,526
Including remuneration to the management:				
– wages and salaries	224	319	221	314
– expenditure of employment termination	-	-	5	7
– pension costs – defined contribution plan	9	13	6	9
– state social insurance contributions and other benefits defined in the Collective Agreement	55	78	56	80
	288	410	288	410

	2012		2011	
	LVL'000	EUR'000	LVL'000	EUR'000
Number of employees at the end of the year	1,380		1,323	
Average number of employees during the year	1,348		1,330	

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

10. OTHER OPERATING EXPENSES

	2012		2011	
	LVL'000	EUR'000	LVL'000	EUR'000
Selling expenses and customer service costs	12,880	18,327	5,483	7,802
Transmission system service costs	2,897	4,122	1,699	2,417
Distribution system service costs	168,181	239,299	169,517	241,201
Information technology maintenance expenses	2,439	3,470	2,185	3,109
Transportation expenses	1,711	2,435	1,931	2,748
Environment protection and work safety expenses	2,015	2,867	2,116	3,011
Rent, maintenance and other utilities and service costs	2,821	4,014	2,925	4,162
Reversed provision for impairment of investments	-	-	(28,295)	(40,260)
Impairment of investments (Note 15.a)	-	-	100	142
Electricity capacity utilisation costs	2,333	3,320	3,650	5,193
Telecommunications expenses	1,491	2,122	1,303	1,854
Public utilities regulation fee	427	608	49	70
Other expenses	5,471	7,784	5,831	8,296
	202,666	288,368	168,494	239,745

11. FINANCE INCOME AND COSTS AND INCOME FROM INVESTMENTS IN SUBSIDIARIES

a) Income from investments in subsidiaries

	2012		2011	
	LVL'000	EUR'000	LVL'000	EUR'000
Income on sale of investment in <i>Augstsprieguma tīkls AS</i>	3,900	5,549	-	-
Disposal of investment in <i>Augstsprieguma tīkls AS</i>	(3,900)	(5,549)	-	-
Dividends received from <i>Latvijas elektriskie tīkli AS</i>	2,534	3,605	-	-
Dividends received from <i>Elektrum Lietuva UAB</i>	712	1,013	251	358
Dividends received from <i>Elektrum Eesti OÜ</i>	203	289	474	674
	3,449	4,907	725	1 032

b) Finance income

	2012		2011	
	LVL'000	EUR'000	LVL'000	EUR'000
Interest income	7,797	11,094	5,435	7,733
Fair value gain on forward foreign currencies exchange contracts (Note 28.e)	-	-	105	149
Fair value gain on issued guarantees (Note 30)	136	194	166	236
Net gain from currency exchange rate fluctuations	866	1,232	-	-
	8,799	12,520	5,706	8,118

c) Finance costs

	2012		2011	
	LVL'000	EUR'000	LVL'000	EUR'000
Interest expense on borrowings	10,235	14,563	11,933	16,979
Interest expense on interest rate swaps	4,864	6,921	4,066	5,785
Management commission on borrowings	106	151	44	63
Fair value loss on interest rate swaps (Note 28.b)	283	403	641	912
Fair value loss on forward foreign currencies exchange contracts (Note 28.e)	105	149	-	-
Capitalised borrowing costs and currency translation differences	(4,176)	(5,942)	(3,536)	(5,031)
Net foreign exchange losses	-	-	737	1,049
	11,417	16,245	13,885	19,757

12. INCOME TAX

	2012		2011	
	LVL'000	EUR'000	LVL'000	EUR'000
Current income tax	7,404	10,535	12,780	18,184
Deferred income tax	(1,059)	(1,507)	(13,075)	(18,604)
	6,345	9,028	(295)	(420)

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:

	2012		2011	
	LVL'000	EUR'000	LVL'000	EUR'000
Profit before tax	38,754	55,142	658,881	937,503
Corporate income tax at the statutory rate 15%	5,813	8,271	98,832	140,625
Real estate tax	(104)	(148)	(102)	(145)
The taxable expenses	217	309	573	815
Tax deductions for donations	(175)	(249)	(13)	(18)
Dividends received from subsidiaries	(517)	(736)	(109)	(155)
Income on provisions reversal	-	-	(4,229)	(6,017)
Allowances for impaired receivables	1,616	2,299	274	390
Losses that reduce taxable income	-	-	(1,059)	(1,507)
Other expenses	(17)	(24)	(122)	(174)
Transfer of business activity to subsidiaries	-	-	(86,698)	(123,360)
Tax incentives for new technological equipment	(488)	(694)	(7,642)	(10,874)
	6,345	9,028	(295)	(420)

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 offset amounts are as follows:

	31/12/2012		31/12/2011	
	LVL'000	EUR'000	LVL'000	EUR'000
Deferred tax liabilities:				
- deferred tax liabilities to be payable after more than 1 year	84,162	119,752	73,986	105,273
- deferred tax liabilities to be payable within 1 year	1,479	2,104	4,019	5,719
Deferred tax assets:				
- deferred tax assets to be recovered after more than 1 year	(924)	(1,315)	(1,062)	(1,511)
- deferred tax assets to be recovered within 1 year	(1,294)	(1,841)	(2,047)	(2,913)
Total deferred tax liabilities	83,423	118,700	74,896	106,568

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

	2012		2011	
	LVL'000	EUR'000	LVL'000	EUR'000
At the beginning of the year	74,896	106,568	187,635	266,981
Income credited to the Income Statement	(1,059)	(1,507)	(13,075)	(18,604)
Transfer of business activity to subsidiaries	-	-	(99,583)	(141,694)
Attributable to non-current assets revaluation reserve in equity	9,586	13,639	(81)	(115)
Deferred tax liabilities at the end of the year	83,423	118,700	74,896	106,568

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

	2012		2011	
	LVL'000	EUR'000	LVL'000	EUR'000
Deferred tax liabilities:	Accelerated tax depreciation			
At the beginning of the year	78,005	110,991	189,328	269,390
Income credited to the Income Statement	(1,950)	(2,775)	(11,659)	(16,589)
Transfer of business activity to subsidiaries	-	-	(99,583)	(141,694)
Attributable to non-current assets revaluation reserve in equity	9,586	13,640	(81)	(115)
At the end of the year	85,641	121,856	78,005	110,992
Deferred tax assets:	Accruals/provisions			
At the beginning of the year	(3,109)	(4,424)	(1,693)	(2,409)
Expense charged / (income credited) to the Income Statement	891	1,268	(1,416)	(2,015)
At the end of the year	(2,218)	(3,156)	(3,109)	(4,424)
Deferred tax liabilities at the end of the year	83,423	118,700	74,896	106,568

13. INTANGIBLE ASSETS

	Connection usage rights and licenses		Software		Assets under construction and advance payments		TOTAL	
	LVL'000	EUR'000	LVL'000	EUR'000	LVL'000	EUR'000	LVL'000	EUR'000
At 31 December 2010								
Cost	1,750	2,490	18,616	26,488	79	112	20,445	29,090
Accumulated amortisation	(568)	(808)	(12,425)	(17,679)	-	-	(12,993)	(18,487)
Net book amount	1,182	1,682	6,191	8,809	79	112	7,452	10,603
Year ended 31 December 2011								
Opening net book amount	1,182	1,682	6,191	8,809	79	112	7,452	10,603
Additions	-	-	620	882	1,076	1,531	1,696	2,413
Recognised as assets	14,630	20,817	-	-	-	-	14,630	20,817
Disposals*	(582)	(828)	-	-	(658)	(936)	(1,240)	(1,764)
Invested in <i>Sadales tīkls AS</i> share capital	(12,053)	(17,150)	-	-	-	-	(12,053)	(17,150)
Amortisation charge	-	-	(2,420)	(3,443)	-	-	(2,420)	(3,443)
Closing net book amount	3,177	4,521	4,391	6,248	497	707	8,065	11,476
At 31 December 2011								
Cost	3,992	5,681	19,139	27,233	497	707	23,628	33,621
Accumulated amortisation	(815)	(1,160)	(14,748)	(20,985)	-	-	(15,563)	(22,145)
Net book amount	3,177	4,521	4,391	6,248	497	707	8,065	11,476
Year ended 31 December 2012								
Opening net book amount	3,177	4,521	4,391	6,248	497	707	8,065	11,476
Additions	2	3	1,012	1,440	2,088	2,971	3,102	4,414
Disposals*	(281)	(400)	(1)	(1)	-	-	(282)	(401)
Amortisation charge	-	-	(2,221)	(3,161)	-	-	(2,221)	(3,161)
Closing net book amount	2,898	4,124	3,181	4,526	2,585	3,678	8,664	12,328
At 31 December 2012								
Cost	3,994	5,683	19,855	28,251	2,585	3,678	26,434	37,612
Accumulated amortisation	(1,096)	(1,559)	(16,674)	(23,725)	-	-	(17,770)	(25,284)
Net book amount	2,898	4,124	3,181	4,526	2,585	3,678	8,664	12,328

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

a) Greenhouse gas emission allowances:

	2012	2011
	Number of allowances	Number of allowances
At the beginning of the year	505,263	463,357
Allowances allocated free of charge	2,858,891	1,028,814
Purchased allowances	562,188	216,431
Used allowances	(906,041)	(1,133,339)
Sales of allowances	(70,000)	(70,000)
At the end of the year	2,950,301	505,263

Allowances are allocated free of charge in accordance with the law “On Pollution” and Directives of the Ministry of Environmental Protection and Regional Development and are recognised at zero cost. During the reporting period ended 31 December 2012 the number of allowances in the Company received from the Government free of charge was 2,858,891 (31/12/2011: 1,028,814). Therefore their carrying amount as at 31 December 2012 was nil (31/12/2011: nil). The fair value of allowances allocated free of charge as at 31 December 2012 amounted to LVL 13,462 thousand or EUR 19,155 thousand (31/12/2011: LVL 5,654 thousand or EUR 8,045 thousand) and closing market price at *NASDAQ OMX Commodities* exchange on the last trade date (28 December 2012) – 6,7 EUR/t (30/12/2011: 7,82 EUR/t).

In 24 October 2012 in accordance with Directive No. 51 of the Ministry of Environmental Protection and Regional Development “For additional allocation of gas emission allowances for *Latvenergo AS* thermal plant TEC-2 in period from 2009 until 2012” all allowances for four-year period are received and allocated. European Union Allowances (EUA) must be used until the end of 2020.

As at 31 December 2012 the number of allowances in the Company purchased was 562,188 (31/12/2011: 216,431). Allowances are purchased under CO₂ emissions allowances forward contracts (Note 28.d). Purchase costs of allowances in amount of LVL 7,293 thousand or EUR 10,377 thousand (2011: LVL 1,141 thousand or EUR 1,623 thousand) are included in the Company’s Income Statement position ‘Fuel expense’ (Note 8). All purchased allowances during the 2012 are used therefore carrying amount at the end of the year was nil (31/12/2011: nil).

14. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

	Revalued Daugava hydropower plants' buildings and facilities		Non-revalued buildings and facilities		Land, buildings and facilities, total		Revalued Daugava hydropower plants' technology equipment, machinery		Non-revalued technology equipment, machinery		Technology equipment and machinery, total	
	LVL'000	EUR'000	LVL'000	EUR'000	LVL'000	EUR'000	LVL'000	EUR'000	LVL'000	EUR'000	LVL'000	EUR'000
As at 31 December 2010												
Cost or valuation	1,041,991	1,482,620	1,780,328	2,533,179	2,822,319	4,015,799	156,685	222,943	933,729	1,328,577	1,090,414	1,551,520
Accumulated depreciation and impairment	(586,615)	(834,678)	(917,364)	(1,305,291)	(1,503,979)	(2,139,969)	(111,154)	(158,158)	(489,502)	(696,499)	(600,656)	(854,657)
Net book amount	455,376	647,942	862,964	1,227,888	1,318,340	1,875,830	45,531	64,785	444,227	632,078	489,758	696,863
Year ended 31 December 2011												
Opening net book amount	455,376	647,942	862,964	1,227,888	1,318,340	1,875,830	45,531	64,785	444,227	632,078	489,758	696,863
Additions	2,957	4,207	18,181	25,869	21,138	30,076	2,886	4,106	12,639	17,984	15,525	22,090
Transfers	-	-	(60)	(85)	(60)	(85)	-	-	53	75	53	75
Disposals	-	-	(5,594)	(7,960)	(5,594)	(7,960)	-	-	(1,816)	(2,584)	(1,816)	(2,584)
Invested in <i>Latvijas elektriskie tīkli AS</i>	-	-	(114,824)	(163,380)	(114,824)	(163,380)	-	-	(124,184)	(176,698)	(124,184)	(176,698)
Invested in <i>Sadales tīkls AS</i>	-	-	(564,733)	(803,543)	(564,733)	(803,543)	-	-	(224,068)	(318,820)	(224,068)	(318,820)
Appreciation on transfer of business activity to subsidiaries	-	-	4,048	5,760	4,048	5,760	-	-	18,582	26,440	18,582	26,440
Impairment charge	-	-	(425)	(605)	(425)	(605)	-	-	(12,023)	(17,107)	(12,023)	(17,107)
Depreciation	(9,284)	(13,210)	(33,996)	(48,372)	(43,280)	(61,582)	(10,056)	(14,308)	(24,232)	(34,479)	(34,288)	(48,787)
Closing net book amount	449,049	638,939	165,561	235,572	614,610	874,511	38,361	54,583	89,178	126,889	127,539	181,472
As at 31 December 2011												
Cost or valuation	1,041,813	1,482,366	222,846	317,081	1,264,659	1,799,447	158,771	225,911	216,532	308,097	375,303	534,008
Accumulated depreciation and impairment	(592,764)	(843,427)	(57,285)	(81,509)	(650,049)	(924,936)	(120,410)	(171,328)	(127,354)	(181,208)	(247,764)	(352,536)
Net book amount	449,049	638,939	165,561	235,572	614,610	874,511	38,361	54,583	89,178	126,889	127,539	181,472
Year ended 31 December 2012												
Opening net book amount	449,049	638,939	165,561	235,572	614,610	874,511	38,361	54,583	89,178	126,889	127,539	181,472
Revaluation of PPE	12,634	17,977	-	-	12,634	17,977	51,294	72,985	-	-	51,294	72,985
Additions	4,044	5,754	4,013	5,710	8,057	11,464	2,633	3,746	709	1,009	3,342	4,755
Invested in <i>Latvijas elektriskie tīkli AS</i>	-	-	-	-	-	-	-	-	-	-	-	-
Invested in share capital	-	-	1,062	1,511	1,062	1,511	-	-	-	-	-	-
Transfers	1,418	2,018	(1,330)	(1,892)	88	126	(928)	(1,321)	932	1,326	4	5
Reclassified to investment property	-	0	(896)	(1,275)	(896)	(1,275)	-	-	-	-	-	-
Disposals	(7)	(10)	(32)	(46)	(39)	(56)	(19)	(27)	(58)	(83)	(77)	(110)
Impairment charge	-	-	304	433	304	433	-	-	(3,114)	(4,431)	(3,114)	(4,431)
Depreciation	(10,980)	(15,623)	(6,157)	(8,761)	(17,137)	(24,384)	(7,060)	(10,045)	(15,644)	(22,259)	(22,704)	(32,304)
Closing net book amount	456,158	649,055	162,525	231,252	618,683	880,307	84,281	119,921	72,003	102,451	156,284	222,372
As at 31 December 2012												
Cost or valuation	1,051,763	1,496,525	221,289	314,866	1,273,052	1,811,391	227,803	324,134	215,928	307,238	443,731	631,372
Accumulated depreciation and impairment	(595,605)	(847,470)	(58,764)	(83,614)	(654,369)	(931,083)	(143,522)	(204,213)	(143,925)	(204,787)	(287,447)	(409,000)
Net book amount	456,158	649,055	162,525	231,252	618,683	880,307	84,281	119,921	72,003	102,451	156,284	222,372

	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	EUR'000	LVL'000	EUR'000	LVL'000	EUR'000	LVL'000	EUR'000	LVL'000	EUR'000
As at 31 December 2010										
Cost or valuation	7,477	10,639	83,992	119,510	91,469	130,149	88,500	125,924	4,092,702	5,823,392
Accumulated depreciation and impairment	(3,366)	(4,789)	(64,008)	(91,075)	(67,374)	(95,864)	(4,786)	(6,810)	(2,176,795)	(3,097,300)
Net book amount	4,111	5,850	19,984	28,435	24,095	34,285	83,714	119,114	1,915,907	2,726,092
Year ended 31 December 2011										
Opening net book amount	4,111	5,850	19,984	28,435	24,095	34,285	83,714	119,114	1,915,907	2,726,092
Additions	-	-	7,617	10,838	7,617	10,838	119,923	170,635	164,203	233,639
Transfers	-	-	7	10	7	10	-	-	-	-
Disposals	-	-	(155)	(221)	(155)	(221)	(14,490)	(20,617)	(22,055)	(31,382)
Invested in <i>Latvijas elektriskie tīkli AS</i>	-	-	(1,076)	(1,531)	(1,076)	(1,531)	-	-	(240,084)	(341,609)
Invested in <i>Sadales tīkls AS</i>	-	-	(2,523)	(3,590)	(2,523)	(3,590)	-	-	(791,324)	(1,125,953)
Appreciation on transfer of business activity to subsidiaries	-	-	910	1,295	910	1,295	-	-	23,540	33,495
Impairment charge	-	-	-	-	-	-	75	107	(12,373)	(17,605)
Depreciation	(309)	(440)	(7,889)	(11,225)	(8,198)	(11,665)	-	-	(85,766)	(122,034)
Closing net book amount	3,802	5,410	16,875	24,011	20,677	29,421	189,222	269,239	952,048	1,354,643
As at 31 December 2011										
Cost or valuation	7,477	10,639	76,916	109,442	84,393	120,081	193,932	275,941	1,918,287	2,729,477
Accumulated depreciation and impairment	(3,675)	(5,229)	(60,041)	(85,431)	(63,716)	(90,660)	(4,710)	(6,702)	(966,239)	(1,374,834)
Net book amount	3,802	5,410	16,875	24,011	20,677	29,421	189,222	269,239	952,048	1,354,643
Year ended 31 December 2012										
Opening net book amount	3,802	5,410	16,875	24,011	20,677	29,421	189,222	269,239	952,048	1,354,643
Revaluation of PPE	539	767	-	-	539	767	-	-	64,467	91,729
Additions	21	30	6,647	9,458	6,668	9,488	77,836	110,751	95,903	136,458
Invested in <i>Latvijas elektriskie tīkli AS</i>	-	-	-	-	-	-	(6,662)	(9,479)	(6,662)	(9,479)
Invested in share capital	-	-	-	-	-	-	-	-	1,062	1,511
Transfers	282	401	(374)	(532)	(92)	(131)	-	-	-	-
Reclassified to investment property	-	-	-	-	-	-	-	-	(896)	(1,275)
Disposals	-	-	(14)	(20)	(14)	(20)	(154)	(220)	(284)	(406)
Impairment charge	-	-	-	-	-	-	216	307	(2,594)	(3,691)
Depreciation	(459)	(653)	(6,987)	(9,942)	(7,446)	(10,595)	-	-	(47,287)	(67,283)
Closing net book amount	4,185	5,955	16,147	22,975	20,332	28,930	260,458	370,598	1,055,757	1,502,207
As at 31 December 2012										
Cost or valuation	9,598	13,657	77,628	110,455	87,226	124,112	264,953	376,994	2,068,962	2,943,869
Accumulated depreciation and impairment	(5,413)	(7,702)	(61,481)	(87,480)	(66,894)	(95,182)	(4,495)	(6,396)	(1,013,205)	(1,441,662)
Net book amount	4,185	5,955	16,147	22,975	20,332	28,930	260,458	370,598	1,055,757	1,502,207

According to The State Land Service data the cadastral value of *Latvenergo* AS real estate in 2012 amounted to LVL 68,926 thousand or EUR 98,073 thousand (2011: LVL 59,403 thousand or EUR 84,523 thousand).

In 2012 the Company has capitalised borrowing costs in amount of LVL 4,384 thousand or EUR 6,238 thousand (2011: LVL 3,536 thousand or EUR 5,031 thousand).

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 valutors 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 or 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 or 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	
	LVL'000	EUR'000	LVL'000	EUR'000	LVL'000	EUR'000	LVL'000	EUR'000
At revalued amounts:								
As at 31 December 2011								
Revalued	1,044,925	1,486,794	159,569	227,046	7,485	10,650	1,211,979	1,724,491
Accumulated depreciation	(595,837)	(847,800)	(122,192)	(173,864)	(3,686)	(5,245)	(721,715)	(1,026,908)
Revalued net book amount	449,088	638,995	37,377	53,183	3,799	5,405	490,264	697,583
As at 31 December 2012								
Revalued	1,051,763	1,496,524	227,803	324,134	9,598	13,657	1,289,164	1,834,315
Accumulated depreciation	(595,605)	(847,470)	(143,522)	(204,213)	(5,413)	(7,702)	(744,540)	(1,059,385)
Revalued net book amount	456,158	649,054	84,281	119,921	4,185	5,955	544,624	774,930
At amounts stated on historical cost basis:								
As at 31 December 2011								
Cost	66,011	93,925	95,727	136,207	5,446	7,749	167,184	237,881
Accumulated depreciation	(21,252)	(30,239)	(64,883)	(92,320)	(4,342)	(6,178)	(90,477)	(128,737)
Net book amount	44,759	63,686	30,844	43,887	1,104	1,571	76,707	109,144
As at 31 December 2012								
Cost	72,063	102,536	101,198	143,992	7,558	10,754	180,819	257,282
Accumulated depreciation	(23,057)	(32,807)	(69,804)	(99,322)	(6,336)	(9,015)	(99,197)	(141,145)
Net book amount	49,006	69,729	31,394	44,670	1,222	1,739	81,622	116,138

b) Impairment

Impairment review performed in accordance with IAS 36 Impairment of Assets resulted in an impairment charge on technological equipment and machinery of the Riga TEC-2 combined heat and power plant based on value in use calculations. The accumulated impairment as at 31 December 2012 amounted to LVL 53,495 thousand or EUR 76,117 thousand (31/12/2011: LVL 50,381 thousand or EUR 71,686 thousand). The cash-generating unit is defined as the assets of Riga TEC-2 plant. Additional impairment is due to limited terms determined by regulations (15 years) for assistance reciprocity to combined heat and power plants. Nominal pre-tax discount rate used to determine value in use of cash-generating unit by discounting cash flows is 7.4% (2011: 8.4%).

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

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

	Latvijas elektriskie tīkli AS		Sadales tīkls AS		Total	
	LVL'000	EUR'000	LVL'000	EUR'000	LVL'000	EUR'000
As at 31 December 2012						
Cost or valuation	23,159	32,952	61,198	87,077	84,357	120,029
Accumulated depreciation	(5,165)	(7,349)	(30,112)	(42,846)	(35,277)	(50,195)
Net book amount	17,994	25,603	31,086	44,231	49,080	69,835

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 hereafter will continue 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 and included land in the amount of LVL 187 thousand or EUR 266 thousand and buildings in the amount of LVL 709 thousand or EUR 1,009 thousand. Based on fair value estimations for real estate assets prepared by external, certified valuers the fair value of the investment property assessed in the amount of LVL 1,683 thousand or EUR 2,395 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.

	2012		2011	
	LVL'000	EUR'000	LVL'000	EUR'000
Investment properties	896	1,275	-	-

15. INVESTMENTS

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

			31/12/2012	31/12/2011
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%	-
<i>Elektrum Lietuva UAB</i>	Lithuania	Electricity supply	100%	100%
<i>Liepājas enerģija SIA</i>	Latvia	Thermal energy generation and sales in Liepāja city, electricity generation	51%	51%
Associates:				
<i>Nordic Energy Link AS</i>	Estonia	Electricity transmission	25%	25%
<i>Pirmais Slēgtais Pensiju Fonds AS</i>	Latvia	Management of pension plans	46.30%	46.30%

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.

a) Investments in subsidiaries

Following the regulation No. 635 of the Cabinet of Ministers of Latvia dated 5 December 2011 "On purchase of shares and the shareholder of *Augstsprieguma tīkls AS*" and according to the agreement "On purchase of shares" dated 30 December 2011 the investment in subsidiary undertaking *Augstsprieguma tīkls AS* is disposed of. As at 31 December 2011 investment in *Augstsprieguma tīkls AS* has been estimated in recoverable amount and therefore has not any effect to the Company's Income Statement when the sales transaction was completed on January 2012.

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 or EUR 5,166 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 or EUR 9,478 thousand and relevant liabilities of project in the amount of LVL 3,030 thousand or EUR 4,311 thousand.

Movement on investments in subsidiaries:

	2012		2011	
	LVL'000	EUR'000	LVL'000	EUR'000
At the beginning of the year	570,538	811,803	2,598	3,697
Investment with transfer of business activity:				
to <i>Latvijas elektriskie tīkli AS</i> and <i>Sadales tīkls AS</i> (Note 15.b)	-	-	539,620	767,810
Reversed provision for impairment of investments (Note 10)	-	-	28,295	40,260
Increase of subsidiaries' share capital	3,631	5,166	4,025	5,727
Non-current financial investments classified as held for sale	-	-	(3,900)	(5,549)
Impairment of investments (Note 10)	-	-	(100)	(142)
At the end of the year	574,169	816,969	570,538	811,803

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

	31/12/2012		31/12/2011	
	LVL'000	EUR'000	LVL'000	EUR'000
Investments in associates:				
Investment in <i>Nordic Energy Link AS</i>	3,861	5,494	3,861	5,494
Investment in <i>Pirmais Slēgtais Pensiju Fonds AS</i>	25	36	25	36
Other non-current financial investments:				
Investment in <i>Rīgas Siltums AS</i>	3	4	3	4
	3,889	5,534	3,889	5,534

Name of the Company	Equity				Net profit / (loss) for the year				Net share of interest from investment			
	31/12/2012		31/12/2011		2012		2011		31/12/2012		31/12/2011	
	LVL'000	EUR'000	LVL'000	EUR'000	LVL'000	EUR'000	LVL'000	EUR'000	LVL'000	EUR'000	LVL'000	EUR'000
Subsidiaries:												
<i>Latvijas elektriskie tīkli AS</i>	136,228	193,835	129,642	184,464	5,489	7,810	2,816	4,007	130,457	185,624	126,826	180,457
<i>Sadales tīkls AS</i>	399,896	569,001	399,342	568,212	553	787	(13,477)	(19,176)	441,119	627,656	441,119	627,656
<i>Elektrum Eesti OÜ</i>	740	1,053	603	858	340	484	226	322	25	36	25	36
<i>Elektrum Lietuva UAB</i>	641	912	877	1,248	476	677	792	1,127	69	98	69	98
<i>Liepājas enerģija SIA</i>	7,064	10,051	6,163	8,769	901	1,282	919	1,308	2,499	3,556	2,499	3,556
	544,569	774,852	536,627	763,551	7,759	11,040	(8,724)	(12,412)	574,169	816,970	570,538	811,803
Associates:												
<i>Nordic Energy Link AS</i>	15,452	21,986	18,664	26,556	1,109	1,578	890	1,266	3,861	5,494	3,861	5,494
	15,452	21,986	18,664	26,556	1,109	1,578	890	1,266	3,861	5,494	3,861	5,494

16. INVENTORIES

	31/12/2012		31/12/2011	
	LVL'000	EUR'000	LVL'000	EUR'000
Raw materials and spare parts	2,869	4,082	2,802	3,987
Technological fuel, petrol, oils and lubricants	4,124	5,868	4,120	5,862
Advance payments for inventories	9	13	16	23
Allowance for raw materials, spare parts, technological fuel	(2,311)	(3,288)	(2,241)	(3,189)
	4,691	6,675	4,697	6,683

Movement on the allowance for inventories:

	2012		2011	
	LVL'000	EUR'000	LVL'000	EUR'000
At the beginning of the year	2,241	3,189	2,173	3,092
Charged to the Income Statement	70	100	68	97
At the end of the year	2,311	3,288	2,241	3,189

17. TRADE RECEIVABLES AND OTHER CURRENT RECEIVABLES

a) Trade receivables

	31/12/2012		31/12/2011	
	LVL'000	EUR'000	LVL'000	EUR'000
Receivables				
- Electricity customers	58,637	83,433	58,212	82,828
- Heating customers	16,579	23,590	10,249	14,583
- Other trade receivables	4,870	6,929	1,107	1,575
	80,086	113,952	69,568	98,986
Provision for impairment of receivables				
- Electricity customers	(18,770)	(26,707)	(8,159)	(11,609)
- Heating customers	(249)	(354)	(250)	(356)
- Other trade receivables	(257)	(366)	(265)	(377)
	(19,276)	(27,427)	(8,674)	(12,342)
Receivables, net				
- Electricity customers	39,867	56,726	50,053	71,219
- Heating customers	16,330	23,236	9,999	14,227
- Other trade receivables	4,613	6,563	842	1,198
	60,810	86,525	60,894	86,644

There is no significant concentration of credit risk with respect to trade receivables, as the Company has a large number of customers.

The Company's Management has estimated provisions for impairment of receivables on the basis of aging of trade receivables and by evaluating liquidity and history of previous payments of each significant debtor (see point 2.10). 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 in allowances for impairment of trade receivables are as follows:

	2012		2011	
	LVL'000	EUR'000	LVL'000	EUR'000
At the beginning of the year	8,674	12,342	7,523	10,705
Receivables written off	(487)	(693)	(1,392)	(1,981)
Allowances for impaired receivables	11,089	15,778	2,543	3,618
At the end of the year	19,276	27,427	8,674	12,342

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

	31/12/2012		31/12/2011	
	LVL'000	EUR'000	LVL'000	EUR'000
Accrued interest income	866	1,232	1,565	2,227
Other accrued income	12,150	17,288	8,301	11,811
Deducted pre-tax	3,830	5,450	5,916	8,418
Overpaid taxes (Note 27)	1	1	13	28
Deferred expenses	529	753	474	674
Other receivables	140	199	835	1,189
	17,516	24,923	17,104	24,337

18. CASH AND CASH EQUIVALENTS

	31/12/2012		31/12/2011	
	LVL'000	EUR'000	LVL'000	EUR'000
Cash at bank	145,109	206,472	70,933	100,929
Short-term bank deposits	18,328	26,078	30,908	43,978
	163,437	232,550	101,841	144,907

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 2012 the average annual effective interest rate earned on short-term cash deposits was 1.05% (2011: 1.53%), see also Note 3.1.b.

19. SHARE CAPITAL

As at 31 December 2012 the registered share capital of *Latvenergo AS* is LVL 904,605 thousand or EUR 1,287,137 thousand (31/12/2011: LVL 325,862 thousand or EUR 463,660 thousand) and consists of 904,605 thousand ordinary shares (31/12/2011: 325,862 thousand) with the nominal value of LVL 1 per share (31/12/2011: LVL 1 per share). All shares are fully paid up.

In September 2012, in accordance with the Decision of the Shareholders meeting protocol No. 9.,7.§, dated 22 August 2012, "On increase in the Share Capital and change of statutes of *Latvenergo AS*", share capital was increased by LVL 577,989 thousand or EUR 822,406 thousand by investing positive surplus between equity attributable to equity holders of the Company and amount comprised by share capital and non-distributable reserves. Increase in the share capital was approved by the Company's Shareholders meeting on 22 August 2012 and registered with the Commercial Register of Latvia on 21 September 2012.

In November 2012, in accordance with the Cabinet of Ministers Directive No. 486 dated 16 October 2012 "On the Investment of the State's property units in the Share Capital of *Latvenergo AS*", real estate in the amount of LVL 753 thousand or EUR 1,071 thousand was invested in the Company's share capital (2011: real estate in the amount of LVL 2,318 thousand or EUR 3,298 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 Company's Shareholders meeting on 9 November 2012 and registered with the Commercial Register of Latvia on 25 November 2012.

20. 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	
	LVL'000	EUR'000	LVL'000	EUR'000	LVL'000	EUR'000	LVL'000	EUR'000
As at 31 December 2010	976,180	1,388,979	(3,912)	(5,566)	-	-	972,268	1,383,413
Transfer from previous year profit	-	-	-	-	9,562	13,606	9,562	13,606
Disposal of non-current assets revaluation reserve as a result on transfer of business activity to subsidiaries	(663,884)	(944,622)	-	-	-	-	(663,884)	(944,622)
Reduction of non-current assets revaluation reserve (Note 6)	(535)	(761)	-	-	-	-	(535)	(761)
Changes of deferred tax related to transfer of business activity to subsidiaries (Note 7)	99,583	141,694	-	-	-	-	99,583	141,694
Deferred tax related to non-current assets revaluation reserve (Note 12)	81	115	-	-	-	-	81	115
Loss from fair value changes in derivative financial instruments	-	-	(4,335)	(6,168)	-	-	(4,335)	(6,168)
As at 31 December 2011	411,425	585,405	(8,247)	(11,734)	9,562	13,606	412,740	587,277
Transfer from previous year profit	-	-	-	-	40,610	57,783	40,610	57,783
Revaluation of non-current assets (Note 14)	64,467	91,728	-	-	-	-	64,467	91,728
Change of non-current assets revaluation reserve (Note 6)	(569)	(810)	-	-	-	-	(569)	(810)
Deferred tax related to non-current assets revaluation reserve (Note 12)	(9,585)	(13,638)	-	-	-	-	(9,585)	(13,638)
Loss from fair value changes in derivative financial instruments	-	-	(4,883)	(6,948)	-	-	(4,883)	(6,948)
As at 31 December 2012	465,738	662,685	(13,130)	(18,682)	50,172	71,389	502,780	715,392

* 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 2012 were LVL 39,000 thousand or EUR 56,773 thousand (LVL 0.044 or EUR 0.063 per share) and in 2011 - LVL 35,000 thousand or EUR 49,801 thousand (LVL 0.107 or EUR 0.153 per share).

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 Management Board of *Latvenergo* AS proposes to allocate LVL 28,546,620 or EUR 40,618,180 to be paid out in dividends and the rest of profit transfer to the Company's reserves.

The distribution of net profit for the 2012 is subject to a resolution of the Company's Shareholders meeting.

21. BORROWINGS

	31/12/2012		31/12/2011	
	LVL'000	EUR'000	LVL'000	EUR'000
Non-current borrowings from financial institutions (net of current portion)	495,703	705,322	454,783	647,098
Issued debt securities (bonds)	14,033	19,967	-	-
Current portion of non-current borrowings from financial institutions	71,529	101,777	45,344	64,519
Accrued interest on non-current borrowings	1,143	1,626	2,167	3,083
Total current borrowings:	72,672	103,403	47,511	67,602
Total borrowings:	582,408	828,692	502,294	714,700

Movement in borrowings:

	2012		2011	
	LVL'000	EUR'000	LVL'000	EUR'000
At the beginning of the year	502,294	714,700	537,695	765,071
Borrowings received	112,449	160,001	-	-
Borrowings repaid	(45,344)	(64,519)	(35,679)	(50,767)
Change in accrued interest on borrowings	(1,024)	(1,457)	278	396
Issued debt securities (bonds)	14,033	19,967	-	-
At the end of the year	582,408	828,692	502,294	714,700

Borrowings by categories of lenders:

	31/12/2012		31/12/2011	
	LVL'000	EUR'000	LVL'000	EUR'000
Foreign investment banks	338,617	481,809	316,859	450,850
Foreign commercial banks	31,704	45,111	36,038	51,277
Financial institutions registered in the Republic of Latvia	198,054	281,805	149,397	212,573
Issued debt securities (bonds)	14,033	19,967	-	-
Total borrowings:	582,408	828,692	502,294	714,700

Borrowings by maturity:

	31/12/2012		31/12/2011	
	LVL'000	EUR'000	LVL'000	EUR'000
Fixed rate non-current and current borrowings:				
- < 1 year (current portion of non-current borrowings)	297	423	291	414
- 1- 5 years	14,736	20,967	984	1,400
- > 5 years	-	-	-	-
	15,033	21,390	1,275	1,814
Floating rate non-current and current borrowings:				
- < 1 year (current portion of non-current borrowings)	72,376	102,982	47,220	67,188
- 1- 5 years	344,832	490,652	334,874	476,483
- > 5 years	150,167	213,668	118,925	169,215
	567,375	807,302	501,019	712,886
Total borrowings:	582,408	828,692	502,294	714,700

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

	31/12/2012		31/12/2011	
	LVL'000	EUR'000	LVL'000	EUR'000
- < 1 year	308,880	439,497	259,520	369,263
- 1– 5 years	210,276	299,196	186,550	265,437
- > 5 years	63,252	89,999	56,224	80,000
Total borrowings:	582,408	828,692	502,294	714,700

At 31 December 2012 and at 31 December 2011 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 79.35 thousand or EUR 112.9 thousand (2011: LVL 26.2 thousand or EUR 37.3 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 2.356% (2011: 5.185%).

Borrowings from related parties:

	31/12/2012		31/12/2011	
	LVL'000	EUR'000	LVL'000	EUR'000
Current borrowings from related parties (Note 29)	5,331	7,585	13,131	18,684
	5,331	7,585	13,131	18,684

a) Pledges

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

b) Un-drawn borrowing facilities

As at 31 December 2012 the undrawn portion of committed non-current credit facilities amounts to LVL 140.8 million or EUR 200.3 million (31/12/2011: LVL 253 million or EUR 360 million).

At 31 December 2012 the Company had available LVL 24 million or EUR 34.1 million (31/12/2011: LVL 17.5 million or EUR 24.9 million) of undrawn committed short-term borrowing facilities in respect of which all conditions precedent had been met.

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 2.86% (2011: 3.0%), weighted average effective interest rate for current borrowings was 1.08% (2011: 2.44%). At 31 December 2012 interest rates for non-current borrowings in Euro were 3 and 6 month EURIBOR+0.70% (31/12/2011: +0.40%). At 31 December 2012 seventeen interest rate swap agreements were concluded by the Company for the total notional amount of EUR 382.8 million or LVL 269.1 million (31/12/2011: fifteen interest rate swap agreements in amount of EUR 343.6 million or LVL 241.5 million) and the interest rate was fixed for the periods from 6 to 10 years (Note 28).

d) Issued debt securities (bonds)

In December 2012 *Latvenergo* AS has carried out a bond issue in the nominal amount of EUR 20 million under *Latvenergo* AS LVL 50 million (or its equivalent in EUR) programme for the issuance of bonds. The annual coupon rate is 2.8% and the maturity date is 15 December 2017. At the end of period the issued debt securities (bonds) is measured at amortised cost.

22. PROVISIONS

a) Provisions for post-employment benefits

	2012		2011	
	LVL'000	EUR'000	LVL'000	EUR'000
At the beginning of the year	2,890	4,112	2,638	3,754
Current service cost	112	159	116	165
Interest cost	160	228	178	253
Post-employment benefits paid	(394)	(560)	(146)	(208)
Losses as a result of changes in actuarial assumptions	34	48	104	148
At the end of the year	2,802	3,987	2,890	4,112

Total charged provisions are included in the Company's Income Statement position 'Personnel expenses' within state social insurance contributions and other benefits defined in the Collective agreement (Note 9):

	2012		2011	
	LVL'000	EUR'000	LVL'000	EUR'000
At the beginning of the year	2,890	4,112	2,638	3,754
Provisions received from <i>Sadales tīkls AS</i>	50	71	-	-
Charged to the Income Statement	(138)	(196)	252	358
At the end of the year	2,802	3,987	2,890	4,112

Discount rate used for discounting benefit obligations was 5.7% (2011: 6.15%), 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% (2011: 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

	2012		2011	
	LVL'000	EUR'000	LVL'000	EUR'000
At the beginning of the year	1,028	1,463	1,376	1,958
Charged to the Income Statement	(28)	(40)	(348)	(495)
At the end of the year	1,000	1,423	1,028	1,463

Total charged provisions are included in the Company's Income Statement position 'Other operating expenses' (Note 10). The environmental provision in the amount of LVL 1,000 thousand or EUR 1,423 thousand (2011: LVL 1,028 thousand or EUR 1,463 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).

23. OTHER NON-CURRENT PAYABLES AND DEFERRED INCOME

	31/12/2012		31/12/2011	
	LVL'000	EUR'000	LVL'000	EUR'000
Deferred income on property, plant and equipment received free of charge	310	441	367	522
Deferred income on financing from European Union funds *	225	320	3,566	5,074
	535	761	3,933	5,596

* In 2012 liabilities of European Union funds financed project "330 kV *Kurzeme Ring* construction" in the amount of LVL 3,030 thousand or EUR 4,311 thousand are transferred to the subsidiary *Latvijas elektriskie tīkli AS*

24. TRADE PAYABLES

	31/12/2012		31/12/2011	
	LVL'000	EUR'000	LVL'000	EUR'000
Payables for materials and services	49 345	70 212	41 785	59 455
Payables for electricity	17 586	25 023	13 332	18 970
Advances received from customers	1 014	1 443	1 954	2 780
	67 945	96 678	57 071	81 205

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

25. ACCRUED LIABILITIES

	31/12/2012		31/12/2011	
	LVL'000	EUR'000	LVL'000	EUR'000
Accrued liabilities on expenses	21,436	30,501	6,075	8,644
Accrued liabilities on unpaid vacations	800	1,138	693	986
Accruals for bonuses on financial results of previous years	296	421	428	609
Accruals for benefits and post-employment plan contributions	43	61	45	64
	22,575	32,121	7,241	10,303

26. OTHER PAYABLES

	31/12/2012		31/12/2011	
	LVL'000	EUR'000	LVL'000	EUR'000
Accrued tax liabilities on income	9,955	14,165	9,513	13,536
Payables to personnel	839	1,194	744	1,059
Deferred income on financing from European Union funds *	12	17	5,959	8,479
Payables for membership fees and other current payables	491	698	655	931
	11,297	16,074	16,871	24,005

* In 2012 a part of the funding of European Union funds financed project "330 kV Kurzeme Ring construction" in the amount of LVL 5,947 thousand or EUR 8,462 thousand was transferred as advance payment to the subsidiary *Latvijas elektriskie tīkli AS*

27. TAXES AND STATE SOCIAL SECURITY CONTRIBUTIONS

	31/12/2011		Calculated		Paid		31/12/2012	
	LVL'000	EUR'000	LVL'000	EUR'000	LVL'000	EUR'000	LVL'000	EUR'000
Corporate income tax	7	10	(7,404)	(10,535)	14,407	20,499	7,010	9,974
Value added tax *	(1,660)	(2,362)	(21,651)	(30,807)	23,150	32,939	(161)	(229)
Tax on electricity	(39)	(55)	(575)	(818)	614	874	-	-
State social security contributions	(591)	(841)	(6,041)	(8,596)	5,965	8,487	(667)	(949)
Personal income tax	(367)	(522)	(3,716)	(5,287)	3,669	5,221	(414)	(589)
Real estate tax	(66)	(94)	(691)	(983)	756	1,076	(1)	(1)
Natural resources tax	(18)	(26)	(59)	(84)	62	88	(15)	(21)
	(2,734)	(3,890)	(40,137)	(57,110)	48,623	69,184	5,752	8,184
Tax receivables	20	28	-	-	-	-	7,010	9,974
Tax liabilities	(2,754)	(3,919)	-	-	-	-	(1,258)	(1,790)

* Includes value added tax overpayment as at 31 December 2012 in the amount of LVL 1 thousand (31/12/2011: LVL 12 thousand)

28. DERIVATIVE FINANCIAL INSTRUMENTS

a) Outstanding fair values of derivatives and their classification

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

	Note	31/12/2011				31/12/2012			
		Assets		Liabilities		Assets		Liabilities	
		LVL'000	EUR'000	LVL'000	EUR'000	LVL'000	EUR'000	LVL'000	EUR'000
Interest rate swaps	28 b)	-	-	16,735	23,812	-	-	11,819	16,817
Electricity swaps	28 c)	(4,195)	(5,969)	7,964	11,332	(2,060)	(2,931)	7,347	10,454
CO ₂ emissions allowances forward contracts	28 d)	-	-	-	-	-	-	4,597	6,541
Forward foreign currencies exchange contracts	28 e)	(42)	(60)	-	-	(390)	(555)	-	-
Total outstanding fair values of derivatives:		(4,237)	(6,029)	24,699	35,144	(2,450)	(3,486)	23,763	33,812

	31/12/2011				31/12/2012			
	Assets		Liabilities		Assets		Liabilities	
	LVL'000	EUR'000	LVL'000	EUR'000	LVL'000	EUR'000	LVL'000	EUR'000
Non-current	-	-	12,555	17,864	-	-	10,629	15,124
Current	(4,237)	(6,029)	12,144	17,279	(2,450)	(3,486)	13,134	18,688
Total fair values of derivative financial instruments:	(4,237)	(6,029)	24,699	35,143	(2,450)	(3,486)	23,763	33,812

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 2012 the Company had seventeen interest rate swap agreements with total notional amount of LVL 269.1 million or EUR 382.8 million (31/12/2011: LVL 241.5 million or EUR 343.6 million). Interest rate swaps are concluded with 6 to 10 year maturities and hedged floating rates are 3 and 6 month EURIBOR. As at 31 December 2012 fixed interest rates vary from 1.548% to 4.4925% (31/12/2011: from 2.3835% to 4.4925%).

Fourteen of all outstanding interest rate swap agreements (2011: 12 agreements) are designated to comply with hedge accounting and were re-measured prospectively and retrospectively to test whether they are effective within the hedging period. 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 Company's Income Statement.

In the table below fair value changes of interest rate swaps are disclosed:

	2012				2011			
	Assets		Liabilities		Assets		Liabilities	
	LVL'000	EUR'000	LVL'000	EUR'000	LVL'000	EUR'000	LVL'000	EUR'000
Outstanding fair value at the beginning of the year	-	-	11,819	16,817	(1,011)	(1,439)	8,054	11,460
Included in the Income Statement, net (Note 11)	-	-	283	403	-	-	641	912
Included in other comprehensive income (Note 20)	-	-	4,633	6,592	1,011	1,439	3,124	4,445
Outstanding fair value at the end of the year	-	-	16,735	23,812	-	-	11,819	16,817

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 2012 46% (31/12/2011: 47%) of the Company's borrowings had fixed interest rates (taking into account the effect from the interest rate swaps), and average remaining time to interest re-pricing was 2.0 years (2011: 2.13 years).

c) Electricity swaps

As at 31 December 2012 the Company has entered into 137 (31/12/2011: 125) electricity swap contracts with total outstanding volume of 4,180,372 MWh (31/12/2011: 4,418,243 MWh) and notional value of LVL 129.3 million or EUR 184 million (2011: LVL 139.2 million or EUR 198 million). Electricity swaps are signed for the maturities from one month to one year during the period from 1 January 2013 to 31 December 2014.

Electricity swap contracts are agreed for hedging purposes through financial counterparties and by using the Nordic energy exchange *Nord Pool Spot* pricing. All purchased swap contracts were contracts with fixed amount of electricity and price in Euros.

As at 31 December 2012 29 (31/12/2011: 57) electricity swap contracts are designated to comply with hedge accounting treatment and were re-measured prospectively and retrospectively to test whether they are effective within the hedging period. All contracts are designed as cash flow hedges. As there was no ineffectiveness to be recorded through profit or loss in the Company's Income Statement, then fair value gains or losses are recognised in the hedging reserve in 'Other comprehensive income' (Note 20).

In the table below fair value changes of electricity swaps are disclosed:

	2012				2011			
	Assets		Liabilities		Assets		Liabilities	
	LVL'000	EUR'000	LVL'000	EUR'000	LVL'000	EUR'000	LVL'000	EUR'000
Outstanding fair value at the beginning of the year	(2,060)	(2,931)	7,347	10,453	(2,393)	(3,405)	-	-
Included in the Income Statement (Note 8)	-	-	(1,525)	(2,170)	2,393	3,405	5,366	7,635
Included in other comprehensive income (Note 20)	(2,135)	(3,038)	2,142	3,048	(2,060)	(2,931)	1,981	2,818
Outstanding fair value at the end of the year	(4,195)	(5,969)	7,964	11,331	(2,060)	(2,931)	7,347	10,453

d) CO₂ emissions allowances forward contracts

As at 31 December 2012 the Company has no outstanding contracts of CO₂ emission allowances purchase or sale (31/12/2011: 24).

As at 31 December 2012 total amount of allocated and procured CO₂ emission allowances for the allocation period till the end of 2012 is sufficient to offset emissions. Over the European Union Emissions Trading System Phase II the Company has used the allowed option to procure and offset 10% of allocated European Union Allowances (EUA) with cheaper Certified Emission Reductions (CER).

In 2012 CO₂ emission allowances forward contracts fair value changes are included in the Company's Income Statement in the amount of LVL 4,597 thousand or EUR 6,541 thousand (Note 8) (31/12/2011: LVL 1,155 thousand or EUR 1,643 thousand).

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

	2012		2011	
	Liabilities		Liabilities	
	LVL'000	EUR'000	LVL'000	EUR'000
Outstanding fair value at the beginning of the year	4,597	6,541	3,442	4,898
Included in the Income Statement (Note 8)	(4,597)	(6,541)	1,155	1,643
Outstanding fair value at the end of the year	-	-	4,597	6,541

e) Forward foreign currencies exchange contracts

As at 31 December 2012 the Company has entered into EUR/USD forward foreign currencies exchange contracts. The notional principal amount of the outstanding forward foreign currencies exchange contracts as at 31 December 2012 were USD 3.2 million or LVL 1.7 million (31/12/2011: USD 9.4 million or LVL 5.1 million). As at 31 December 2012 the Company has no outstanding LVL/EUR forward foreign currencies exchange contracts (31/12/2011: EUR 42.0 million or LVL 29.5 million – the notional principal amount of contracts).

The hedged highly probable forecasted USD currency transactions are expected to occur at various dates during the next 9 months. Fair value gains and losses on EUR/USD forward foreign currencies exchange contracts as at 31 December 2012 are recognised in the hedging reserve in 'Other comprehensive income' (Note 20) as they qualify under IAS 39 requirements of hedge accounting.

All outstanding EUR/USD forward foreign currencies exchange contracts at 31 December 2012 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.

There was no ineffectiveness to be recorded through profit or loss in the Company's Income Statement from EUR/USD forward foreign currencies exchange contracts. The maximum exposure to credit risk at the reporting date is the fair value of the derivative assets in the Company's Balance Sheet.

In 2012 LVL/EUR forward foreign currencies exchange contracts fair value gains and losses are recognised through profit or loss in the Company's Income Statement (Note 11).

In the table below fair value changes of forward foreign currencies exchange contracts are disclosed:

	2012		2011	
	Assets		Assets	
	LVL'000	EUR'000	LVL'000	EUR'000
Outstanding fair value at the beginning of the year	(390)	(555)	(564)	(802)
Included in the Income Statement (Note 11)	105	149	(105)	(149)
Included in other comprehensive income (Note 20)	243	346	279	397
Outstanding fair value at the end of the year	(42)	(60)	(390)	(554)

29. 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.

	2012		2011	
	LVL'000	EUR'000	LVL'000	EUR'000
a) Sales of goods and services and finance income:				
- subsidiaries	82,787	117,795	186,421	265,253
- associates	-	-	148	211
	82,787	117,795	186,569	265,464
b) Purchases of goods and services and finance costs:				
- subsidiaries	183,173	260,632	222,063	315,967
- associates	2,148	3,056	2,276	3,238
	185,321	263,688	224,339	319,205
	31/12/2012		31/12/2011	
	LVL'000	EUR'000	LVL'000	EUR'000
c) Balances at the end of the year arising from sales/purchases of goods and services:				
Trade receivables:				
- subsidiaries	9,614	13,679	12,788	18,196
- associates	-	-	148	211
	9,614	13,679	12,936	18,407
Trade payables:				
- subsidiaries	18,818	26,776	40,149	57,127
- associates	131	186	125	178
	18,949	26,962	40,274	57,305
d) Accrued income arising from related party transactions:				
- subsidiaries	5,442	7,743	2,949	4,196
	5,442	7,743	2,949	4,196
e) Accrued expenses arising from related party transactions:				
- subsidiaries	18,799	26,749	4,144	5,896
	18,799	26,749	4,144	5,896

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 9.

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 EUR 97,467 thousand or LVL 68,500 thousand. As at 31 December 2012 *Latvijas elektriskie tīkli AS* was repaid on this loan EUR 14,738 thousand or LVL 10,358 thousand (31/12/2011: EUR 6,490 thousand or LVL 4,560 thousand) and total non-current loan as at the end of the reporting year amounted to EUR 82,729 thousand or LVL 58,142 thousand (31/12/2011: EUR 90,977 thousand or LVL 63,940 thousand), including current portion of the loan repayable in 2013 – EUR 12,442 thousand or LVL 8,744 thousand (31/12/2011: EUR 8,248 thousand or LVL 5,797 thousand). The interest rate on loan is floating and influenced by 6 months EURIBOR interbank rate fluctuations. During 2012 the effective average interest rate of non-current loan was 1.58% (2011: 2.068%).

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

	31/12/2012		31/12/2011	
	LVL'000	EUR'000	LVL'000	EUR'000
Non-current loan:				
– < 1 year (including the current portion of non-current loans)	8,744	12,442	5,797	8,248
– 1 – 5 years	40,384	57,461	47,035	66,925
– > 5 years	9,014	12,826	11,108	15,805
	58,142	82,729	63,940	90,978

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 EUR 316,272 thousand or LVL 222,277 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 EUR 42,686 thousand or LVL 30,000 thousand. As at 31 December 2012 *Sadales tīkls AS* was repaid on that non-current loans EUR 30,628 thousand or LVL 21,526 thousand (31/12/2011: nil) and total non-current loans as at the end of the reporting year amounted to EUR 328,330 thousand or LVL 230,751 thousand (31/12/2011: EUR 316,272 thousand or LVL 222,277 thousand), including current portion of the loan repayable in 2013 – EUR 46,906 thousand or LVL 32,966 thousand (31/12/2011: EUR 28,494 thousand or LVL 20,026 thousand). As at 31 December 2012 for 87% of the Company's loans (31/12/2011: 100%) was set floating interest rate, which was influenced by 6 months EURIBOR interbank rate fluctuations. During 2012 the effective average interest rate of non-current loans was 1.78% (2011: 2.199%).

Loans to *Sadales tīkls AS* by maturity:

	31/12/2012		31/12/2011	
	LVL'000	EUR'000	LVL'000	EUR'000
Non-current and current loans:				
– < 1 year (including the current portion of non-current loans)	69,992	99,589	47,524	67,621
– 1 – 5 years	143,047	203,538	160,217	227,968
– > 5 years	54,738	77,885	72,035	102,497
	267,777	381,012	279,775	398,084

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 Financing Agreement mutually signed within the Latvenargo Group. The applicable annual interest rate for intra-group borrowings consists of 3 month RIGIBOR index and average added interest rate used for external current financing of *Latvenargo AS*.

At the end of the annual period *Latvenargo AS* has loaned LVL 37,026 thousand or EUR 52,683 thousand (31/12/2011: LVL 27,498 thousand or EUR 39,126 thousand) to *Sadales tīkls AS* and LVL 4,651 thousand or EUR 6,618 thousand (31/12/2011: LVL 1,111 thousand or EUR 1,581 thousand) to *Elektrum Lietuva UAB*. During 2012 the effective average interest rate was 1.24% (2011: 2.13%) in loan transactions with *Latvijas elektriskie tīkli AS* and *Sadales tīkls AS* and 0.93% in transactions with *Elektrum Eesti OÜ* and *Elektrum Lietuva UAB* (2011: 2.82%). Interest income on intra-group borrowing transactions are included in 'Finance income' (Note 11.a).

Interest received from related parties:

	2012		2011	
	LVL'000	EUR'000	LVL'000	EUR'000
Interest received	221	314	420	598
	221	314	420	598

h) Current loans from related parties

At the end of the annual period *Latvenergo AS* has loans from subsidiaries *Latvijas elektriskie tīkli AS* amounting to LVL 5,234 thousand or EUR 7,447 thousand (31/12/2011: LVL 7,229 thousand or EUR 10,286 thousand) and *Elektrum Eesti OÜ* – LVL 97 thousand or EUR 138 thousand (31/12/2011: LVL 18 thousand or EUR 26 thousand). During 2012 the effective average interest rate was 1.24% (2011: 2.13%) in loan transactions with *Latvijas elektriskie tīkli AS* and *Sadales tīkls AS* and 0.93% in transactions with *Elektrum Eesti OÜ* and *Elektrum Lietuva UAB* (2011: 2.82%). Interest costs on intra-group borrowing transactions are included in 'Finance costs' (Note 11.b).

Interest paid to related parties:

	2012		2011	
	LVL'000	EUR'000	LVL'000	EUR'000
Interest paid	121	172	110	157
	121	172	110	157

30. ISSUED GUARANTEES

	2012		2011	
	LVL'000	EUR'000	LVL'000	EUR'000
Outstanding issued guarantees by the Company to guarantee obligations to third parties:				
Guarantee on behalf of <i>Nordic Energy Link AS</i>	8,994	12,797	9,922	14,118
Total issued guarantees:	8,994	12,797	9,922	14,118

Guarantee on behalf of *Nordic Energy Link AS* was provided for receiving long-term loan facility. As at 31 December 2012 the outstanding amount of the issued guarantee on behalf of *Nordic Energy Link AS* with validity term – 15 December 2014 is LVL 8,994 thousand or EUR 12,797 (31/12/2011: LVL 9,922 thousand or EUR 14,118 thousand). The fair value of guarantee is LVL 199.9 thousand or EUR 284.4 thousand (31/12/2011: LVL 335.6 thousand or EUR 477.5 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. During 2012 the average interest rate for discounting cash flow was 2.23% (2011: 4.55%).

31. HELD-TO-MATURITY FINANCIAL ASSETS

It was not necessary to prepare reclassification for financial assets which are recognised at amortised cost during 2012 (2011: 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 2012 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.

	2012				2011			
	Current		Non-current		Current		Non-current	
Residual amortised cost:	LVL'000	EUR'000	LVL'000	EUR'000	LVL'000	EUR'000	LVL'000	EUR'000
Held-to-maturity financial assets	-	-	20,134	28,648	44,714	63,622	15,670	22,296

32. COMMITMENTS AND CONTINGENT LIABILITIES

Capital commitments

As at 31 December 2012 the Company had commitments amounting to LVL 63.1 million or EUR 89.8 million (31/12/2011: LVL 323.9 million or EUR 460.9 million) for capital expenditure contracted but not delivered at the end of the reporting period.

During the ordinary course of business the Company may become a party to legal proceedings and disputes, including claims in relation to actions of regulatory and supervisory institutions. Currently the Company is invited as a third party to the Administrative Court, questioning the legitimacy of the action of the Public Utilities Commission not to object to the latest end user tariff increase. On 25 June 2012, the Administrative Regional court finished a review of complaints on the electricity tariff and carried out a judgement repealing such tariff as of the day it has been approved. Following the submission of cassation complaints, on 31 January 2013, the Senate of the Supreme Court set aside and forwarded the matter to be adjudicated de novo in the Administrative Regional court, stating that (i) the Administrative Regional court had incorrectly defined the object of the case and thus the finding to repeal the decision of the regulatory body would not result in repealing of tariffs, (ii) the Company as the third party has no obligation to compensate the damages to the electricity users and (iii) obligation to compensate the damages to the electricity users lies on the regulatory body as a respondent. The Administrative Regional court will start review of the case on 16 May 2013. It is important to note that until a final and non-appealable judgement is announced, the Company is applying present tariffs that are in force as from 1 April 2011.

33. FEES TO CERTIFIED AUDITOR'S COMPANY

	2012		2011	
	LVL'000	EUR'000	LVL'000	EUR'000
Audit of the financial statements	26	37	35	50
Consultancy and training services	36	51	8	11
	62	88	43	61

34. EVENTS AFTER THE REPORTING PERIOD

On 30 January 2013 Latvenergo AS realised additional issue of bonds in the amount of EUR 30,000,000 and from 31 January 2013 listed on AS NASDAQ OMX Riga in addition to 20,000 bonds Latvenergo AS listed above in the aggregate nominal amount of EUR 20,000,000.

On 21 March 2013 implemented successful placement of notes in the amount of EUR 20,000,000 under the first series of notes.

Upon admission of the additionally issued bonds to the regulated market the bonds will be consolidated and form a single series with the EUR 20,000,000 bonds issued on 19 December 2012, thus forming the series of bonds in the total amount of EUR 70,000,000.

On 19 April 2013 the Shareholders Meeting of Latvenergo AS decided to increase the aggregate principal amount of the notes to be issued under the Programme from 50 million lats or its equivalent in euro to 85 million lats or its equivalent in euro with book-entry within AS Latvian Central Depository and listing on AS NASDAQ OMX Riga. Accordingly, Latvenergo AS plans to supplement the Base Prospectus of the Programme for the issuance of notes that was originally approved by the Management Board on 23 November 2012 and registered with the Latvian Financial and Capital Market Commission on 28 November 2012.

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 2012.

INDEPENDENT AUDITORS' REPORT

To the shareholder of AS Latvenergo

Report on the financial statements

We have audited the accompanying financial statements of AS Latvenergo (the "Company"), set out on pages 8 through 53 of the accompanying 2012 Annual Report, which comprise the balance sheet as at 31 December 2012, 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 2012, 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 2012 (set out on pages 5 through 7 of the accompanying 2012 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 2012.

SIA Ernst & Young Baltic
Licence No. 17

(signed by)

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

Rīga,
23 April 2013