

**AS „Augstsprieguma tīkls” annual report
for the year ended 31 December 2012**

**Prepared in accordance with
Latvian statutory requirements and
Independent auditors’ report**

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Ancillary information

Name of the entity	AS „Augstsprieguma tīkls”
Legal status	Joint Stock Company
Registration number, place and date	000357556 Riga, 28 December 2001
	Re-registered in the Commercial Register 13 November 2004 Registration number 40003575567
Legal address	86 Darzciema Street Riga, LV-1073 Latvia
Shareholder	Since 2 January 2012: Ministry of Finance of the Republic of Latvia (100%) 1 Smilšu Street, Riga, LV-1919, Latvia
Names, Surnames of the Members of the Board, position (since 1 May 2011)	Varis Boks – Chairman of the Board Inese Bambāne – Member of the Board Arnis Staltmanis – Member of the Board Jānis Osītis – Member of the Board
Names, Surnames of the Members of the Board (from 7 April 2011 until 1 May 2011)	Varis Boks – Chairman of the Board Arnis Staltmanis – Member of the Board Jānis Osītis – Member of the Board
Names, Surnames of the Members of the Board (until 7 April 2011)	Imants Zviedris – Chairman of the Board Vita Andersone – The deputy of Chairman of the Board Jānis Kirkovalds – Member of the Board Varis Boks – Member of the Board Kaspars Grava – Member of the Board
Reporting year	1 January 2012 – 31 December 2012
Previous reporting year	1 January 2011 – 31 December 2011
Auditor and sworn auditor name and address	„Deloitte Audits Latvia” License No. 43 Registration number: 40003606960 4a Gredu Street, Riga, LV-1019, Latvia
	Sworn Auditor: Inguna Staša License No. 145

Management report

Aspect of activity

AS „Augstsprieguma tīkls” (hereinafter – the Company) is an independent transmission system operator in Republic of Latvia, which provides transmission system services and ensures balance and stability within the transmission system. The electricity transmission system includes interconnected networks and equipment as well as interconnections with neighbouring power systems with voltages of 110kV and above used to transmit electricity from producers of electricity to the distribution systems or end users.

According to the issued license No E12001 and the 1st part of clause 11 in Electricity Market Law, the Company is the only transmission system operator in Latvia with license area of effect within Latvian borders.

The Company has developed quality, occupational health and safety policies by defining the following core values based on the Law on Energy, Electricity Market Law and Network Codex:

- ✓ responsibility – the Company is responsible: 1) for security of power supply, power reserves for generation and interconnector replacement, taking in to account power exchanges with other transmission systems; 2) for possible congestions and overloads in the transmission system, as well as for stability and compatibility with other interconnected transmission systems; 3) for planning, constructing and implementing of new infrastructure elements in order to develop transmission system; 4) for operation, maintenance, security, system management and development of the transmission system within the licensed territory as well as interconnections with other transmission systems and the ability of the system to ensure long-term energy transmission according to energy demand; 5) for control and management of all generating units connected to the transmission system; 6) for providing distribution system operators with energy in volumes required and corresponding to electricity standard quality requirements;
- ✓ fairness – the Company guarantees non-discriminatory electricity transmission system usage conditions to all users and applicants of the transmission system in accordance with the principles of fairness, openness and equality, as well as guarantees the availability of information for the transmission system users and applicants about the conditions to be met in order to access and connect to the transmission system;
- ✓ quality – The Company assures that service availability is provided by technology that is constantly being improved. Quality is ensured by operational power system management and monitoring, data acquisition about power system state using the remote control and monitoring tools, continuous improvement of customer satisfaction as well as systematic improvement to the professional qualifications of employees;
- ✓ transparency - the Company prepares a report on the balance of transmission system supply and consumption and an assessment report of country’s security of electrical supply and provision with the production capacity, including electricity and power demand forecast for at least 10 years ahead, assessment of consumption and within the reviewed period and forecast for at least 10 years ahead, information on transmission system adequacy related to demand, maintenance quality, compliance with 10 year development plan of the transmission system, as well as information

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regarding measures to be taken in scenario of highest demand and scenario when one or more suppliers are not available;

- ✓ occupational health and safety – the Company carries out legal, social, technical and organizational measures aimed at creating a safe and healthy work environment, as well as to prevent accidents at work and occupational illness;
- ✓ personnel – the Company’s goals are achieved by its employees. The Company cares about each employee’s professionalism, competence and motivation in achieving its goals and ensures continuous improvement of employee qualifications – the Company provides the necessary resources in implementation of lifelong learning principle.

The Company has developed, implemented and maintains its management system based on ISO 9001:2008 (quality) standard requirements.

According to the Law „On Regulators of Public Utilities”, public regulations are performed by the Public Utilities Commission under management of its council. The Public Utilities Commission’s tasks include representation of consumer interests, approval of tariff calculation methodology, tariff determination, public service licensing, promotion of competition in the regulated industries, monitoring of transmission system operator compliance according to certificate requirements and approval of transmission system 10 year development plan.

Differentiated tariffs of the electricity transmission network in 2012 (excl. VAT):

Electricity transmission services	Units	Tariffs since 01.01.2011.*	Tariffs since 01.04.2012.**
Transmission service tariffs, for customers with electrical installations connected to 110 kV lines:			
Electricity transmission tariff	LVL/kWh	0,00214	0,00231
Payment for transmission power maintenance and development	LVL/kWh/ per year	4,556	4,947
Transmission service tariffs, for customers with electrical installations connected to 110 kV bus bars:			
Electricity transmission tariff	LVL/kWh	0,00237	0,00257
Payment for transmission power maintenance and development	LVL/kWh	5,310	5,842
Transmission service tariffs, for customers with electrical installations connected to 110/6-20 kV transformer:			
Electricity transmission tariff	LVL/kWh	0,00275	0,00308
Payment for transmission power maintenance and development	LVL/kWh/ per year	5,928	6,695

* approved by decision No. 175 of the Board of Public Utilities Commission as of 07.05.2010.

** approved by decision No. 44 of the Board of Public Utilities Commission as of 22.02.2012.

Financial results

During the reporting year, Company's sales reached LVL 66 726 770, exceeding the previous year result by LVL 5 208 590 or 9%. Sales from electricity transmission network services in 2012 reached LVL 52 352 773, which comprises 79% of the Company's total sales. Earnings before tax during the reporting year reached LVL 6 075 671.

The Company's share capital as at 31 December 2012 is LVL 4 000 000, which is secured by a cash investment of LVL 4 000 000. All of the Company's shares are owned by the state.

During the reporting year, 6 592 957 MWh of electricity was transmitted to Latvian consumers, which is an increase of 4% over the previous year.

During the reporting year, the transmission system operator license obligations have been fulfilled through the following transmission networks:

Highest voltage (kV)	Number of substations (units)	Number of transformers and autotransformers (units)	Installed power (MVA)	Overhead power lines and cables ETL (km)
330 kV	15	22	3 325.0	1 250.13
110 kV	121	244	4 901.8	4 010.11
Total	136	266	8 226.8	5 260.24

Financial risk management

The Company's performance is primarily associated with the transmission system operator duties, coherent functioning must be ensured between the transmission system and electricity producers, as well as users (including distribution system operators), whose electrical installations are connected to the electrical transmission system, thus the Company's financial risk management is implemented to ensure process continuity. The Company's financial risk management is carried out in accordance with the policy approved by the board and accepted by shareholders.

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

Financial resource management in the Company is focused on the financing of operational activities and securing financial stability by utilizing a conservative financial risk management approach.

The Company's turnover risks are managed by executing strategic and operational risk prevention measures according to the financial risk management policy, thus providing constant monitoring of service tariff compliance with the costs related to the provision of services.

The Company follows prudent liquidity risk management by ensuring that it has adequate financial resources to meet its obligations within due time. During the reporting year the Company has not acquired additional financial resources to help ensure its liquidity.

Financial assets, which potentially subject the Company to a certain risk degree, consist mainly of cash and trade receivables. Although the Company has a significant concentration of risk with regard to a single counterparty or group of related counterparties, the risk is assessed as limited, given the fact that the most important cooperation counterparty is a state-owned corporation – AS „Latvenergo”, as well as members of its group. Trade receivables are disclosed at their recoverable value.

Trade partners are accepted in cooperation with banks and financial institutions with the minimal credit rating at least at investment grade, established by the international credit rating agency of the bank or its parent.

The Company's management estimates that the Company will not face liquidity problems, and the Company will be able to settle debts with creditors on agreed terms. The Company's management believes that the Company will have sufficient resources to not compromise its liquidity.

Future development

Capital investments in the transmission system are planned for projects related to power system security, development and fulfilment of the license holder's obligations.

Main development activities in the coming decade:

- 330 kV electric transmission line (hereinafter - ETL) connection „Kurzemes loks” 1st stage: 330 kV cable line TEC-1 – Imanta, Riga

The project is necessary to close the Riga city 330 kV ring in order to improve security of power supply, as well as to create preconditions for the „Kurzemes loks” – 330 kV overhead power lines Grobina – Imanta connection to „Riga ring”. The project includes reconstruction of existing 330kV substations „TEC-1” and „Imanta” and construction of new 330 kV cable line with the length of 14 km including under the river Daugava, between these two substations.

- 330 kV ETL connection „Kurzemes loks” 2nd stage: 330 kV overhead power line „Grobina – Ventspils”

This project includes construction of 330 kV overhead power line „Grobina – Ventspils” by placing both 330 kV and 110 kV circuits on the same pylons. The project is necessary in order to improve Kurzeme region security of power supply and to create preconditions for connection of numerous planned wind power station parks. It is planned to reconstruct existing 110 kV substations „Aizpute” and „Alsunga”, to expand 330 kV substation „Grobina” (1 connection bay) and to construct new 330 kV switchyard (5 connection bays) and to install two 330/110 kV 125 MVA autotransformers at „Ventspils” substation.

- 330 kV ETL connection „Kurzemes loks” 3rd stage: 330 kV overhead power line „Ventspils – Dundaga – Tume – Imanta”

Construction of 330 kV overhead transmission lines „Ventspils – Tume” and „Tume – Imanta” in order to complete 330 kV Kurzeme Ring, thus improving security of power supply in the Western Region of Latvia and providing infrastructure for connecting new generating units, as well as providing possible increase of transit flows when 700 MW direct current connection between Sweden and Lithuania and 650 MW direct current connection between Estonia and Finland will be commissioned. The project includes expansion of existing 330 kV substations „Imanta” (1 connection bay) and constructing new 330 kV switchyard at „Tume” substation (4 connection bays). In addition it is intended to reconstruct 110 kV switchyards at „Dundaga”, „Talsi”, „Valdemarpils”, „Kandava” and „Priedaine” substations, as well as to increase transfer capacity via 110 kV substations „Tukums”, „Tume”, „Dzintari”, „Kemeru” and „Sloka”.

- Latvian – Estonian third interconnection

In the near future a construction of two new interconnectors is expected: direct current 650 MW cable with Estlink II between Estonia and Sweden and direct current 700 MW cable between Sweden and Lithuania which will substantially increase transit flows through Baltic transmission

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systems. As a result, construction of another (third) 330 kV interconnector is necessary between Latvian and Estonian transmission systems. The planned power line length is about 180 km.

- Electricity transmission system sustainability projects

In partnership with AS „Latvijas elektriskie tīkli” an electricity transmission system development plan has been developed for the next decade, which includes a series of measures to improve transmission system infrastructure – existing 330 kV and 110 kV substation renovations, transmission line and transformer refurbishment.

- Third party access to the electricity transmission network

Taking into consideration principles of Latvian electricity market, AS „Augstsprieguma tīkls”, according to the principles of integrity, openness and equality, will continue to provide producers of electricity, as well as users of the transmission system with non-discriminatory access to the transmission system by constructing new, or by reconstructing existing connections.

- Research and development

As one of the Company’s objective of sustainable development is potential possible s connection to the continental Europe transmission networks. In order to select the most appropriate option of integration of Baltic interconnected transmission system into European transmission network, the Company together with Estonian and Lithuanian transmission system operators is carrying out a research about the potential technical and social, and economic impact of this interconnection. According to the decision No.C(2011)6392 of the Commission of the European Communities since 6 September 2011 „On the European Union's financial support for projects of common interest „Feasibility of interconnection options to integrate Baltic countries into the internal electricity market of EU””, the Company has received financial support from the European Union (hereinafter - EU) to finance the above mentioned research activities.

The Company’s main attention is paid to sustainable growth in order to improve the services provided to Latvian and Baltic electricity market participants.

The Company’s strategic goal set in year 2013 is to provide secure operating state of the Latvian power system, by timely planning development of the transmission system infrastructure and by increasing process efficiency.

Events after the balance sheet date

Executing requirements of the Directive 2009/72/EC as of 13 July 2009 and clause 11¹ of the Electricity Market Law, in 2012 the Company has started the certification process. According to the opinion issued by the European Commission on 3 December 2012 and decision by the Public Utilities commission No. 18 on power transmission system operator certification as of 30 January 2013, AS „Augstsprieguma tīkls” is certified as independent transmission system operator, under conditions that no later than 24 month from the decision:

- AS „Augstsprieguma tīkls” provides self-servicing and maintenance of fixed assets or signs a contract on provision of such services with a third party, which directly or indirectly is not related with power production, trade, distribution and transmission;
- AS „Augstsprieguma tīkls” provides transmission system development, construction of new network, existing network reconstruction and renewal or signs a contract on provision of such services with a third party, which directly or indirectly is not related with power production, trade, distribution and transmission.

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According to the Law on Electricity market the Company as the operator of the transmission system is obligated to maintain the development of electricity market and promote the implementation of power exchange. On 17 June 2009 prime ministers of Baltic states and the president of the European Commission signed a strategic act of development for Baltic states „Baltic Energy Market Interconnection Plan” (BEMIP), which states that by year 2015 Baltic power system will be connected to the European power systems and joint electricity market that is based on Nordic states electricity market principles will be opened. By following the BEMIP plan and as the result of hard work combined with close and successful cooperation between AS „Augstsprieguma tīkls” and AS „Nord Pool Spot”, on 3 June 2013 AS „Nord Pool Spot” has successfully started power stock exchange operations in Latvia by opening new Elspot trading area. As the result of introduction of the power stock exchange, transparent and open Baltic power market is developed, ensuring public availability and validity of electricity prices.

During the period from the last date of the reporting period until the date of signing this report there have been no significant events that could materially affect the end year results.

Proposals for distribution of profit


The Company's management, in fulfilling the requirements of the law „On state and municipality owned shares and companies”, Latvian Cabinet of Ministers regulations No 1471 as of 15 December 2009 (with amendments on 25 November 2010 and 12 July 2011) „On the order which defines and sets to transfer the part of profits to the state budget for the use of the state's capital” proposes to allocate LVL 4 653 116 to be paid out as dividends and to transfer the remaining profit portion of LVL 517 013 to the reserves of the Company.

At the same time according to the methodology of tariffs calculation of power transmission system services, the Company in next financial period has to reduce costs related to transmission services included in the tariff project by the part of actual profit from transmission services that exceed the existing electricity transmission tariff included in the projected profits.

Consequently, the management of AS „Augstsprieguma tīkls”, according to clause 5 of the regulations of the Cabinet of Ministers No 1471 “On the order which defines and sets to transfer the part of profits to the state budget for the use of the state's capital” proposes to reduce the amount of dividends and part of profit use for the creation other reserves.

The distribution of profit for 2012 is subject to resolution by AS „Augstsprieguma tīkls” shareholder's meeting.

AS „Augstsprieguma tīkls” Management Board:




Varis Boks
Chairman of the Board



Inese Bambāne
Board Member



Arnis Staltmanis
Board Member



Jānis Osiņš
Board Member

Riga, 01 July 2013

Income Statement for the year 2012

	Notes	2012 LVL	2011 LVL
Revenue	3	66 726 770	61 518 180
Other operating income	4	41 620	723 550
Raw materials used and repairs	5	(16 905 359)	(17 115 805)
Personnel expenses	6	(1 303 716)	(2 851 227)
<i>a) salaries</i>		(996 251)	(2 198 789)
<i>b) contribution to pension fund</i>		(45 780)	(89 982)
<i>c) mandatory state social security contributions and benefits defined in collective labour agreement</i>		(261 685)	(562 456)
Depreciation and amortization	10	(2 990)	(298 100)
Other operating expenses	7	(42 489 659)	(39 828 025)
Interest and similar income	8 (a)	9 448	27 089
Interest and similar expenses	8 (b)	(443)	(67 220)
Profit before tax		6 075 671	2 108 442
Real estate tax		-	(25 800)
Corporate income tax	9	(910 988)	(211 882)
Increase / (decrease) of deferred tax asset	9	5 446	(59 205)
Profit for the year		5 170 129	1 811 555

The accompanying notes on pages 16 to 38 are an integral part of these financial statements.

AS „Augstsprieguma tīkls” Management Board:



Varis Boks
Chairman of the Board



Inese Bambāne
Member of the Board



Arnis Staltmanis
Member of the Board



Jānis Ūsis
Member of the Board

Riga, 01 July 2013

Balance sheet as of 31 December 2012

	Notes	31.12.2012 LVL	31.12.2011 LVL
ASSETS			
Non-current assets			
Intangible assets	10	6 715	9 607
Fixed assets	10	650	748
Other non-current financial assets	11	1 000	1 000
Deferred tax asset	9	35 046	29 600
Total non-current assets		43 411	40 955
Current assets			
Inventories	12	1 335	-
Receivables			
Trade accounts receivable, net	13	579 432	591 788
Loans to related companies		-	5 883 639
Other receivables	14	1 882 002	2 114 933
Prepaid expenses		3 703	3 951
Accrued income	15	7 885 380	67 785
Total receivables		10 350 517	8 662 096
Cash and cash equivalents	16	11 212 807	357 033
Total current assets		21 564 659	9 019 129
TOTAL ASSETS		21 608 070	9 060 084

The accompanying notes on pages 16 to 38 are an integral part of these financial statements.


AS „Augstsprieguma tikls” Management Board:



Varis Boks
Chairman of the Board



Inese Bambāne
Member of the Board



Arnis Staltmanis
Member of the Board



Janis Ūsis
Member of the Board

Riga, 01 July 2013

Balance sheet as of 31 December 2012 (continued)

	Notes	31.12.2012 LVL	31.12.2011 LVL
EQUITY AND LIABILITIES			
Equity			
Share capital	17	4 000 000	4 000 000
Reserves		1 047 067	-
Profit for the year		5 170 129	1 811 555
Total equity		10 217 196	5 811 555
Non-current liabilities			
Provisions for post-employment benefits and anniversaries		149 624	127 160
Deferred income		2 798 371	-
Total non-current liabilities	18	2 947 995	127 160
Current liabilities			
Trade payables		283 969	55 730
Income tax payable	21	690 632	211 882
Taxes and mandatory state social security contributions	21	53 801	1 017 104
Advance payments received	19	3 616 000	1 474 303
Other liabilities		77 687	87 623
Accrued liabilities	20	3 720 790	274 727
Total current liabilities		8 442 879	3 121 369
TOTAL EQUITY AND LIABILITIES		21 608 070	9 060 084

The accompanying notes on pages 16 to 38 are an integral part of these financial statements.

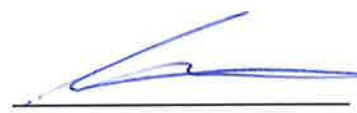
AS „Augstsprieguma tīkls” Management Board:



Varis Boks
Chairman of the Board



Inese Bambāne
Member of the Board



Arnis Staltmanis
Member of the Board



Jānis Osītis
Member of the Board

Riga, 01 July 2013


Statement of Changes in Equity for the year 2012

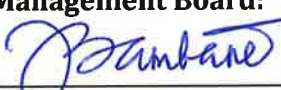
	Share capital	Retained earnings / (accumulated losses)	Reserves	Total
	LVL	LVL	LVL	LVL
AS OF 31 DECEMBER 2010	12 878 931	(12 878 931)	-	-
Increase in share capital	4 000 000	-	-	4 000 000
Decrease in share capital	(12 878 31)	12 878 931	-	-
Profit for the year	-	1 811 555	-	1 811 555
AS OF 31 DECEMBER 2011	4 000 000	1 811 555	-	5 811 555
Dividends paid out for the year 2011	-	(764 488)	-	(764 488)
Transfer to reserves*	-	(1 047 067)	1 047 067	-
Profit for the year	-	5 170 129	-	5 170 129
AS OF DECEMBER 2012	4 000 000	5 170 129	1 047 067	10 217 196


* according to the decision of AS „Augstsprieguma tīkls” emergency shareholder’s meeting on 8 August 2012 protocol No. 8 §1 „On AS „Augstsprieguma tīkls” distribution of profit for the year 2011” 57.8% of profit in the amount of LVL 1 047 067 was transferred to AS „Augstsprieguma tīkls” for development - acquisition of shares in AS „Nord Pool Spot”.


The accompanying notes on pages 16 to 38 are an integral part of these financial statements.

AS „Augstsprieguma tīkls” Management Board:


Varis Boks
 Chairman of the Board


Inese Bambāne
 Member of the Board


Arnis Staltmanis
 Member of the Board


Jānis Osītis
 Member of the Board

Riga, 01 July 2013

Statement of Cash Flows 2012 for the year 2012

	Notes	2012 LVL	2011 LVL
I CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		6 075 671	2 108 442
Adjustments for:			
a) depreciation and amortization	10	2 990	298 100
b) gain on disposals of fixed assets		-	(594 191)
c) changes in provisions	18	22 464	(835 483)
d) interest income	8 (a)	(9 448)	(27 089)
e) interest expense		-	67 164
f) real estate tax paid		-	(25 800)
Profit before adjustments for current assets and current liabilities		6 091 677	991 143
Adjustments for:			
a)(increase) / decrease of trade receivables, other receivables and accrued income		(7 351 704)	5 958 681
b)(increase) / decrease of inventories	12	(1 335)	40 043
c) increase / (decrease)of trade and other payables and accrued liabilities		7 420 775	(691 503)
Gross cash flows from operating activities		6 159 413	6 298 364
Interest expense		-	(67 164)
Interest income		9 448	26 997
Corporate income tax paid	21	(432 238)	-
NET CASH FLOWS FROM OPERATING ACTIVITIES		5 736 623	6 258 197
II CASH FLOWS FROM INVESTING ACTIVITIES			
Loans issued to related companies		-	(10 478 433)
Proceeds from loan repayment		5 883 639	4 594 794
Proceeds from sale of non-current assets		-	2 644 004
Purchase of intangible assets and fixed assets		-	(108 178)
NET CASH FLOWS FROM INVESTING ACTIVITIES		5 883 639	(3 347 813)
III CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from equity ownership investments		-	4 000 000
Loans from related parties received		-	7 232 533
Repayment of loans to related companies		-	(14 086 453)
Dividends paid		(764 488)	-
NET CASH FLOWS FROM FINANCING ACTIVITIES		(764 488)	(2 853 920)

Statement of Cash Flows for the year 2012 (Continued)

	Notes	2012 LVL	2011 LVL
IV NET CASH FLOW FOR THE YEAR		10 855 774	56 464
Cash and cash equivalents at the beginning of the reporting year		357 033	300 569
Cash and cash equivalents at the end of the reporting year	16	11 212 807	357 033

The accompanying notes on pages 16 to 38 are an integral part of these financial statements.

AS „Augstsprieguma tīkls” Management Board:



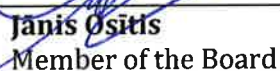
Varis Boks
Chairman of the Board



Inese Bambāne
Member of the Board



Arnis Staltmanis
Member of the Board



Janis Ūsis
Member of the Board

Riga, 01 July 2013

Notes to the Financial Statements

1. CORPORATE INFORMATION

AS “Augstsprieguma tīkls” is a transmission system operator which, according to the license No. E12001 issued by the Public Utilities Regulation Commission, provides transmission network services and secures power distribution of the Latvian power system, as well as carries out the following mission: provides transmission services based on published transmission service tariffs and constantly ensures availability of transmission system services. AS „Augstsprieguma tīkls” is engaged in the transmission system’s operational management and ensures secure and stable electricity transmission.

At 31 December 2012 all of AS „Augstsprieguma tīkls” shares are owned by the State of Latvia and are held by the Latvian Ministry of Finance. The registered address of the Company is 86 Darzciema Street, Riga, LV-1073, Latvia.

Financial statements were approved on 01 July 2013 by the Company’s Management Board: Varis Boks (Chairman of the Board), Inese Bambāne (Member of the Board), Arnis Staltmanis (Member of the Board) and Jānis Osītis (Member of the Board).

The Company’s auditor is a certified auditors’ company „Deloitte Audits Latvia” Ltd and the responsible Sworn auditor is Inguna Staša.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This section of the notes discloses the principal accounting policies applied in the preparation of these Financial Statements. These policies have been consistently applied to all the years presented.

2.1. Basis of preparation

The financial statements have been prepared in accordance with laws of the Republic of Latvia „On Accounting” and „On Annual Reports”.

The financial statements have been prepared under the historical cost method.

The Income statement has been prepared under the current period cost method.

The statement of cash flows has been prepared using the indirect method.

In comparison to the previous reporting period, the Company’s accounting policies has not changed.

The information presented in these financial statements is comparable to the information of the prior reporting period, in recognition and classification of accounting items the consistency principle remains.

All amounts shown in these financial statements are presented in Latvian Lats (LVL), unless stated otherwise.

2.2. Financial investments

Other financial investments are investments in share capital of other companies not exceeding 20% of the company's total share capital. Other financial investments are recognized at acquisition value, less provisions for impairment, if any.

2.3. Transactions in foreign currencies

(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 presentation currency.

(b) Transactions and balances

All transactions denominated in foreign currencies are translated into Latvian Lats at the exchange rates set by the Bank of Latvia at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Latvian Lats using the exchange rate set by the Bank of Latvia at the last day of the reporting year. The resulting gain or loss that arises from transactions in foreign currencies and recalculation of assets and liabilities denominated in foreign currencies is charged to the Income statement in the corresponding period. As of 31 December 2012 Euro exchange rate was 0.702804 (31 December 2011: EUR/LVL 0.702804).

2.4. Intangible and fixed assets

All intangible assets are shown at historical cost less accumulated amortization. Computer software licenses, computer software and related computer software development costs are recognized as intangible assets and are amortized on a straight line basis over their estimated useful lives which do not exceed five years.

All fixed assets are shown at historical cost less accumulated depreciation and accumulated impairment loss. The cost includes expenses directly attributable to the acquisition of fixed assets. Depreciation of fixed assets is calculated using the straight line method over their estimated useful lives to write off acquisition value of fixed asset to its estimated residual value at the end of the useful life period. The useful life of other fixed assets and inventories (communication devices and equipment, office equipment and inventories) does not exceed 2 – 5 years.

Further costs are included in the value of assets or recognized as a separate asset only when there is a high probability that the operational benefits related to the item will flow to the Company and the cost of the item can be reasonably defined. Such costs are written-off during residual useful life of the asset.

Operating repair costs and maintenance costs of fixed assets are charged to the Income statement in the period in which they are incurred.

Gain and loss from disposals of fixed assets are calculated as the difference between the fixed asset's carrying value and income gained from selling the asset, and is charged to the Income statement in the period in which they are incurred.

An asset's carrying value is written down immediately to its recoverable value if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the assets fair value less selling costs or value in use.

2.5. Operating lease (the Company as 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. Liabilities that arise from operating lease agreements are recognized by the Company as off balance liabilities (see note 22).

2.6. 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 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 at the end of the reporting period is verified by performing a stock take.

2.7. Trade receivables

Trade receivables are amounts due in less than one year, which are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method, less provisions for impairment.

Provisions for impairment are established when there is objective evidence that the Company will not be able to collect the amount in full according to the original terms of repayment.

Provisions for doubtful debts are calculated during the year at least once per quarter on the basis of trade receivables aging according to estimates defined by the Company's Management, which are revised at least once a year.

2.8. Cash and cash equivalents

Cash and cash equivalents include cash on hand, in bank, and short-term deposits with original maturity of three months or less.

2.9. Deferred income

Income that has been received before the balance sheet date but is related to the next 12 months (short-term) or the period after 12 months (long-term) – is shown as deferred income in the statement of financial position as short-term or long-term liabilities.

Deferred income from congestion management revenues after their utilization in a particular long-term investment project financing are amortized, gradually recognizing income in the current period Income statement, in accordance with the established long-term investment amortization/depreciation period. At the moment of disposal income is recognized at its residual value.

2.10. Pensions, post-employment and anniversary benefits

(a) Pension obligations

The Company makes monthly contributions to a closed fixed-contribution pension plan on behalf of its employees. The plan is managed by a non-profit joint stock company „Pirmais Slēgtais Pensiju Fonds”, where the Company holds a stake. A fixed-contribution plan is a pension plan under which the Company makes contributions into the plan and 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 recognizes contributions to the plan when the expense is incurred which is when an employee has rendered services in exchange for those contributions.

(b) Provisions for post-employment benefits and one-off anniversary obligations

In addition to the aforementioned pension plan, the Company provides certain post-employment benefits to employees whose employment meets certain criteria as well as one-off anniversary benefits. Obligations for benefits are calculated taking into account the current level of salary and number of employees eligible to receive the benefits, historical termination rates as well as number of actuarial assumptions. Independent qualified actuaries value these obligations annually. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for fixed-contribution pension plans.

The liability recognized in the statement of financial position in respect of post-employment benefit plan is in present value of the particular balance sheet date less accrued liabilities or income referring to employment relationships until the change of benefit conditions. Post-employment benefit obligations are calculated annually using the expected unit credit method. The present value of the benefit obligations is determined regularly by discounting the estimated future cash outflows. The Company uses the expected unit credit method to measure the present value of its fixed benefit obligations and related current and past employment costs. This method sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the Company’s total post-employment obligations. The Company also uses unbiased and mutually compatible actuarial assumptions about demographic variables and financial variables (including future increases in salaries and certain changes in benefits).

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

Actuary gains and losses arising from experience based adjustments and changes in actuarial assumptions in excess of 10% of the fixed benefit obligations are immediately charged to the Income statement. Past employment costs are recognized in the Income statement using the straight line method over the expected average remaining employment period of employees until the benefits are guaranteed. If benefits are guaranteed promptly after the introduction or a change to a fixed benefit plan, the Company immediately recognizes past employment costs in the Income statement.

2.11. Corporate income tax

Corporate income tax is calculated in accordance with tax regulations of the Republic of Latvia and is based on the taxable income reported for the taxation period.

Deferred income tax is accrued in full, using the liability method on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Where deferred tax arises from the initial recognition transaction of assets or liabilities, other than a business merger, that at the time of the transaction does not affect profit or loss for financial or tax purposes, the deferred tax is not recognized. Deferred income tax is calculated using tax rates (and laws) that are expected to apply when the temporary differences offset, based on tax rates applied as of the balance sheet date. Temporary differences arise mainly due to different fixed asset depreciation rates used in financial accounting and for tax purposes as well as from accrued expenses.

In cases where the deferred tax asset should be included in the balance sheet, it is recognized in the balance sheet when it is probable that the Company will have sufficient taxable income against which the temporary differences can be offset.

2.12. Borrowings and issued loans

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost. Differences between the proceeds and the redemption value are gradually recognized in the Income statement over the period of the borrowings using the effective interest rate 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.

Issued loans are recognized initially at fair value, net of transaction costs incurred. Loans are subsequently stated at amortized cost. Differences between the principal amount and the repayable value are gradually recognized in the Income statement over the period of the loan using the effective interest rate method. Loans are classified as current assets if the maturity term does not exceed 12 months from the end of reporting period.

2.13. Provisions

Provisions are recognized when the Company has a present legal or other type of obligations as a result of past event and 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 recognized for future operating losses.

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

Provisions are measured at the present value of the expenditures which are expected to be required for settling the obligation, discounted by the pre-tax rate that reflects current market assessments of the time value of the money and the risks specific to the obligation.

(a) Provisions for unused vacations

Provisions for unused vacations are made to precisely reflect the Company's liabilities to its employees in connection with their unused vacation, if any. The Company evaluates the amount of provisions for unused vacations at every balance sheet date. The required provisions are calculated by multiplying every employee's average salary for the past 6 months, including social tax, with the amount of unused vacation days at the end of the reporting year.

2.14. Revenue recognition

Revenue comprises the value of goods sold and services rendered in the Company's ordinary course of business, less value added tax, estimated amount of returns, rebates and discounts.

According to item No 4 in the 1st part of the 25th article of the law on „Annual Reports”, the statement of profit or loss reflects all of the revenues related to the reporting year. Income arising from services rendered during the year, but for which the invoice is issued in the subsequent financial year, provisions are made and shown as the balance sheet item "Accrued income". Revenue is recognized by the Company only when the outcome of the transaction can be reliably measured.

The Company's most significant types of revenue are as follows:

(a) Electricity transmission system services

The Company's main activity is rendering electricity transmission system services. Revenue is recognized based on tariffs approved by the Public Utilities Commission and commercial electricity meter readings.

(b) Management of congestions and overloads

According to clause No 4, article No 13 and clause No 6, article No 13¹ of the Electricity Market Law, AS „Augstsprieguma tīkls” realizes management of congestions and overloads within transmission system, as well as receives remuneration for auctioning of limited cross sectional power, according to the mutual transmission system operator compensation mechanism and signed contracts. Utilization of these revenues is governed by European Parliament and European Council regulations in article No 16 of Regulation No 714/2009 „On conditions for access to the network for cross-border exchanges in electricity and repealing Regulation (EC) No 1228/2003” (hereinafter –

the Regulation). In respect to the conditions stated in the Regulation, revenues received from management of congestions, which are not used to prevent congestions and overloads in the transmission network are recognized in the statement of financial position as deferred income. After utilization of these revenues in financing of a particular long-term investment project, deferred income is gradually amortized according to the established amortization/depreciation period and recognized at current reporting year Income statement. Following reconciliation principle of income and expenses, revenues from congestion management which were used in prevention of congestions and overload in transmission system are recognized at Income statement according to the costs associated with the level of overload and congestion in the transmission system.

(c) Connection fees

AS „Augstsprieguma tīkls” provides system participants with necessary connection to the transmission system or permission to increase load in the current connections, in accordance with the system participants’ connection regulations issued by the Public Utilities Commission on connection fees, which are defined by the transmission system operator in accordance with the connection fee calculation methodology issued by the Public Utilities Commission. Advance payments for services are reflected in the statement of financial position as short-term liabilities and short-term debts, but not included in the Income statement.

2.15. Cost recognition

Costs are recognized on an accrual basis. Calculating reporting year expenses, all expected costs and liabilities, which arise from the current reporting period or past reporting periods are taken into account, even when they become known in the period between the balance sheet date and financial statement compilation date and irrespective to the date when invoice was received, because the Company’s business transactions are recorded and recognized in the financial statements taking in to the account economic substance of the transaction, not merely its legal form.

Cost of sales and other operating expenses included in the Income statement are explained and broken down in details in the notes to the financial statements.

2.16. Long term and short term liabilities

The Company’s trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method. Trade payables are recognized in the financial statements according to the supporting documents and records in accounting registers on amounts received by suppliers but not yet paid at the end of the reporting year.

Accrued expenses incurred during the reporting year are included as item in accrued liabilities, if the amount of these expenses or payment date during the reporting period is known for certain, but invoices from the suppliers have not been received yet

Income that has been received before the balance sheet date and is attributable to the next 12 month period (short-term) or the period after the subsequent 12 months (long-term) is included in deferred income which is shown in the statement of financial position as short-term or long-term accounts payable.

2.17. European Union contribution

The Company ensures project management, effective internal control and accounting according to the EU guidelines and regulations of the Republic of Latvia when receiving financing from the European Union.

2.18. Critical accounting estimates and judgments

In preparing the financial statements the Company's management must make calculations and assumptions, which affect the valuation of assets and liabilities at the date of compilation of financial statements, as well as affect income and expenses of the reporting period. The following estimates used by the Company' management have a significant impact on the financial statements:

- Based on the statistical and analytical information and forecasts made by experts, the Company makes estimates and assumptions concerning the revenues and expenses related to participation in the mechanism developed by ENTSO-E on compensation of losses from transit traffic flow. The Company's management believes that as of 31 December 2012 accrued income is sufficient and reasonable, and there is no need to make adjustments to the financial statements.
- The Company's Management evaluates the carrying amounts of accounts receivable and evaluates their recoverability, making provisions for doubtful debts if necessary. The Company's Management has evaluated the accounts receivable and considers that it is not necessary to make significant additional provisions as at 31 December 2012.

The Company's financial statements do not include items that are subject to highly subjective or complex estimates, except for post-employment benefits and anniversary benefits described in section 2.10. of the notes to these financial statements.

3. Revenues

	2012	2011
	LVL	LVL
Electricity transmission services:		
Transmission service	52 352 773	46 744 919
Balancing service	8 189 917	9 997 951
Electricity transit services	3 035 976	1 728 432
Power regulation service	1 922 959	1 142 151
Reactive power management	179 772	286 338
Management of congestions and overloads	32 673	141 349
	65 714 070	60 041 140
Mandatory procurement component*	767 215	-
Power reserve maintenance service**	220 531	-
Revenue from the completed construction and assembly works***	-	547 199
Reversed provisions for completed construction and assembly management service revenues***	-	(27 148)
Other services	24 954	956 989
TOTAL REVENUES	66 726 770	61 518 180

According to the Energy Law, the Electricity Market Law and the Network Codex, AS „Augstsprieguma tīkls” is responsible for implementing the operational management of the transmission system and providing secure, stable electricity transmission.

* According to clause No 41 of the Latvian Cabinet of the Ministers Regulation as of 29.11.2011 „Electricity Trade Terms”, AS „Augstsprieguma tīkls” receives mandatory procurement component charges since July 2012, which are transferred to the Public trader AS „Latvenergo” as per legislation (See Note 7).

** Increase is related to more active use of the Latvian power reserve by neighbouring power systems during the reporting year.

*** According to the regulations of the Latvian Cabinet of the Ministers No. 12 from 12 January 2011 „On the Concept of the activities required according to the Directive 2009/72/EC of the European Parliament and Council from 13 July 2009 concerning common rules for the internal market in electricity and repealing Directive 2003/54/EC for separation of the electricity transmission system operator”, and based on the responsibilities stated in the Directive 2009/72/EC, from 1 April 2011 AS „Augstsprieguma tīkls” does not construct new networks or reconstruct existing networks.

4. OTHER OPERATING INCOME

	2012	2011
	LVL	LVL
Sale of current assets and fixed assets*	-	680 344
Received grants and compensation for losses	70	10 000
Other income**	41 550	33 206
TOTAL OTHER OPERATING INCOME	41 620	723 550

* In 2011 the Company has abandoned the function of transmission system asset management and sold current and fixed assets, which were not use in the Company’s operations since 1 April 2011.

** According to the interim report of AS „Augstsprieguma tīkls” on implementation of the project „Feasibility of interconnection options to integrate Baltic countries into the internal electricity market of EU” covering the period 1 January 2011 – 8 February 2013 and according to the approval of the European Commission in 27 May 2013 AS „Augstsprieguma tīkls” has received EU grant in amount of EUR 101 015. Accruals for received grant from EU were made in December 2012 in amount of LVL 41 550.

5. RAW MATERIALS AND CONSUMABLES USED, REPAIR COSTS

	2012	2011
	LVL	LVL
Purchase of balancing electricity	7 111 872	8 307 161
Electricity transmission losses and technological consumption	6 705 475	6 518 644
Purchase of regulating electricity	2 025 201	1 113 019
Electricity transit losses	1 062 551	935 506
Electricity for self-consumption	36	-
Used materials and repair costs	224	241 475
TOTAL RAW MATERIALS AND CONSUMABLES USED, REPAIR COSTS	16 905 359	17 115 805

6. PERSONNEL COSTS

	2012	2011
	LVL	LVL
Remuneration for work*	996 251	2 198 789
Mandatory* state social security contributions and benefits defined in the collective agreement	261 685	543 101
Contributions to pension plans	45 780	89 982
Employment termination expenses	-	19 355
TOTAL PERSONNEL COSTS	1 303 716	2 851 227

Compensation of the Company's management

	2012	2011
	LVL	LVL
Remuneration for work	104 954	94 363
Mandatory state social security contributions and benefits defined in the collective agreement	24 443	27 718
Contributions to pension plans	3 943	3 768
TOTAL COMPANY'S MANAGEMENT COMPENSATIONS	133 340	125 849

	2012	2011
Number of employees at the end of the reporting year	60	56
Average number of employees during reporting year	59	165

* Based on responsibilities defined in the Directive 2009/72/EC, AS „Augstsprieguma tīkls” has abandoned transmission system asset management function as of 1 April 2011, leaving this function to AS „Latvijas elektriskie tīkli”, in which the transmission system assets of AS „Latvenergo” are invested and liabilities related to these assets as a whole, as well as employees responsible for the transmission system asset management.

Remuneration of Board Members is included in compensation of the Company's management.

7. OTHER OPERATING EXPENSES

	2012	2011
	LVL	LVL
Rent of fixed assets (transmission assets)	23 537 630	22 813 380
Asset management services	12 785 052	8 971 698
Electric power reserve maintenance costs	3 564 897	4 015 053
Electric power balancing services	716 197	1 350 054
Mandatory procurement component*	767 215	-
Electricity transit services	219 843	210 538
Replacement power reserve	168 912	-
Electrical power overload elimination	32 673	-
Telecommunication services	28 920	416 204
Construction and maintenance costs	-	547 199
Management services costs**	-	228 940
Miscellaneous operating expenses***	668 320	1 274 959
TOTAL OTHER OPERATING EXPENSES	42 489 659	39 828 025

* According to clause No 41 of the Latvian Cabinet of the Ministers Regulation as of 29.11.2011 „Electricity Trade Terms”, AS „Augstsprieguma tīkls” receives mandatory procurement component charges since July 2012, which are transferred to the Public trader AS „Latvenergo” as per legislation.

** Since 2012 the Company no longer receives management services, in regard to the decision of the Cabinet of Ministers as of 2 January 2012, to stop decisive influence of AS „Latvenergo”, effective 2 January 2012, as well as to relocate 100% of AS „Augstsprieguma tīkls” shares, and appoint Ministry of Finance as shareholder. The Company is not a part of AS „Latvenergo” Group since 2 January 2012.

*** Decrease in miscellaneous operating expenses is related to the fact, that the Company abandoned transmission system asset management function as of 1 April 2011, in regard to the responsibilities stated in the Directive 2009/72/EC.

8. FINANCE INCOME/(EXPENSES), NET

	2012	2011
	LVL	LVL
a) Interest and similar income		
Interest income from short-term loans to the holding company	-	27 089
Interest income from credit institutions	9 448	-
Total	9 448	27 089
b) Interest and similar expenses		
Interest expenses from short-term borrowings from the holding company	-	67 164
Net expenses from foreign currency exchange rate fluctuations	443	56
Total	443	67 220
FINANCE INCOME / (EXPENSES), NET	9 005	(40 131)

9. CORPORATE INCOME TAX AND DEFERRED TAX

	2012	2011
	LVL	LVL
Corporate income tax	(910 988)	(211 882)
Increase / (decrease) of deferred tax asset	5 446	(59 205)
TOTAL CORPORATE INCOME TAX	(905 542)	(271 087)

Corporate income tax differs from the theoretical amount that would arise if the tax rate of 15% as stated by law is applied to the Company's profit / (loss) before tax.

	2012	2011
	LVL	LVL
Profit before corporate income tax	6 075 671	2 108 442
Corporate income tax at the statutory rate of 15%	911 351	316 266
Net expenses, which cannot reduce taxable income	(362)	111 632
Losses, which reduce taxable income	-	(216 016)
(Increase) / decrease of deferred tax asset	(5 446)	59 205
TAX EXPENSES	905 542	271 087

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The Company offsets deferred tax assets and liabilities when there is a legally enforceable right to offset current reporting year tax assets against current reporting year tax liabilities and when the deferred income taxes relate to the same tax authority. The offset amounts are as follows:

	31.12.2012	31.12.2011
	LVL	LVL
Deferred tax assets:		
Deferred tax assets to be recovered after more than 1 year	(22 444)	(16 171)
Deferred tax assets to be recovered within 1 year	(13 609)	(14 885)
TOTAL DEFERRED TAX ASSETS	(36 053)	(31 056)
Deferred tax liabilities:		
Deferred tax liabilities to be recovered after more than 1 year	722	1 171
Deferred tax liabilities to be recovered within 1 year	285	285
TOTAL	(35 046)	(29 600)

Movement of deferred tax:

	2012	2011
	LVL	LVL
At the beginning of the year	(29 600)	(88 805)
Recorded in the Income statement	(5 446)	59 205
At the end of the year	(35 046)	(29 600)

Deferred tax:

	31.12.2012	31.12.2011
	LVL	LVL
Deferred tax liabilities:		
Temporary difference in fixed asset depreciation	1 007	1 456
Deferred tax assets:		
Provisions for post-employment benefits	(20 403)	(19 074)
Temporary difference in provisions for unused vacations	(7 297)	(5 912)
Accrued bonuses	(5 785)	(5 606)
Provisions for anniversary benefits	(2 041)	-
Provisions for contributions to pension plans	(527)	(464)
TOTAL DEFERRED TAX	(35 046)	(29 600)

10. INTANGIBLE ASSETS, FIXED ASSETS

10.1. Intangible assets

	Computer software LVL	Total LVL
As of 31 December 2010		
Historical cost	124 788	124 788
Accumulated amortization	(105 379)	(105 379)
Residual value	19 409	19 409
2011		
Residual value at the beginning of the year	19 409	19 409
Additions	9 801	9 801
Disposals	(13 800)	(13 800)
Amortization charged	(5 803)	(5 803)
Residual value at the end of the year	9 607	9 607
As of 31 December 2011		
Historical cost	76 327	76 327
Amortization charged	(66 720)	(66 720)
Residual value	9 607	9 607
2012		
Residual value at the beginning of the year	9 607	9 607
Amortization charged	(2 892)	(2 892)
Residual value at the end of the year	6 715	6 715
As of 31 December 2012		
Historical cost	76 327	76 327
Accumulated amortization	(69 612)	(69 612)
Residual value	6 715	6 715

10.2. Fixed assets

	Land, buildings, plants	Techno- logical equipment and machinery	Other fixed assets and inventory	Unfinished construction	Total
	LVL	LVL	LVL	LVL	LVL
As of 31 December 2010					
Historical cost	812 961	19 861	4 423 348	2 744	5 258 914
Depreciation charge	(110 679)	(19 861)	(3 279 786)	-	(3 410 326)
Residual value	702 282	-	1 143 562	2 744	1 848 588
2011					
Residual value at the beginning of the year	702 282	-	1 143 562	2 744	1 848 588
Additions	-	-	98 377	-	98 377
Disposals	(689 806)	-	(967 530)	(2 744)	(1 660 080)
Depreciation charged	(12 476)	-	(273 661)	-	(286 137)
Residual value at the end of the year	-	-	748	-	748
Year ended 31 December 2011					
Historical cost	-	-	6 023	-	6 023
Depreciation charged	-	-	(5 275)	-	(5 275)
Residual value	-	-	748	-	748
2012					
Residual value at the beginning of the year	-	-	748	-	748
Depreciation charged	-	-	(98)	-	(98)
Residual value at the end of the year	-	-	650	-	650
Year ended 31 December 2012					
Historical cost	-	-	6 023	-	6 023
Depreciation charged	-	-	(5 373)	-	(5 373)
Residual value	-	-	650	-	650

* From 2011, the Company no longer performs the function of transmission system asset management, as a result a substantial part of the Company's fixed assets were sold. To continue the functions of transmission system operator the Company rents all necessary assets from AS „Latvijas elektriskie tīkli”.

11. Non-current financial assets

	2012	2011
	LVL	LVL
Non-current financial assets	1 000	1 000

Name of the company	Location	Type of business	Share
JSC "Pirmais slēgtais pensiju fonds"	Latvia	Pension plan management	1.9%

The Company owns 1.9% of JSC „Pirmais slēgtais pensiju fonds” shares. The Company is a nominal shareholder, as all of the risks and profits arising from the fund’s activities are undertaken or received by the Company’s employees – pension plan members. For this reason investment is valued at acquisition value.

12. INVENTORIES

	31.12.2012	31.12.2011
	LVL	LVL
INVENTORIES		
Raw materials and spare parts	1 335	-
TOTAL INVENTORIES	1 335	-

13. TRADE RECEIVABLES, NET

	31.12.2012	31.12.2011
	LVL	LVL
Receivables		
Electricity transmission service debts	579 514	603 187
Other trade receivables	10 945	31 606
Total receivables	590 459	634 793
Provisions for bad and doubtful debts		
Provisions for electricity transmission service debts	(123)	(12 059)
Provisions for other trade receivables	(10 904)	(30 946)
Total provisions for bad and doubtful debts	(11 027)	(43 005)
Receivables, net		
Electricity transmission service debts	579 391	591 128
Other trade receivables	41	660
TRADE RECEIVABLES, NET	579 432	591 788

Impaired receivables:

	2012	2011
	LVL	LVL
At the beginning of the year	43 005	36 470
Written-off provisions for doubtful debts	(16 999)	-
Included in the Income statement	(14 979)	6 535
At the end of the year	11 027	43 005

14. OTHER RECEIVABLES

	31.12.2012	31.12.2011
	LVL	LVL
Advances for connections	1 481 600	1 349 384
Non-deductible VAT	374 348	664 173
Overpaid taxes (see note 21), including:	24 543	101 372
VAT	24 526	101 372
Personnel Income Tax	17	-
Other receivables	1 511	4
TOTAL OTHER RECEIVABLES	1 882 002	2 114 933

15. ACCRUED INCOME

	31.12.2012	31.12.2011
	LVL	LVL
Accruals for income from services rendered during reporting year		
For transmission system service income	4 745 661	-
For balancing electricity income	733 617	-
For adjusting electricity income	468 972	-
For mandatory procurement component income	98 182	-
For electricity transit service income	46 322	-
For reactive electricity income	14 673	-
For balancing administration services income	1 500	-
For other services income	1 000	-
For income from compensation of loss in transformers	871	-
Total accruals for income from services rendered during reporting year*	6 110 798	-

ACCRUED INCOME (CONTINUED)

	31.12.2012	31.12.2011
	LVL	LVL
For electricity transit service income**	1 557 580	67 521
For reduction of rent fees on transmission assets	147 397	-
EU financing	41 550	-
For reduction of costs of asset management	28 055	-
For insurance compensation income	-	173
For short-term loan interest income	-	91
TOTAL ACCRUED INCOME	7 885 380	67 785

* The Company had no debts from related parties as of 31 December 2011, in respect to the decision of the Cabinet of Ministers as of 29 November 2011, by which was decided to terminate decisive influence of AS „Latvenergo”, effective 2 January 2012, as well as to relocate 100% of AS „Augstsprieguma tīkls” shares, and appoint Ministry of Finance as shareholder. The Company has settled mutual obligations with related parties until the end of the reporting year.

** Transit service revenue/expenditure is affected by cross-border transactions of Latvian commercial district electricity traders, as well as the amount of electricity transit through the Latvian transmission grid. In 2012 the Latvian power system was mostly self-sufficient in regard to electricity and as a result cross-border trade (import/export) was lower than in previous years. In addition to the above, during 2012 the volume of transit through Latvian transmission networks increased. This resulted in increased transit refund amount in 2012.

16. CASH AND CASH EQUIVALENTS

	31.12.2012	31.12.2011
	LVL	LVL
CASH AT BANK	11 212 807	357 033

In 2011 necessary financial resources for the purposes of operating activities were acquired through the contract signed within the Latvenergo Group „On mutual supplement of financial resources”. According to the before mentioned contract, AS „Augstsprieguma tīkls” was automatically guaranteed with the cash balance at bank within predefined limits, other financial resources were transferred to group loans. Since 2 January 2012 the Company is no longer using loans issued/received from AS „Latvenergo” as financial instruments.

During the reporting year the Company received interest income on a daily basis for the cash balance at bank account, calculated on the basis of variable bank deposit rates.

17. SHARE CAPITAL

As of 31 December 2012 the paid-in share capital of AS „Augstsprieguma tīkls” amounts to LVL 4 000 000 and consists of 4 000 000 ordinary shares with a nominal value of LVL 1 per share.

18. NON-CURRENT LIABILITIES

	2012 LVL	2011 LVL
Provisions for post-employment benefits and anniversary benefits:		
At the beginning of the reporting year	127 160	962 643
Liabilities transferred to AS „Latvijas elektriskie tīkli”	-	(848 423)
Provisions made during the reporting year	22 464	12 940
At the end of the reporting year	149 624	127 160
Deferred income:		
Long-term part of congestion management income*	2 798 371	-
Total non-current liabilities	2 947 995	127 160

* According to clause No 4, article No 13 and clause No 6, article No 13¹ of the Electricity Market Law, AS „Augstsprieguma tīkls” realizes management of congestions and overloads within transmission system, as well as receives remuneration for auctioning of limited cross sectional power, according to the mutual transmission system operator compensation mechanism and signed contracts. Utilization of these revenues is governed by European Parliament and European Council regulations in article No 16 of Regulation No 714/2009 „On conditions for access to the network for cross-border exchanges in electricity and repealing Regulation (EC) No 1228/2003” (hereinafter – the Regulation). In respect to the conditions stated in the Regulation, revenues received from management of congestions, which are not used to prevent congestions and overloads in the transmission network are recognized in the statement of financial position as deferred income.

19. ADVANCE PAYMENTS AND OTHER LIABILITIES

	31.12.2012 LVL	31.12.2011 LVL
Connection fees received in advance:*	3 616 000	1 474 303
from customers	3 616 000	1 378 328
from related parties	-	95 975
ADVANCE PAYMENTS AND OTHER LIABILITIES	3 616 000	1 474 303

* AS „Augstsprieguma tīkls” provides system participants with necessary connection to the transmission system or permission to increase load in the current connections, in accordance with the system participants’ connection regulations issued by the Public Utilities Commission on connection fees, which are defined by the transmission system operator in accordance with the connection fee calculation methodology issued by the Public Utilities Commission.

20. ACCRUED LIABILITIES

	31.12.2012	31.12.2011
	LVL	LVL
Accrued liabilities for the services received during the reporting period		
Rent of fixed assets (transmission assets)	1 442 439	-
Transmission electricity loss and technological consumption	656 739	2 003
Purchase of regulating electricity	449 803	-
Purchase of balancing electricity	466 941	17 323
Electric power reserve maintenance costs	274 536	-
Mandatory procurement component	98 182	-
Provisions for transit electricity loss compensation costs	95 702	160 000
Electricity transit losses	66 398	-
Balancing services	31 239	-
Replacement power reserve	17 112	-
Fixed assets rent	6 827	2 195
Maintenance of anti-accident automatics	6 234	-
IT services	5 088	-
Transportation service costs	2 714	-
Telecommunication costs	2 771	158
Provisions for other services	7 336	13 171
Total accrued liabilities for the services received during the reporting period*	3 630 060	194 850
Provisions for unused vacations	48 650	39 416
Accrued premium costs for prior year results	38 566	37 367
Accrued benefit costs and pension plan contributions	3 514	3 094
TOTAL ACCRUED LIABILITIES	3 720 790	274 727

* The company had no debts from related parties as of 31 December 2011, in respect to the decision of the Cabinet of Ministers as of 29 November 2011, by which was decided to terminate decisive influence of AS „Latvenergo”, effective 2 January 2012, as well as to relocate 100% of AS „Augstsprieguma tīkls” shares, and appoint Ministry of Finance as shareholder. The Company has settled mutual obligations with related parties until the end of the reporting year.

21. TAXES AND STATE SOCIAL SECURITY CONTRIBUTIONS

	31.12.2011	Calculated	Paid	31.12.2012
	LVL	LVL	LVL	LVL
Corporate income tax	(211 882)	(910 988)	432 238	(690 632)
Value added tax	(864 697)	173 103	716 120	24 526
State social security contributions	(31 801)	(343 174)	341 425	(33 550)
Personal income tax	(19 220)	(205 146)	204 147	(20 219)
Risk duty	(14)	(176)	175	(15)
TOTLA TAXES	(1 127 611)	(1 286 381)	1 694 105	(719 890)
Tax liabilities	(1 228 986)			(744 433)
Tax overpayments (see Note 14)	101 372			24 543

22. OPERATING LEASE CONTRACTS

According to the lease agreements, the Company has following non-cancelable lease commitments at the end of the reporting year:

	31.12.2012	31.12.2011
	LVL	LVL
Real estate lease payment obligations		
Due within one year	81 925	81 925
	81 925	81 925
The transmission system network asset leases		
Due within one year	38 824 352	38 304 334
Due between one and five years	152 461 242	161 369 348
	191 285 594	199 673 682

In order to conduct operating activities the Company has signed an agreement with AS „Latvijas elektriskie tīkli” dated 1 February 2012, regarding rent and maintenance of transmission system assets. Lease payment liabilities for the non-current assets for the 2013 – 2017 year period are calculated based on the Company’s Management estimates on transmission system assets value fluctuations and 90th point of electricity transmission system service tariff calculation methodology approved by the Board of the Public Utilities Commission with the decision No 1/23 dated as of 26 October 2011.

23. FINANCIAL RISK MANAGEMENT

(a) Turnover risk

Turnover risk is identified as changes in external environment that can cause an unplanned effect on the Company’s net turnover volumes, thus affecting the Company’s ability to settle its short-term and long-term financial liabilities (solvency). The Company’s operating activities are subject to such turnover risks as service tariff and service volume. Taking in to the account, that according to the

9th article of the law on Public Utilities Regulators, Public Utilities Commission contributes to the development of public service providers, according to the 20th article public service tariffs are defined at level to cover economically justified costs of public service providers, and maintain public services profitability. The effect of turnover risk on the Company's short-term liquidity is assessed as low. Turnover risks are managed according to the management's defined strategic and operational risk management policy and risk prevention actions, providing constant monitoring of service tariff correspondence to the costs related to the service rendering.

(b) Cash flow risk/balance sheet risk

Financial assets, which potentially subject the Company to a certain degree of risk concentration, consist mainly of cash and trade receivables. Although the Company has a significant concentration of risk with regard to a single counterparty or group of related counterparties, the risk is assessed as limited, given the fact that the most important cooperation counterparty is a State-owned corporation - AS „Latvenergo” as well as the Group's entities. Trade receivables are stated at their recoverable value.

In cooperation with banks and financial institutions counterparties are accepted with the credit rating at least at investment grade, established by the bank international credit rating agency.

(c) Liquidity risk

The Company follows a prudent liquidity risk management policy by ensuring that it has adequate financial resources to meet its obligations. The Company's management assumes that there will be no liquidity problems, and the Company will be able to settle with its creditors on agreed terms.

The Company's management believes that the Company will have sufficient cash resources so its liquidity will not be compromised. During the reporting year, the Company did not borrow cash to maintain its liquidity ratio.

24. REMUNERATION CERTIFIED AUDITORS' COMPANY

	2012	2011
	LVL	LVL
Audit of financial statements	4 217	8 100
TOTAL REMUNERATION OF THE CERTIFIED AUDITOR'S COMPANY	4 217	8 100

As of 31 December 2012, the Company received only audit services from „Deloitte Audits Latvia”.

25. EVENTS AFTER THE BALANCE SHEET DATE

From the last day of the reporting year there have been no events that could have material impact the Company's financial statements as of 2012.

* * *

INDEPENDENT AUDITORS' REPORT

To the Shareholder of AS Augstsprieguma tīkls:

Report on the Financial Statements

Translation from Latvian

We have audited the accompanying financial statements of AS Augstsprieguma tīkls set out on pages 10 to 38 of the accompanying annual report, which comprise the balance sheet as of 31 December 2012, and the income statement, statement of changes in equity and statement of cash flows 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 referred to above give a true and fair view of the financial position of AS Augstsprieguma tīkls 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.

Other matter

The financial statements for the year 2011 were audited by another auditor who's opinion dated 08 April 2012 was not qualified.

Report on Other Legal and Regulatory Requirements

We have read the management report for 2012 set out on pages 4 to 9 of the accompanying annual report for 2012 and have not identified any material inconsistencies between the financial information contained in the management report and the financial statements for 2012.

Deloitte Audits Latvia SIA
Licence No. 43

Roberts Stugiš
Member of the Board

Rīga, Latvia
01 July 2013



Inguna Staša
Certified auditor of Latvia
Certificate No. 145