

A large, detailed illustration of a high-voltage transmission tower is positioned on the left side of the cover. The tower is a complex lattice structure, rendered in a dark purple or blue color. It is shown from a low angle, looking up, and is partially obscured by a diagonal line that runs from the top right towards the bottom left. The background is white with faint, light-colored lines suggesting a grid or perspective.

**AS «AUGSTSPRIEGUMA TĪKLS»  
ANNUAL REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2013**

PREPARED IN ACCORDANCE WITH LATVIAN STATUTORY  
REQUIREMENTS AND INDEPENDENT AUDITOR'S 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
Reporting year	1 January 2013 – 31 December 2013
Previous reporting year	1 January 2012 – 31 December 2012
Auditor’s and sworn auditor’s 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 the 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 1<sup>st</sup> 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 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



## AS „Augstsprieguma tīkls” annual report for the year ended 31 December 2013

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 2013 (excl. VAT):

Electricity transmission services	Units	Tariffs since 01.01.2011.*	Tariffs since 01.04.2012.**
<b>Transmission service tariffs, for customers with electrical installations connected to 110 kV lines:</b>			
Electricity transmission tariff	LVL/kWh	0,00214	0,00231
Payment for transmission power maintenance and development	LVL/kWh/ per year	4,556	4,947
<b>Transmission service tariffs, for customers with electrical installations connected to 110 kV bus bars:</b>			
Electricity transmission tariff	LVL/kWh	0,00237	0,00257
Payment for transmission power maintenance and development	LVL/kWh	5,310	5,842
<b>Transmission service tariffs, for customers with electrical installations connected to 110/6-20 kV transformer:</b>			
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 75 247 158, exceeding the previous year result by LVL 8 520 388 or 13%. Sales from electricity transmission network services in 2013 reached LVL 52 411 301, which comprises 70% of the Company's total sales. Earnings before tax during the reporting year reached LVL 2 273 997.

The Company's share capital as at 31 December 2013 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, the transmission system operator license obligations have been fulfilled through the following transmission networks:

<b>Highest voltage (kV)</b>	<b>Number of substations (units)</b>	<b>Number of transformers and autotransformers (units)</b>	<b>Installed power (MVA)</b>	<b>Overhead power lines and cables ETL (km)</b>
330 kV	15	22	3 575.0	1 264.8
110 kV	122	246	4 968.8	4 009.98
<b>Total</b>	<b>137</b>	<b>269</b>	<b>8 543.8</b>	<b>5 274.78</b>

### **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 ETL connection „Kurzemes loks” 3<sup>rd</sup> 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”. The project is included in the European Commission approved energy infrastructure projects of common interest list. According to the European Parliament and of the Council Nr.347/2013 12<sup>th</sup> article, third paragraph, Company submitted to the PUC on October 30, 2013 EU co-financing request

- 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 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. This project is included in the European Commission approved energy infrastructure projects of common interest list. According to the European Parliament and of the Council Nr.347/2013 12<sup>th</sup> article, third paragraph, the Company submitted to the PUC on October 30, 2013 EU co-financing request

- 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.



## *AS „Augstsprieguma tīkls” annual report for the year ended 31 December 2013*

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*

According to the 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.

In 2014 Company continues to work on the PUC decision of 30 January 2013 “Electricity transmission operator certification” condition fulfilment, furthermore Company, according to the PUC decision of 23 November 2011 No. 1/29 “Transmission operator certification terms and conditions” once in year with term 1. April will submit to the PUC report and supporting documents of transmission operator's certification eligibility requirements for evaluation.

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.

According to PUC orders of 3 December 2013, from 2014 1 January Company jointly with Estonian transmission system operator AS “Elering” organises power auction (PTR – limited) on Latvian and Estonian border, directing Estonia – Latvia. It is anticipated that power auction will reduce price difference, made up by Latvian – Estonian interstate connection overload.

Considering Latvian Cabinet of Ministers regulations No. 877 as of 2006 24 October “Terms of special connection transmission system conditions for joint stock company “Liepājas metalurģs” 3<sup>rd</sup> article, Latvian Cabinet of Ministers regulations No. 476 as of 13 June 2006 “Terms of special connection for electricity transfer system” 24<sup>th</sup> article and system service contract as of 2011 16 August with AS “Liepājas metalurģs”, on 28 August Company sent creditor request to AS “Liepājas metalurģs” of the amount LVL 8 864 546.89. On 8 January 2013 information was received from AS

## **AS „Augstsprieguma tīkls” annual report for the year ended 31 December 2013**

Liepājas metalurģs” insolvency administrator, pointing out that Company’s creditor request No. 500710-02-571 as of 13.12.2013 for an amount LVL 8 864 546.89 is included in creditor registry. Construction of the special connection AS “Liepājas metaurģs” implemented and financed by transmission system asset owner.

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 “On the order which defines and sets to transfer the part of profits to the state budgeted for the use of the state’s capital” proposes to allocate LVL 1 746 961 to be paid out as dividends and to transfer the remaining profit portion of LVL 194 107 to the reserves of the Company.

The distribution of profit for 2013 is subject to resolution by AS “Augstsprieguma tīkls” shareholder’s meeting.

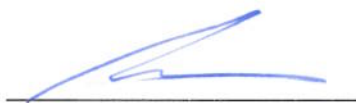
### **AS „Augstsprieguma tīkls” Management Board:**



**Varis Boks**  
Chairman of the Board



**Inese Bambāne**  
Board Member



**Arnis Staltmanis**  
Board Member



**Jānis Osītis**  
Board Member

Rīga, 12 May 2014



## Statement of Profit and Loss for the year 2013

	Notes	2013 LVL	2012 LVL
Revenue	3	75 247 158	66 726 770
Other operating income	4	65 514	41 620
Raw materials used and repairs	5	(23 025 951)	(16 905 359)
Personnel expenses	6	(1 512 086)	(1 303 716)
<i>a) salaries</i>		(1 134 093)	(996 251)
<i>b) contribution to pension fund</i>		(51 825)	(45 780)
<i>c) mandatory state social security contributions and benefits defined in collective labour agreement</i>		(326 168)	(261 685)
Depreciation and amortization	10	(23 536)	(2 990)
Other operating expenses	7	(48 478 125)	(42 489 659)
<i>a) IT expenses</i>		(104 835)	(75 881)
<i>b) premises and territory expenses</i>		(82 471)	(82 073)
<i>c) Transportation cost</i>		(27 560)	(44 968)
<i>d) nature and labour protection costs</i>		(462)	(1 592)
<i>e) other expenses</i>		(48 262 797)	(42 285 145)
Interest and similar income	8 (a)	14 424	9 448
Interest and similar expenses	8 (b)	(13 401)	(443)
<b>Profit before tax</b>		<b>2 273 997</b>	<b>6 075 671</b>
Corporate income tax	9	(332 500)	(910 988)
Increase / (decrease) of deferred tax asset	9	(429)	5 446
<b>Profit for the year</b>		<b>1 941 068</b>	<b>5 170 129</b>

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, 12 May 2014



## Balance sheet as of 31 December 2013


	Notes	31.12.2013 LVL	31.12.2012 LVL
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	10	16 089	6 715
Fixed assets	10	100 727	650
Other non-current financial assets	11	1 337 357	1 000
Deferred tax asset	9	34 617	35 046
<b>Total non-current assets</b>		<b>1 488 790</b>	<b>43 411</b>
<b>Current assets</b>			
Inventories	12	-	1 335
<b>Receivables</b>			
Trade accounts receivable, net	13	8 526 356	579 432
Other receivables	14	2 239 009	1 882 002
Deferred expenses		4 741	3 703
Accrued income	15	2 444 312	7 885 380
<b>Total receivables</b>		<b>13 214 418</b>	<b>10 350 517</b>
<b>Cash and cash equivalents</b>	16	<b>15 816 560</b>	<b>11 212 807</b>
<b>Total current assets</b>		<b>29 030 978</b>	<b>21 564 659</b>
<b>TOTAL ASSETS</b>		<b>30 519 768</b>	<b>21 608 070</b>

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, 12 May 2014


## Balance sheet as of 31 December 2013 (continued)


	Notes	31.12.2013 LVL	31.12.2012 LVL
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	17	4 000 000	4 000 000
Reserves		1 564 080	1 047 067
Profit for the year		1 941 068	5 170 129
<b>Total equity</b>		<b>7 505 148</b>	<b>10 217 196</b>
<b>Non-current liabilities</b>			
Provisions for post-employment benefits and anniversaries	18	153 463	149 624
Deferred income	18	12 195 057	2 798 371
<b>Total non-current liabilities</b>		<b>12 348 520</b>	<b>2 947 995</b>
<b>Current liabilities</b>			
Trade payables		5 970 224	283 969
Income tax payable and mandatory state social security contributions	21	278 873	744 433
Advance payments received	19	2 169 367	3 616 000
Other liabilities	19	96 471	77 687
Accrued liabilities	20	2 151 165	3 720 790
<b>Total current liabilities</b>		<b>10 666 100</b>	<b>8 442 879</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>30 519 768</b>	<b>21 608 070</b>


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, 12 May 2014

## Statement of Changes in Equity for the year 2013

	Share capital	Retained earnings / (accumulated losses)	Reserves	Total
	LVL	LVL	LVL	LVL
<b>AS OF 31 DECEMBER 2011</b>	<b>4 000 000</b>	<b>1 811 555</b>	<b>-</b>	<b>5 811 555</b>
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
<b>AS OF 31 DECEMBER 2012</b>	<b>4 000 000</b>	<b>5 170 129</b>	<b>1 047 067</b>	<b>10 217 196</b>
Dividends paid out for the year 2012	-	(4 653 116)	-	(4 653 116)
Transfer to reserves*	-	(517 013)	517 013	-
Profit for the year	-	1 941 068	-	1 941 068
<b>AS OF DECEMBER 2013</b>	<b>4 000 000</b>	<b>1 941 068</b>	<b>1 564 080</b>	<b>7 505 148</b>

\* 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.

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, 12 May 2014



## Statement of Cash Flows for the year 2013

	Notes	2013 LVL	2012 LVL
<b>I CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		2 273 997	6 075 671
<b>Adjustments for:</b>			
a) depreciation and amortization	10	23 536	2 990
b) changes in provisions	18	3 839	22 464
c) interest income	8 (a)	(14 424)	(9 448)
<b>Profit before adjustments for current assets and current liabilities</b>		<b>2 286 948</b>	<b>6 091 677</b>
<b>Adjustments for:</b>			
a)(increase) / decrease of trade receivables, other receivables and accrued income		(2 270 835)	(7 351 704)
b)(increase) / decrease of inventories	12	1 335	(1 335)
c) increase / (decrease)of trade and other payables and accrued liabilities		12 310 539	7 420 775
<b>Gross cash flows from operating activities</b>		<b>12 327 987</b>	<b>6 159 413</b>
Interest income		14 424	9 448
Corporate income tax paid	21	(1 616 198)	(432 238)
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>		<b>10 726 213</b>	<b>5 736 623</b>
<b>II CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from loan repayment		-	5 883 639
Purchase of stock and bonds	11	(1 336 357)	-
Purchase of intangible assets and fixed assets	10	(132 987)	-
<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>		<b>(1 469 344)</b>	<b>5 883 639</b>
<b>III CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Dividends paid		(4 653 116)	(764 488)
<b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>		<b>(4 653 116)</b>	<b>(764 488)</b>

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, 12 May 2014

## Statement of Cash Flows for the year 2013 (Continued)

	Notes	2013 LVL	2012 LVL
<b>IV NET CASH FLOW FOR THE YEAR</b>		<b>4 603 753</b>	<b>10 855 774</b>
Cash and cash equivalents at the beginning of the reporting year		11 212 807	357 033
<b>Cash and cash equivalents at the end of the reporting year</b>	<b>16</b>	<b>15 816 560</b>	<b>11 212 807</b>

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

Rīga, 12 May 2014

## **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 2013 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 12 May 2014 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 auditor’s 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 statement of Profit and Loss 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 statement of profit and loss in the corresponding period. As of 31 December 2013 Euro exchange rate was 0.702804 (31 December 2012: 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 statement of profit and loss 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 statement of profit and loss 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 statement of profit and loss 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 statement of profit and loss, 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 statement of profit and loss.



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 statement of profit and loss. Past employment costs are recognized in the statement of profit and losses 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 statement of profit and loss.

### **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 statement of profit and loss 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 statement of profit and loss 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 1<sup>st</sup> part of the 25<sup>th</sup> 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 13<sup>1</sup> 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 statement of profit and loss. 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 statement of profit and loss 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 statement of profit and loss.

**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 statement of profit and loss 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.

The European Union funding is not recognized until the Company has not gained a reasonable assurance that the aid conditions will be met and support will be received. The European Union funding is systematically recognized in the income statement in the period during which the Company had the expenses the European Union funding covers.

European Union funding to be available for expenditure incurred or to cover losses or for immediate financial support to the Company and which is not related to future costs is recognized in the income statement in the period when the Company has the right to receive it.

## **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 2013 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 2013.

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

	2013	2012
	LVL	LVL
<b>Electricity transmission services:</b>		
Transmission service	52 411 301	52 352 773
Electricity balancing service*	11 156 174	8 189 917
Electricity transit services*	3 189 208	3 035 976
Power regulation service	5 379 898	1 922 959
Reactive power management	172 257	179 772
Management of congestions and overloads	588 902	32 673
	<b>72 897 740</b>	<b>65 714 070</b>
Mandatory procurement component**	1 946 579	767 215
Power reserve maintenance service	241 558	220 531
Other services	161 281	24 954
<b>TOTAL REVENUES</b>	<b>75 247 158</b>	<b>66 726 770</b>

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.

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

\*\* According to Regulations regarding the Trade and Use of Electricity, AS “Augstsprieguma tīkls” receives mandatory procurement component charges, which are transferred to the Public traders per legislation (See Note 7).

### 4 OTHER OPERATING INCOME

	2013	2012
	LVL	LVL
Received grants and compensation for losses	36 070	70
Other income*	29 444	41 550
<b>TOTAL OTHER OPERATING INCOME</b>	<b>65 514</b>	<b>41 620</b>

\* 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” 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.



## 5. RAW MATERIALS AND CONSUMABLES USED, REPAIR COSTS

	2013	2012
	LVL	LVL
Purchase of balancing electricity	9 221 366	7 111 872
Electricity transmission losses and technological consumption	6 935 871	6 705 475
Purchase of regulating electricity	5 222 687	2 025 201
Electricity transit losses	1 645 266	1 062 551
Electricity for selfconsumption	149	36
Used materials and repair costs	612	224
<b>TOTAL RAW MATERIALS AND CONSUMABLES USED, REPAIR COSTS</b>	<b>23 025 951</b>	<b>16 905 359</b>

## 6. PERSONNEL COSTS

	2013	2012
	LVL	LVL
Remuneration for work	1 134 093	996 251
Mandatory state social security contributions and benefits defined in the collective agreement	326 168	261 685
Contributions to pension plans	51 825	45 780
<b>TOTAL PERSONNEL COSTS (INCLUDING COMPENSATION OF THE COMPANY'S MANAGEMENT)</b>	<b>1 512 086</b>	<b>1 303 716</b>

### Compensation of the Company's management

	2013	2012
	LVL	LVL
Remuneration for work	108 033	104 954
Mandatory state social security contributions and benefits defined in the collective agreement	25 292	24 443
Contributions to pension plans	4 024	3 943
<b>TOTAL COMPANY'S MANAGEMENT COMPENSATIONS</b>	<b>137 349</b>	<b>133 340</b>

	2013	2012
Number of employees at the end of the reporting year	62	60
Average number of employees during reporting year	64	59

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

**7. OTHER OPERATING EXPENSES**

	<b>2013</b>	<b>2012</b>
	<b>LVL</b>	<b>LVL</b>
Rent of fixed assets (transmission assets)	25 391 097	23 537 630
Asset management services	13 333 865	12 785 052
Electric power reserve maintenance costs*	4 637 356	3 564 897
Mandatory procurement component**	1 946 579	767 215
Guaranteed expenses for electric power	907 062	-
Electrical power overload elimination	642 721	32 673
Electric power balancing services	435 299	716 197
Replacement power reserve	201 480	168 912
Telecommunication services	33 404	28 920
Electricity transit services	5 684	219 843
Miscellaneous operating expenses***	943 578	668 320
<b>TOTAL OTHER OPERATING EXPENSES</b>	<b>48 478 125</b>	<b>42 489 659</b>

\* Increase is related to more active use of the Latvian power reserve by neighbouring power systems during the reporting year. The costs are covered by appropriate revenue.

\*\* According to Regulations regarding the Trade and Use of Electricity, AS “Augstsprieguma tīkls” receives mandatory procurement component charges, which are transferred to the Public trader as per legislation.

\*\*\* From October 2013 till December 2013 Company made guaranteed payments for an electricity power fees according to Latvian Cabinet of the Ministers Regulation No. 221 as of 10 March 2009 „Terms of electricity production and pricing by producing electricity by cogeneration”36<sup>th</sup> article. Electricity market regulation 28<sup>th</sup>1 third part, which determines guaranteed payments for cogeneration power plant set up power paid by cogeneration power plant transmission system operator. Observing amendments made in Electricity market regulation, from 1 January 2014, payments for cogeneration power plant set up power will be paid by public dealer.



**8. FINANCE INCOME/(EXPENSES), NET**

	<b>2013</b>	<b>2012</b>
	<b>LVL</b>	<b>LVL</b>
<b>a) Finance income</b>		
Interest income from credit institutions	14 424	9 448
<b>Total finance income</b>	<b>14 424</b>	<b>9 448</b>
<b>b) Finance expenses</b>		
Net expenses from foreign currency exchange rate fluctuations	13 401	443
<b>Total finance expenses</b>	<b>13 401</b>	<b>443</b>
<b>FINANCE INCOME / (EXPENSES), NET</b>	<b>1 023</b>	<b>9 005</b>

**9. CORPORATE INCOME TAX AND DEFERRED TAX**

	<b>2013</b>	<b>2012</b>
	<b>LVL</b>	<b>LVL</b>
Corporate income tax	(332 500)	(910 988)
(Increase) / decrease of deferred tax asset	(429)	5 446
<b>TOTAL CORPORATE INCOME TAX</b>	<b>(332 929)</b>	<b>(905 542)</b>

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 before tax:

	<b>2013</b>	<b>2012</b>
	<b>LVL</b>	<b>LVL</b>
Profit before corporate income tax	2 273 997	6 075 671
Corporate income tax at the statutory rate of 15%	341 100	911 350
Non- deductible expenses	2 578	2 611
Other	(238)	(2 247)
Corporate income tax reduction for retained earnings	(10 511)	(6 172)
<b>TAX EXPENSES</b>	<b>332 929</b>	<b>905 542</b>

**AS „Augstsprieguma tīkls” annual report for the year ended 31 December 2013**

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:

	<b>31.12.2013</b>	<b>31.12.2012</b>
	<b>LVL</b>	<b>LVL</b>
<b>Deferred tax assets:</b>		
Deferred tax assets to be recovered after more than 1 year	(23 019)	(22 444)
Deferred tax assets to be recovered within 1 year	(16 244)	(13 609)
<b>TOTAL DEFERRED TAX ASSETS</b>	<b>(39 263)</b>	<b>(36 053)</b>
<b>Deferred tax liabilities:</b>		
Deferred tax liabilities to be recovered after more than 1 year	929	722
Deferred tax liabilities to be recovered within 1 year	3 717	285
<b>TOTAL</b>	<b>(34 617)</b>	<b>(35 046)</b>

**Movement of deferred tax:**

	<b>2013</b>	<b>2012</b>
	<b>LVL</b>	<b>LVL</b>
<b>At the beginning of the year</b>	<b>(35 046)</b>	<b>(29 600)</b>
Recorded in the statement of profit and loss	429	(5 446)
<b>At the end of the year</b>	<b>(34 617)</b>	<b>(35 046)</b>

**Deferred tax:**

	<b>31.12.2013</b>	<b>31.12.2012</b>
	<b>LVL</b>	<b>LVL</b>
<b>Deferred tax liabilities:</b>		
Temporary difference in fixed asset depreciation	4 646	1 007
<b>Deferred tax assets:</b>		
Provisions for post-employment benefits	(19 911)	(20 403)
Temporary difference in provisions for unused vacations	(8 205)	(7 297)
Accrued bonuses	(7 407)	(5 785)
Provisions for anniversary benefits	(3 108)	(2 041)
Provisions for contributions to pension plans	(632)	(527)
<b>TOTAL DEFERRED TAX</b>	<b>(34 617)</b>	<b>(35 046)</b>



**10. INTANGIBLE ASSETS, FIXED ASSETS**

**10.1. Intangible assets**

	<b>Computer software</b>	<b>Total</b>
	<b>LVL</b>	<b>LVL</b>
<b>As of 31 December 2011</b>		
Historical cost	76 327	76 327
Accumulated amortization	(66 720)	(66 720)
<b>Residual value</b>	<b>9 607</b>	<b>9 607</b>
<b>2012</b>		
Residual value at the beginning of the year	9 607	9 607
Amortization charged	(2 892)	(2 892)
<b>Residual value at the end of the year</b>	<b>6 715</b>	<b>6 715</b>
<b>As of 31 December 2012</b>		
Historical cost	76 327	76 327
Amortization charged	(69 612)	(69 612)
<b>Residual value</b>	<b>6 715</b>	<b>6 715</b>
<b>2013</b>		
Residual value at the beginning of the year	6 715	6 715
Additions	14 106	14 106
Amortization charged	(4 732)	(4 732)
<b>Residual value at the end of the year</b>	<b>16 089</b>	<b>16 089</b>
<b>As of 31 December 2013</b>		
Historical cost	90 433	90 433
Accumulated amortization	(74 344)	(74 344)
<b>Residual value</b>	<b>16 089</b>	<b>16 089</b>

10.2. Fixed assets

	Other fixed assets and inventory	Kopā
	LVL	LVL
<b>As of 31 December 2011</b>		
Historical cost	6 023	6 023
Accumulated amortization	(5 275)	(5 275)
<b>Residual value</b>	<b>748</b>	<b>748</b>
<b>2012</b>		
Residual value at the beginning of the year	748	748
Depreciation	(98)	(98)
<b>Residual value at the end of the year</b>	<b>650</b>	<b>650</b>
<b>As of 31 December 2012</b>		
Historical cost	6 023	6 023
Accumulated amortization	(5 373)	(5 373)
<b>Residual value</b>	<b>650</b>	<b>650</b>
<b>2013</b>		
Residual value at the beginning of the year	650	650
Additions	118 881	118 881
Depreciation	(18 804)	(18 804)
<b>Residual value at the end of the year</b>	<b>100 727</b>	<b>100 727</b>
<b>As of 31 December 2013</b>		
Historical cost	124 904	124 904
Accumulated amortization	(24 177)	(24 177)
<b>Residual value</b>	<b>100 727</b>	<b>100 727</b>



## 11. Non-current financial assets

	2013	2012
	LVL	LVL
<b>Non-current financial assets:</b>	<b>1 337 357</b>	<b>1 000</b>
AS “Nord Pool Spot”*	1 336 357	-
AS “Pirmais slēgtais pensiju fonds”**	1 000	1 000

Name of the company	Location	Type of business	Share
AS "Pirmais slēgtais pensiju fonds"	Latvia	Pension plan management	1.9%
AS "Nord Pool Spot"*	Norway	Electricity stock exchange	2.0%

\* Stocks bought in accordance by Latvian Cabinet of the Ministers ordinance No. 370 as of 14 August 2013 “For joint stock company “Augstsprieguma tīkls” participation in joint stock company “Nord Pool Spot”.

\*\*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

	31.12.2013	31.12.2012
	LVL	LVL
<b>INVENTORIES</b>		
Raw materials and spare parts	-	1 335
<b>TOTAL INVENTORIES</b>	<b>-</b>	<b>1 335</b>

### 13. TRADE RECEIVABLES, NET

	31.12.2013	31.12.2012
	LVL	LVL
<b>Receivables</b>		
Electricity transmission service debts	1 184 903	579 514
Other trade receivables	7 350 896	10 945
<b>Total receivables</b>	<b>8 535 799</b>	<b>590 459</b>
<b>Provisions for bad and doubtful debts</b>		
Provisions for electricity transmission service debts	(1 443)	(123)
Provisions for other trade receivables	(8 000)	(10 904)
<b>Total provisions for bad and doubtful debts</b>	<b>(9 443)</b>	<b>(11 027)</b>
<b>Receivables, net</b>		
Electricity transmission service debts	1 183 460	579 391
Other trade receivables	7 342 896	41
<b>TRADE RECEIVABLES, NET</b>	<b>8 526 356</b>	<b>579 432</b>

#### Impaired receivables:

	2013	2012
	LVL	LVL
At the beginning of the year	11 027	43 005
Written-off provisions for doubtful debts		(16 999)
Included in the statement of profit and loss	(1 584)	(14 979)
<b>At the end of the year</b>	<b>9 443</b>	<b>11 027</b>

### 14. OTHER RECEIVABLES

	31.12.2013	31.12.2012
	LVL	LVL
Non-deductible VAT	110 247	374 348
Overpaid taxes (see Note 21), including:	593 330	24 543
VAT	245	24 526
Personnel Income Tax	19	17
Income Tax	593 066	-
Advances for connections (see Note 19)	1 535 087	1 481 600
Other receivables	345	1 511
<b>TOTAL OTHER RECEIVABLES</b>	<b>2 239 009</b>	<b>1 882 002</b>



## 15. ACCRUED INCOME

	31.12.2013	31.12.2012
	LVL	LVL
<b>Accruals for income from services rendered during reporting year</b>		
For electricity transit service income	37 580	46 322
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 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
<b>Total accruals for income from services rendered during reporting year*</b>	<b>37 580</b>	<b>6 110 798</b>
For electricity transit service income**	1 662 599	1 557 580
For reduction of costs of asset management	737 380	28 055
Balancing electricity sales revenue	6 753	-
For reduction of rent fees on transmission assets	-	147 397
EU financing	-	41 550
<b>TOTAL ACCRUED INCOME</b>	<b>2 444 312</b>	<b>7 885 380</b>

\* 2012 report year revenue for services rendered for which invoice are issued after last date of the reporting year are reflected in accrued income. In 2013 in consideration of European Union Council decision No. 2013/387/ES as of 9 July 2013 introduction of the euro in Latvian 1 January 2014, invoices for services rendered during the reporting period issued by the reporting date.

\*\* 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..

## 16. CASH AND CASH EQUIVALENTS

	31.12.2013	31.12.2012
	LVL	LVL
<b>CASH AT BANK</b>	<b>15 816 560</b>	<b>11 212 807</b>

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 2013 the paid-in share capital of AS “Augstsprieguma tīkls” amounts to LVL 4 000 000 (31 December 2012: LVL 4 000 000) and consists of 4 000 000 (31 December 2012: 4 000 000) ordinary shares with a nominal value of LVL 1 (31 December 2012: LVL 1) per share. All shares have been fully paid.

## 18. NON-CURRENT LIABILITIES

	2013	2012
	LVL	LVL
<b>Provisions for post-employment benefits and anniversary benefits:</b>		
<b>At the beginning of the reporting year</b>	<b>149 624</b>	<b>127 160</b>
Provisions made during the reporting year	3 839	22 464
<b>At the end of the reporting year</b>	<b>153 463</b>	<b>149 624</b>
<b>Deferred income:</b>		
Long-term part of congestion management income*	12 195 057	2 798 371
<b>Total non-current liabilities</b>	<b>12 348 520</b>	<b>2 947 995</b>

\* According to clause No 4, article No 13 and clause No 6, article No 13<sup>1</sup> 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 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

	31.12.2013.	31.12.2012.
	LVL	LVL
Connection fees received in advance:*	2 169 367	3 616 000
from customers	44 596	38 711
from related parties	51 875	38 976
<b>ADVANCE PAYMENTS AND OTHER LIABILITIES</b>	<b>2 265 838</b>	<b>3 693 687</b>

\* 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

	31.12.2013	31.12.2012
	LVL	LVL
<b>Accrued liabilities for the services received during the reporting period</b>		
Purchase of balancing electricity	656 726	466 941
Transmission asset rent	637 990	-
Transmission electricity loss and technological consumption	478 372	656 739
Mandatory procurement component	129 069	98 182
Electricity transit losses	113 423	66 398
Provisions for transit electricity loss compensation costs	14 477	95 702
Balancing services	9 976	31 239
Telecommunication costs	44	2 771
Purchase of regulating electricity	-	449 803
Electric power reserve maintenance costs	-	274 536
Replacement power reserve	-	17 112
Fixed assets rent	-	6 827
Maintenance of anti-accident automatics	-	6 234
IT services	-	5 088
Transportation service costs	-	2 714
Rent of fixed assets (transmission assets)	-	1 442 439
Provisions for other services	2 796	7 335
<b>Total accrued liabilities for the services received during the reporting period</b>	<b>2 042 873</b>	<b>3 630 060</b>
Provisions for unused vacations	54 699	48 650
Accrued premium costs for prior year results	49 382	38 566
Accrued benefit costs and pension plan contributions	4 211	3 514
<b>TOTAL ACCRUED LIABILITIES</b>	<b>2 151 165</b>	<b>3 720 790</b>

## 21. TAXES AND STATE SOCIAL SECURITY CONTRIBUTIONS

	31.12.2012	Calculated	Paid	31.12.2013
	LVL	LVL	LVL	LVL
Corporate income tax	(690 632)	(332 500)	1 616 198	593 066
Value added tax	24 526	387 557	(630 788)	(218 705)
State social security contributions	(33 550)	(402 330)	398 795	(37 085)
Personal income tax	(20 219)	(231 305)	230 203	(21 321)
Risk duty	(15)	(193)	192	(16)
Vehicle tax	-	(1 482)	-	(1 482)
<b>TOTAL TAXES</b>	<b>(719 890)</b>	<b>(580 253)</b>	<b>1 614 600</b>	<b>314 457</b>
Tax liabilities	(744 433)			(278 873)
Tax overpayments	24 543			593 330

## 22. OPERATING LEASE CONTRACTS

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

	<b>31.12.2013</b>	<b>31.12.2012</b>
	<b>LVL</b>	<b>LVL</b>
<b>Real estate lease payment obligations</b>		
Due within one year	81 925	81 925
<b>TOTAL</b>	<b>81 925</b>	<b>81 925</b>
<b>The transmission system network asset leases</b>		
Due within one year, including:		
Transmission system network asset maintenance	39 781 102 13 820 307	38 824 352 14 071 245
Due between one and five years, including:		
Transmission system network asset maintenance	151 362 814 -	152 461 242 14 558 988
<b>TOTAL</b>	<b>191 143 916</b>	<b>191 285 594</b>

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 2014 – 2018 year period are calculated based on the Company’s Management estimates on transmission system assets value fluctuations and 90<sup>th</sup> 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 9<sup>th</sup> article of the law on Public Utilities Regulators, Public Utilities Commission contributes to the development of public service providers, according to the 20<sup>th</sup> 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 AUDITOR’S COMPANY

	<b>2013</b>	<b>2012</b>
	<b>LVL</b>	<b>LVL</b>
Audit of financial statements	5 236	4 217
Training services	100	-
<b>TOTAL REMUNERATION OF THE CERTIFIED AUDITOR’S COMPANY</b>	<b>5 336</b>	<b>4 217</b>

As of 31 December 2013, the Company received only audit and training services from “Deloitte Audits Latvia”.

## **25. EVENTS AFTER THE BALANCE SHEET DATE**

On 1 January 2014, Latvia joined the Eurozone and the Latvian Lat was replaced by the Euro. Since that date, the Company has converted its accounting to the Euro. The conversion to the Euro was done using the official exchange rate set by the Bank of Latvia – 1 Euro/0.702804 Latvian Lat. The Company’s financial statements for subsequent financial periods will be presented in the Euro.

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 2013.

\* \* \* \* \*



## INDEPENDENT AUDITORS' REPORT

To the shareholder of AS "Augstsprieguma tīkls"

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**Translation from Latvian**

### Report on the Financial Statements

We have audited the accompanying financial statements of AS "Augstsprieguma tīkls" out on pages 10 to 38 of the accompanying annual report, which comprise the balance sheet as of 31 December 2013, 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 give a true and fair view of the financial position of AS "Augstsprieguma tīkls" as of 31 December 2013, and of its financial performance and its cash flows for the year then ended in accordance with the Law of the Republic of Latvia on Annual Reports.

### Report on Other Legal and Regulatory Requirements

We have read the management report for 2013 set out on pages 4 to 9 of the accompanying annual report for 2013 and have not identified any material inconsistencies between the financial information contained in the management report and the financial statements for 2013.

Deloitte Audits Latvia SIA  
Licence No. 43

Roberts Stūģis  
Member of the Board



Rīga, Latvia  
12 May 2014

Inguna Staša  
Republic of Latvia Sworn Auditor  
Certificate No. 145

