Latvenergo Group
Consolidated Financial Statements
2010

PREPARED IN ACCORDANCE WITH
THE INTERNATIONAL FINANCIAL REPORTING STANDARTS
AS ADOPTED BY EU

Latvenergo

Key Figures

LVL '000

	2006	2007	2008	2009	2010
Revenue	292 132	361 629	475 856	500 513	574 690
Including electricity sales	235 219	302 167	386 205	404 723	475 411
Heat sales	37 298	49 751	72 887	71 403	71 863
EBITDA •	81 132	89 819	107 052	144 885	207 007
EBITDA margin ••	28%	25%	22%	29%	36%
Operating profit	31 318	17 174	18 345	31 446	61 593
Operating margin •••	11%	5%	4%	6%	11%
Net profit	24 034	7 507	7 328	19 556	44 325
Dividends	6 505	2 123	13 001	20 230	35 000
Net profit margin ••••	8%	2%	2%	4%	8%
Return on assets (ROA) •••••	4.0%	0.8%	0.5%	1.2%	2.2%
Return on equity (ROE) ••••••	8.3%	1.5%	0.9%	2.2%	4.0%
Non-current assets at the end of the year	572 885	1 201 742	1 475 618	1 462 114	1 942 231
Total assets at the end of the year	649 092	1 315 958	1 680 567	1 699 491	2 279 266
Total equity at the end of the year	298 333	711 671	866 331	889 440	1 344 748
Borrowings from financial institutions at the end of the year	237 784	354 856	496 317	507 225	545 607
Cash flow from operating activities	70 916	125 410	84 419	138 174	160 563
Capital expenditure	124 016	221 886	197 311	104 506	127 539

GWh

Aggregate electricity sales to customers	6 294	6 704	6 655	5 884	6 889
Electricity produced in power plants	4 424	4,127	4,567	4 871	5 869
Total amount of purchased electricity	3 196	3,981	3 478	3 132	2 494
Including purchased electricity from independent producers	386	564	637	636	693
Imported electricity	2 810	3 417	2 841	2 496	1 801
Aggregate heat sales	2 959	2 871	2 629	2 594	2 922

Number of employees at the end of the year	5 441	5 353	5 375	4 701	4 517
Moody's credit rating of the Parent Company	A2 (stable)	A2 (stable)	A3 (negative)	Baa3 (negative)	Baa3 (stable)

• EBITDA – earnings before interest, income tax, share of result of associates, depreciation and amortisation, and impairment of intangible and fixed assets

•• EBITDA margin – EBITDA / revenue

••• Operating margin – operating profit / revenue

•••• Operating – net profit / revenue

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

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

Management Report

Aspect of activity

The public limited company Latvenergo or Latvenergo AS (hereinafter – the Parent Company) is an energy power supply enterprise engaged in generation and sale of electricity and thermal energy, electricity trade, as well as provision of IT and telecommunication services. Latvenergo AS is one of the largest corporate entities in Latvia.

2010 was the sixth reporting year with Latvenergo AS heading a corporate group. Latvenergo Group also includes six subsidiaries: Augstsprieguma tīkls AS, Sadales tīkls AS, Latvenergo Kaubandus OÜ, Latvenergo Prekyba UAB, Latvijas elektriskie tīkli AS and Liepājas enerģija SIA.

Augstsprieguma tīkls AS is a 100% subsidiary of Latvenergo AS. Since 1 September 2005 it performs the functions of the Latvian electricity transmission system operator (the respective license from the Public Utilities Commission is dated 8 June 2005).

Sadales tīkls AS, another 100% subsidiary of Latvenergo AS, has been formed on 1 September 2006 and registered in the Commercial Register of Latvia on 18 September 2006. Since 1 July 2007, it performs the functions of the Latvian electricity distribution system operator (under the license issued by the Public Utilities Commission on 21 February 2007).
Latvenergo Kaubandus OÜ, 100% subsidiary of Latvenergo AS, has been formed on 20 June 2007 and registered in the Commercial Register of Estonia on 27 June 2007. Under the license issued by the Estonian regulatory authority on 31 July 2007, Latvenergo Kaubandus OÜ performs electricity-trading activities in Estonia according to signed trade agreements from 1 August 2007.

Latvenergo Prekyba UAB, fully owned by Latvenergo AS, has been established on 20 December 2007 and registered in the Register of Legal Persons of Lithuania on 7 January 2008. Under the license issued by the Lithuanian regulatory authority, Latvenergo Prekyba UAB performs from 1 September 2009 electric energy import and export activities in Lithuania.

Latvijas elektriskie tīkli AS, 100% subsidiary of Latvenergo AS has been registered in the Commercial Register of Latvia on 10 February 2011. Since 1 April 2011 it provides electricity transmission system assets management functions.

Liepājas enerģija SIA, with Latvenergo AS having the controlling interest of 51%, was registered in the Commercial Register of Latvia on 6 July 2005. Since 1 November 2005, it renders district-heating supply services in Liepāja (thermal energy generation, transmission, distribution and trade license issued by the Municipal Public Service Regulator of Liepāja on 21 October 2005).

Financial results

In 2010, the consolidated net sales of Latvenergo Group reached LVL 574.7 million exceeding the year 2009 result by LVL 74.2 million or 15%. Increase was achieved mainly by successful retail sales and wholesale electricity market operations.

The retail electricity sales to the electricity market clients in the Baltic States increased by LVL 46.6 million, including LVL 25.4 million growth of the sales to the Latvian electricity market clients and LVL 21.2 million – to

Consolidated Financial Statements 2010

Latvenergo

the market clients in Estonia and Lithuania, where since 1 January 2010 and 1 April 2010 respectively electricity markets were liberalized. Currently, Lithuania has liberalized approximately 40% of its electricity market, and Estonia – 30%. The market share of Latvenergo Group of 95% has been retained in Latvia, but in the Baltic States it has reached 29%.

In 2010, revenue from wholesale and export of electricity and its services increased by LVL 23.8 million and reached LVL 55.0 million. Major electricity export was to NordPool and BaltPool electric power exchanges. The electricity sales from the export to NordPool electric power exchange increased by LVL 11.8 million and reached LVL 20.4 million, while from the export to BaltPool electric power exchange, where trade operations were commenced on 1 January 2010, reached LVL 11.4 million. The growth of the wholesale electricity sales was facilitated by increased electricity market prices in the region and low outside temperatures during heating season, that provided opportunity to raise electricity generation at Riga's thermal power plants.

The Group's consolidated net profit for the year 2010 was LVL 44.3 million; it is LVL 24.8 million more than in 2009 (LVL 19.5 million). The consolidated net profit was positively affected by successful retail and wholesale market trade operations, selling electricity produced at Latvenergo Group's power plants. Conversely, the consolidated net profit was negatively affected by incurred losses of the subsidiaries providing distribution and transmission services in amount of LVL 6.8 million. In 2010, Sadales tīkls AS reported a net loss of LVL 5.2 million, but Augstsprieguma tīkls AS – LVL 1.6 million.

In 2010, Latvenergo Group's aggregate electricity sales amounted to 6,889 GWh (in Estonia and Lithuania – to 700 GWh), that is by 1,004 GWh or 17% more than in 2009. Heat sales amounted to 2,922 GWh in 2010 and were by 328 GWh or 13% more than in 2009.

5,869 GWh of electricity were produced in the power plants of Latvenergo Group in 2010, that is by 998 GWh or 20% more than in 2009. The increase in electricity produced was primarily impacted by greater electricity generation at Riga's thermal power plants. Difference between electricity produced and electricity consumed by Group's clients was purchased at an electric power exchange or bought from independent producers. The total amount of Latvenergo Group's purchased electricity in 2010 decreased to 2,495 GWh (2009: 3,132 GWh). In 2010 Latvenergo Group purchased electricity from independent producers in amount of 693 GWh (2009: 636 GWh).

In 2010, capital expenditures of Latvenergo Group totalled LVL 127.5 million. The major Group's capital expenditures were invested into the power generation plants totalled LVL 76.7 million or 60%. The capital expenditures into the reconstruction and development of distribution system totalled LVL 26.2 million, but into the transmission system - LVL 7.4 million. In 2010, the major capital expenditures in amount of LVL 66.4 million were made for the project of reconstruction of Riga's CHPP-2 (Combined Heat and Power Plant second power generation unit).

At the end of 2010, the value of non-current assets of Latvenergo Group was LVL 1,942.2 million, which is by LVL 480.1 million or 33% more than at the end of previous year. Increase in the value of non-current assets was caused by revaluation of distribution system assets. As a result of revaluation of distribution system assets all the most significant positions of non-current assets of Latvenergo Group are revalued at the end of 2010.

The total Group's non-current and current borrowings from financial institutions increased by LVL 38.4 million and reached LVL 545.6 million at the end of 2010 (2009: LVL 507.2 million). The value of cash and cash equivalents of Latvenergo Group, at the end of 2010, reached LVL 234.3 million, which is by LVL 79.4 million more than at the end of previous year. The borrowings from financial institutions were raised to provide funding for commenced capital expenditure projects.

At the end of 2010, the total equity of Latvenergo Group was LVL 1,344.7 million, which is by LVL 455.3 million more than at the end of the year 2009. Relevant increase in the equity was caused by the revaluation reserve results of the revaluation of distribution system assets. The total equity composes 59% of the total assets at the end of 2010.

Group's strategic development

New long-term strategy of Latvenergo Group has been started to design. It will focus on long-term value enhancement and profitable growth. Latvenergo Group and the Parent Company had defined six strategic goals for the time period 2011-2016:

- Increase the value of Latvenergo Group and the Parent Company in long-term by ensuring competitive return on investment,
- Ensure aligned positioning in all three Baltic markets as domestic, environmentally friendly electricity retailer,
- Develop diversified and environmentally friendly energy generation portfolio,
- Ensure optimal operations and high competitiveness in comparison to similar companies,
- Achieve customer centric approach in fulfilling client expectations in economically viable way,
- Acknowledge Latvenergo Group as socially responsible group.

2010 was the year of Latvenergo Group expansion to gradually opening electricity markets in Estonia and Lithuania and goal for 2011 is to reach 10% of the market share in these markets. Latvia is a way ahead to other Baltic countries because the major electricity consumers have an obligation to buy electricity in open market already since May 2008.

According to strategic intention Latvenergo Group plans to act in all three Baltic markets as domestic actor. Such ambition requires development of sales structure, client servicing systems and supporting infrastructure. Project was started in 2010 and full implementation is expected by 2013.

Preparation to introduce 3rd energy package were carried out in 2010 by splitting TSO (transmission system operator) in a separate legal entity. This effort shall be completed in 2011.

In 17 June 2009 prime ministers of Baltic Sea countries along with President of European Commission signed a Memorandum of Understanding confirming the BEMIP (Baltic Energy Market Integration Plan), which foresees also the opening of the retail electricity markets in Estonia and Lithuania. Latvenergo Group is actively participating in BEMIP implementation in areas of market liberalization and establishing new interconnections.

Strategic goals also include modernization of electricity generation capacity and participation in Baltic joint assessment and implementation of new generation capacities.

During the 2011 Latvenergo Group will continue the renovation and modernization programs for electricity generation system. During the year 2010 Latvenergo Group has continued the renovation and modernization of its power plant's system and also ongoing investment programs for electricity generation. Riga TEC - 2 CHPP second power generation unit modernizations has been started.

Latvenergo Group will also carry on improvement of Daugava's hydroelectric constructions safety.

The investments in transmission and distribution system assets have continued within available funding to provide customers with new connections and additional power and to comply with safety standards and licensing requirements. At the same time customer-servicing efficiency has been increased.

In TSO area Kurzemes ring investment project, that has been started and in the middle of year 2010, EU financial contribution from EEPR (European Economic Recovery Plan) program has been finally confirmed to develop transmision Networks. Kurzemes ring investment program is a part of BEMIP and it is planned to finalize the program by 2018-2020. In 2010 Environmental impact assessment has been started and the first investments have been made.

Latvenergo Group in accordance with approved strategy of 2008-2010 and goals for 2010 has continued to investigate new generation capacity feasibility in Latvia and Baltics in areas of renewable energy and cogeneration.

To increase Latvenergo Group's and the Parent Company's competitiveness, further optimization of support functions and increase of efficiency is continued; also new niche business opportunities with environmentally friendly potential are assessed.

Financial risk management

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

Financial instruments

The major financial instruments of the Group are non-current and current borrowings from financial institutions, trade receivables and payables, derivative financial instruments (interest rate swaps, electricity swaps, CO_2 emissions allowances forward contracts) and cash. The main objective of borrowings is to finance the Group's operating activities and investments in property, plant and equipment.

Management of the Parent Company

Since 16 November 2006 until 22 June 2010, the Management Board of Latvenergo AS was comprised of the following members: Kārlis Miķelsons (Chairman), Uldis Bariss, Arnis Daugulis, Arnis Kurgs and Aigars Meļko.

Reposing on Shareholder's resolution, Kārlis Miķelsons (Chairman) and Aigars Meļko were removed from the composition of the Management Board of Latvenergo AS since 22 June 2010, and the Management Board since 22 June 2010 until 1 November 2010 was comprised of the following members: Uldis Bariss (Chairman), Arnis Daugulis and Arnis Kurgs.

Since 1 November 2010 Māris Kuņickis has been acting as a member of the Management Board of Latvenergo AS and until 15 November it was comprised of the following members: Uldis Bariss (Chairman), Māris Kuņickis, Arnis Daugulis and Arnis Kurgs.

Since 15 November 2010 as a Chairman of the Management Board of Latvenergo AS has been appointed Āris Žīgurs and since 15 November 2010 until the date of signing off this Annual Report, the Management Board of Latvenergo AS includes the following members: Āris Žīgurs (Chairman), Uldis Bariss, Māris Kuņickis, Arnis Daugulis and Arnis Kurgs.

Events after the reporting period

On 10 February 2011 Latvijas elektriskie tīkli AS – 100% subsidiary of Latvenergo AS has been registered in the Commercial Register of Latvia.

After the reporting period, there have been no events that would materially affect the financial position of the Group as at 31 December 2010.

Profit distribution

Fulfilling the requirements of the "Law on state and municipality owned shares and companies", Regulations No. 1074 of the Cabinet of Ministers of Latvia dated 25 November 2010 "On amendments of regulations No. 1471 dated 15 December 2009 "On Procedure how the payable part of the profit for the use of the state's capital is determined and paid into the state's budget"" and the "Law on state's budget for 2011" the Management Board of Latvenergo AS proposes to allocate LVL 35,000,000 to be paid out in dividends and to reinvest the remaining profit portion of LVL 9,562,097 as share capital of the Parent Company.

The distribution of profit for 2010 is subject to a resolution of Latvenergo AS Shareholders' meeting.

The Management Board of Latvenergo AS:

Āris Žīgurs
Chairman

Uldis Bariss

Māris Kuņickis

Arnis Daugulis

Arnis Kurgs

24 May 2011

Translation from Latvian original*

INDEPENDENT AUDITOR'S REPORT

To the Shareholder of Latvenergo AS

Report on the Consolidated Financial Statements

We have audited the accompanying financial statements on pages 10 to 63 of Latvenergo AS and its subsidiaries ("the Group") which comprise the consolidated statement of financial position as of 31 December 2010 and the consolidated income statement and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

PricewaterhouseCoopers SIA, Kr. Valdemara iela 19, Riga LV-1010, Latvia
T: +371 6709 4400, F: +371 6783 0055, www.pwc.lv

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2010, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Report on Other Legal and Regulatory Requirements

We have read the Management Report set out on pages 3 to 7 and did not identify material inconsistencies between the financial information contained in the Management Report and that contained in the consolidated financial statements for 2010.

PricewaterhouseCoopers SIA
Certified audit company
Licence No. 5

Ahmed Abu Sharkh
Chairman of the Board

Ilandra Lejiņa
Certified auditor in charge
Certificate No. 168
Member of the Board

Riga, Latvia
24 May 2011

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

Consolidated Income Statement

LVL '000

	Notes	2010	2009
Revenue	5	574 690	500 513
Other income	6	2 716	6 281
Raw materials and consumables used	7	(278 193)	(261 681)
Personnel expenses	8	(57 693)	(60 601)
Depreciation, amortisation and impairment of intangible assets			
and property, plant and equipment	12a, 13a	(145 414)	(113 439)
Other operating expenses	9	(34 513)	(39 627)
Operating profit		**61 593**	**31 446**
Finance income	10a	6 734	10 769
Finance costs	10b	(17 750)	(18 243)
Share of profit of associates	14	203	198
Profit before income tax		**50 780**	**24 170**
Income tax	11	(6 455)	(4 614)
Profit for the year		**44 325**	**19 556**
Attributable to:			
• Owners of the Parent Company		43 847	19 370
• Non-controlling interest		478	186

Consolidated Statement of Comprehensive Income

LVL '000

	Notes	2010	2009
Profit for the year		**44 325**	**19 556**
Other comprehensive income:			
Gains/(losses) on revaluation of property, plant and equipment	19	423 291	(1 445)
Disposal of property, plant and equipment revaluation reserve	19	1 957	1 701
Currency translation differences		8	-
Gains/(losses) from change in hedge reserve	19	(375)	9 403
Other comprehensive income for the year, net of tax		**424 881**	**9 659**
Total comprehensive income for the year		**469 206**	**29 215**
Attributable to:			
• Owners of the Parent Company		468 728	29 029
• Non-controlling interest		478	186

The notes on pages 14 to 63 are an integral part of these Consolidated Financial Statements.

The Management Board of Latvenergo AS:

Āris Žīgurs
Chairman

Uldis Bariss

Māris Kuņickis

Arnis Daugulis

Arnis Kurgs

Consolidated Statement of Financial Position

LVL '000

	Notes	31/12/2010	31/12/2009
ASSETS			
Non-current assets			
Intangible assets	12a	7 478	8 192
Property, plant and equipment	13a	1 928 810	1 448 044
Investment property	13c	382	436
Investments in associates	14	4 464	4 261
Other non-current receivables		172	249
Deferred income tax assets	11	925	932
Total non-current assets		**1 942 231**	**1 462 114**
Current assets			
Inventories	15	11 501	13 043
Trade receivables	16a	63 031	48 963
Income tax prepayment		-	775
Other receivables	16b	21 882	19 513
Derivative financial instruments	24e	3 968	145
Investments in held-to-maturity financial assets	28	2 387	-
Cash and cash equivalents	17	234 266	154 938
Total current assets		**337 035**	**237 377**
TOTAL ASSETS		**2 279 266**	**1 699 491**
EQUITY			
Equity attributable to owners of the Parent Company			
Share capital	18	323 544	317 653
Non-current assets revaluation reserve	19	976 180	552 889
Hedge reserve	19	(3 912)	(3 537)
Other reserves	19	10	2
Retained earnings		46 356	20 782
		1 342 178	887 789
Non-controlling interest		**2 570**	**1 651**
Total equity		**1 344 748**	**889 440**
LIABILITIES			
Non-current liabilities			
Borrowings	20	506 756	483 652
Deferred income tax liabilities	11	187 635	118 040
Provisions for post-employment benefits	21a	7 321	7 473
Environmental provisions	21b	1 376	1 376
Derivative financial instruments	24e	7 088	10 135
Other liabilities and deferred income	22	94 889	78 445
Total non-current liabilities		**805 065**	**699 121**
Current liabilities			
Trade and other payables	23	82 356	73 226
Income tax payable		3 336	3 729
Borrowings	20	38 851	23 573
Derivative financial instruments	24e	4 910	10 402
Total current liabilities		**129 453**	**110 930**
TOTAL EQUITY AND LIABILITIES		**2 279 266**	**1 699 491**

The notes on pages 14 to 63 are an integral part of these Consolidated Financial Statements.

The Management Board of Latvenergo AS:

Āris Žīgurs
Chairman

Uldis Bariss

Māris Kuņickis

Arnis Daugulis

Arnis Kurgs

Consolidated Statement of Changes in Equity

LVL '000

	Notes	Attributable to owners of the Parent Company: Share capital	Reserves	Retained earnings	Total	Non-controlling interest	Total
As at 31 December 2008		**311 150**	**545 212**	**8 896**	**865 258**	**1 073**	**866 331**
Increase in share capital	18	6 503	-	-	6 503	-	6 503
Adjustment of prior period			-	(3 816)	3 816	-	-
Dividends for 2008	19	-	-	(13 001)	(13 001)	-	(13 001)
Non-controlling interest arising on increase in subsidiary's share capital		-	-	-	-	392	392
Income/(loss) recognized directly in equity:							
Change in hedge reserve	19	-	9 403	-	9 403	-	9 403
Revaluation of property, plant and equipment	19	-	(1 445)	1 701	256	-	256
Total income recognized directly in equity for the year		**-**	**7 958**	**1 701**	**9 659**	**-**	**9 659**
Profit for the year		-	-	19 370	19 370	186	19 556
Total comprehensive income for the year		**-**	**7 958**	**21 071**	**29 029**	**186**	**29 215**
As at 31 December 2009	18, 19	**317 653**	**549 354**	**20 782**	**887 789**	**1 651**	**889 440**
Increase in share capital	18	5 891	-	-	5,891	-	5,891
Dividends for 2009	19	-	-	(20 230)	(20 230)	-	(20 230)
Non-controlling interest arising on increase in subsidiary's share capital		-	-	-	-	441	441
Income/(loss) recognized directly in equity:							
Change in hedge reserve	19	-	(375)	-	(375)	-	(375)
Currency translation differences	19	-	8	-	8	-	8
Revaluation of property, plant and equipment	19	-	423 291	1 957	425 248	-	425 248
Total income recognized directly in equity for the year		**-**	**422 924**	**1 957**	**424 881**	**-**	**424 881**
Profit for the year		-	-	43 847	43 847	478	44 325
Total comprehensive income for the year		**-**	**422 924**	**45 804**	**468 728**	**478**	**469 206**
As at 31 December 2010	**18, 19**	**323 544**	**972 278**	**46 356**	**1 342 178**	**2 570**	**1 344 748**

The notes on pages 14 to 63 are an integral part of these Consolidated Financial Statements.

Consolidated Statement of Cash Flows

LVL '000

	Notes	2010	2009
Cash flows from operating activities			
Profit before tax		50 780	24 170
Adjustments for:			
• Amortisation and depreciation	12a, 13a	119 056	94 091
• Impairment of non-current assets	13	26 357	19 348
• Loss from disposal of non-current assets		1 771	3 623
• Investments accounting at equity method	14	(203)	(198)
• Interest expense	10b	14 383	16 423
• Interest income	10a	(5 351)	(9 822)
• Fair value (gains) / losses on derivative financial instruments	7, 10	(13 345)	9 894
• Changes in provisions	21	(152)	(2 630)
• Losses on currency translation differences	10b	1 142	357
Decrease in inventories		1 542	6 084
(Increase) / decrease in receivables		(16 361)	11 419
Increase / (decrease) in payables, accrued expense, deferred income and other liabilities		1 649	(26 941)
Cash generated from operations		**181 268**	**145 818**
Interest paid		(14 889)	(16 118)
Interest received		5 352	9 822
Income tax paid		(11 168)	(1 348)
Net cash generated from operating activities		**160 563**	**138 174**
Cash flows from investing activities			
Proceeds from sale of intangible assets and PPE		301	847
Purchase of intangible assets and PPE		(107 812)	(91 449)
Net cash used in investing activities		**(107 511)**	**(90 602)**
Cash flows from financing activities			
Proceeds on financing from EU funds		10 575	1,050
Purchase of state treasury bills	28	(2 387)	-
Proceeds on borrowings from credit institutions	20	60 041	35 140
Repayment of borrowings	20	(22 164)	(21 658)
Non-controlling interest's contribution to subsidiaries' share capital		441	392
Dividends paid		(20 230)	(11 108)
Net cash generated from financing activities		**26 276**	**3 816**
Net increase in cash and cash equivalents		**79 328**	**51 388**
Cash and cash equivalents at the beginning of the year		154 938	103 550
Cash and cash equivalents at the end of the year	**17**	**234 266**	**154 938**

The notes on pages 14 to 63 are an integral part of these Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

1 CORPORATE INFORMATION

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

The Consolidated Financial Statements for year 2010 include the financial information in respect of the Parent Company and its all subsidiaries (hereinafter – the Group) for the annual period ending 31 December 2010 and comparative information for annual period ending 31 December 2009.

The Parent Company is engaged in the production and sale of electrical power and heat, electricity trading, as well as provision of IT and telecommunication services in the territory of Latvia and the EU. The Parent Company is one of the largest corporate entities in Latvia.

The Group also includes six subsidiaries: Augstsprieguma tīkls AS, Sadales tīkls AS, Latvijas elektriskie tīkli AS, Latvenergo Kaubandus OÜ, Latvenergo Prekyba UAB and Liepājas enerģija SIA.

Subsidiary Augstsprieguma tīkls AS performs the functions of the Latvian electricity transmission system operator.

Subsidiary Sadales tīkls AS performs the functions of the Latvian electricity distribution system operator.

Subsidiary Latvijas elektriskie tīkli AS provides the functions of electricity transmission system assets operation, management and maintenance.

Latvenergo Kaubandus OÜ has been formed on 20 June 2007. It renders electricity-trading services in Estonia and has concluded cross-border deals.

Latvenergo Prekyba UAB has been established on 20 December 2007. It renders electricity-trading services in Lithuania and has concluded cross-border deals.

Liepājas enerģija SIA renders district-heating supply services in Liepāja (thermal energy generation, transmission, distribution and trade).

The Parent Company's associate Nordic Energy Link AS carries out the functions of the operator of an interconnection power cable between Estonia and Finland.

The Parent Company's associate Pirmais Slēgtais Pensiju Fonds AS manages a defined-contribution corporate pension plan in Latvia.

Latvenergo AS Management Board has approved for issue the Consolidated Financial Statements on 24 May 2011. The decision on approval of the Consolidated Financial Statements is made by Shareholder's meeting.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1. Basis of Preparation

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

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

All amounts shown in these Consolidated Financial Statements are presented in thousand of Latvian Lats (LVL), unless stated otherwise.

The preparation of the Consolidated Financial Statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on the Parent Company Management's best knowledge of current events and actions, actual results ultimately may differ from those. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Consolidated Financial Statements are disclosed in Note 4.

2.1.1. Adoption of new and revised standards and interpretations

(a) Amendments to standards relevant and adopted by the Group for the current accounting period

The certain new or revised standards and interpretations of International Financial Reporting Standards (IFRS) and amendments to International Accounting Standards (IAS) became effective for the Group from accounting periods beginning on 1 January 2010:

Embedded Derivatives - Amendments to IFRIC 9 and IAS 39, issued in March 2009
The amendments clarify that on reclassification of a financial asset out of the 'at fair value through profit or loss' category, all embedded derivatives have to be assessed and, if necessary, separately accounted for. The amendments haven't a significant effect on these Consolidated Financial Statements.

IAS 27, Consolidated and Separate Financial Statements, revised in January 2008
The revised IAS 27 requires the Group to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the previous standard required the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how the Group should measure any gain or loss arising on the loss of control of a subsidiary. At the date when

control is lost, any investment retained in the former subsidiary has to be measured at its fair value. The amended standard has no impact on these Consolidated Financial Statements, as none of the non-controlling interests have a deficit balance, there have been no transactions whereby an interest in an entity is retained after the loss of control of that entity, and there have been no transactions with non-controlling interests.

Eligible Hedged Items - Amendment to IAS 39

The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment did not have an impact on these Consolidated Financial Statements.

Improvements to International Financial Reporting Standards, issued in April 2009

In April 2009, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by the Parent Company's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether the Parent Company acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss for the year and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. The improvements to IFRS did not have a material impact on these Consolidated Financial Statements.

(b) Interpretations and amendments to standards adopted for the current accounting period but not relevant to the Group's operations

The certain new or revised standards and IFRIC interpretations that became effective for accounting periods beginning on 1 January 2010, but that is not relevant to the Group's operations, has been published or amended:

IFRIC 12, Service Concession Arrangements

The interpretation contains guidance on applying the existing standards by service providers in public-to-private service concession arrangements. Application of IFRIC 12 did not have any impact on the Group's Consolidated Financial Statements because it is not subject to any service concession arrangements.

IFRIC 15, Agreements for the Construction of Real Estate

The interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors, and provides guidance for determining whether agreements for the construction of real estate are within the scope of IAS 11 or IAS 18. It also provides criteria for determining when entities should recognize revenue on such transactions. The amendment did not have any material impact on these Consolidated Financial Statements.

IFRIC 16, Hedges of a Net Investment in a Foreign Operation

The interpretation explains which currency risk exposures are eligible for hedge accounting and states that translation from the functional currency to the presentation currency does not create an exposure to which hedge accounting could be applied. The IFRIC allows the hedging instrument to be held by the Parent Company or entities within the Group except the foreign operation that it is being hedged. The interpretation also clarifies how the currency translation gain or loss reclassified from other comprehensive income to profit or loss is calculated on disposal of the hedged foreign operation. The Group applies IAS 39 to discontinue hedge accounting prospectively when their hedges do not meet the criteria for hedge accounting in IFRIC 16. IFRIC 16 did not have an impact on these Consolidated Financial Statements.

IFRIC 17, Distributions of Non-Cash Assets to Owners

The interpretation clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. The Group should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets is recognised in profit or loss for the year when the entity settles the dividend payable. IFRIC 17 did not have an impact on these Consolidated Financial Statements.

IFRIC 18, Transfers of Assets from Customers

The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. The Group has assessed the impact of IFRIC 18 on the recognition of connection fees and determined that the existing accounting policy is in compliance with the principles of IFRIC 18, because the revenue from connection fees is recognised as income on a straight line basis over the estimated customer relationship period, and so the interpretation does not have any impact on these Consolidated Financial Statements.

IFRS 3, Business Combinations, revised in January 2008

The revised IFRS 3 allows entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirements to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer has to re-measure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss for the year. Acquisition-related costs are accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer has to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date are recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving also mutual entities and business combinations achieved by contract alone. The revised IFRS 3 did not have a material impact on these Consolidated Financial Statements.

Amendment to IFRS 5, Non-current Assets Held for Sale and Discontinued Operations (and consequential amendments to IFRS 1)

This amendment to IFRS 5 is part of the IASB's annual improvements project published in May 2008. The amendment clarifies that the Parent Company committed to a sale plan involving loss of control of a subsidiary would classify the subsidiary's assets and liabilities as held for sale. The revised guidance should be applied prospectively from the date at which the Parent Company first applied IFRS 5. The amendment did not have a material impact on these Consolidated Financial Statements.

IFRS 1, First-time Adoption of International Financial Reporting Standards, revised in December 2008
The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes. The Group assessed that the revised standard did not have any effect on these Consolidated Financial Statements.

Group Cash-settled Share-based Payment Transactions - Amendments to IFRS 2
The amendments provide a clear basis to determine the classification of share-based payment awards in both consolidated and separate financial statements. The amendments incorporate into the standard the guidance in IFRIC 8 and IFRIC 11, which are withdrawn. The amendments expand on the guidance given in IFRIC 11 to address plans that were previously not considered in the interpretation. The amendments also clarify the defined terms in the Appendix to the standard. The amendments did not have a material impact on these Consolidated Financial Statements.

Additional Exemptions for First-time Adopters - Amendments to IFRS 1
The amendments provide an additional exemption for measurement of oil and gas assets and also exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4, 'Determining Whether an Arrangement Contains a Lease' when the application of their national accounting requirements produced the same result. The amendments did not have any impact on these Consolidated Financial Statements.

(c) Standards, interpretations and amendments to standards relevant but not early adopted by the Group

The certain new and revised IAS, IFRS and IFRIC interpretations that are mandatory for accounting periods beginning on or after 1 January 2011, but that have not been early adopted by the Group:

Classification of Rights Issues - Amendment to IAS 32, issued in October 2009
The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives. The Group does not expect the amendment to have any material effect on its Consolidated Financial Statements.

Amendment to IAS 24, Related Party Disclosures, issued in November 2009
The amended standard simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. The Group is currently assessing the impact of the amended standard on disclosures in its Consolidated Financial Statements.

Prepayments of a Minimum Funding Requirement - Amendment to IFRIC 14
This amendment will have a limited impact as it applies only to companies that are required to make minimum funding contributions to a defined benefit pension plan. It removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement. The Group is currently assessing the impact of the amended interpretation on its Consolidated Financial Statements.

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments
This IFRIC clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognised in the profit and loss account based on the fair value of the equity instruments compared to the carrying amount of the debt. The Group does not expect IFRIC 19 to have any material effect on its Consolidated Financial Statements.

Limited exemption from comparative IFRS 7 disclosures for first-time adopters - Amendment to IFRS 1
Existing IFRS preparers were granted relief from presenting comparative information for the new disclosures required by the March 2009 amendments to IFRS 7 'Financial Instruments: Disclosures'. This amendment to IFRS 1 provides first-time adopters with the same transition provisions as included in the amendment to IFRS 7. The Group does not expect the amendment to have any effect on its Consolidated Financial Statements.

2.1.2. New or revised standards and interpretations not yet adopted by the Group

(a) Interpretations and amendments to existing standards that are not yet effective but relevant for the Group's operations

IFRS 9, Financial Instruments Part 1: Classification and Measurement (effective for annual periods beginning on or after 1 January 2013; not yet adopted by the EU)
IFRS 9 issued in November 2009 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities. Key features are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entityís business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entityís business model is to hold the asset to collect the contractual cash flows, and (ii) the assetís contractual cash flows represent only payments of principal and interest (that is, it has only (basic loan features)). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated as at fair value through profit or loss in other comprehensive income.

The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

Disclosures - Transfers of Financial Assets - Amendments to IFRS 7 (effective for annual periods beginning on or after 1 July 2011; not yet adopted by the EU)
The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party yet remain on the entity's statement of financial position. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised but the entity is still exposed to certain risks and rewards

associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. The Group is currently assessing the impact of the amended standard on disclosures in its Consolidated Financial Statements.

Deferred Tax: Recovery of Underlying Assets - Amendment to IAS 12 (effective for annual periods beginning on or after 1 January 2012; not yet adopted by the EU)
The amendment introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. The Group is currently assessing the impact of the amended standard on its Consolidated Financial Statements.

Improvements to International Financial Reporting Standards, issued in May 2010 (effective dates vary standard by standard, most improvements are effective for annual periods beginning on or after 1 January 2011; the improvements have not yet been adopted by the EU)
The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on acquireeís share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period; IAS 1 was amended to clarify that the components of the statement of changes in equity include profit or loss, other comprehensive income, total comprehensive income and transactions with owners and that an analysis of other comprehensive income by item may be presented in the notes; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entityís financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits. The Group is considering implications of the improvements to IFRS on its Consolidated Financial Statements.

(b) Interpretations and amendments to existing standards that are not yet effective and not relevant for the Group's operations

Severe hyperinflation and removal of fixed dates for first-time adopters - Amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2011; not yet adopted by the EU)
The amendments will provide relief for first-time adopters of IFRSs from having to reconstruct transactions that occurred before their date of transition to IFRSs, and guidance for entities emerging from severe hyperinflation either to resume presenting IFRS financial statements or to present IFRS financial statements for the first time. The Group does not expect the amendments to have any material effect on its Consolidated Financial Statements.

The International Financial Reporting Standard for Small and Medium-sized Entities (issued in July 2009) is a self-contained standard, tailored to the needs and capabilities of smaller businesses.

Many of the principles of full IFRS for recognising and measuring assets, liabilities, income and expense have been simplified, and the number of required disclosures have been simplified and significantly reduced.

Unless otherwise described above, the new standards and interpretations are not expected to significantly affect the Groupís Consolidated Financial Statements.

2.2. Consolidation

(a) Subsidiaries

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

Subsidiaries' financial reports are consolidated from the date on which control is transferred to the Parent Company and are no longer consolidated from the date when control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured, as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Costs directly attributable to the acquisition are expensed to the Parent Company's Income Statement as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Parent Company's share of the identifiable net assets of the subsidiary acquired is recorded as goodwill. If the costs of acquisition are less than the fair value of net assets of the subsidiary acquired, the difference is recognised directly in the Income Statement.

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

(b) Transactions with non-controlling interests

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

(c) Associates

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

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

Investments in associates in the Consolidated Financial Statements are accounted at cost less impairment, if any.

2.3. Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

(c) Consolidation of the Groupís foreign companies

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

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

2.4. Intangible assets

(a) Trademarks and licenses

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

(b) Emission rights for greenhouse gases

Emission rights (or allowances) are recognized at cost when the Group is able to exercise the control. As at 31 December 2010 number of allowances in the Group received from the Government free of charge was 1,107,445 (31/12/2009: 1,107,445). Therefore their carrying amount as at 31 December 2010 was nil (31/12/2009: nil). In case the quantity of emitted greenhouse gases exceeds the quantity of greenhouse gas emission allowances allocated by the state free of charge, the allowances additionally purchased are recognised using the market price of greenhouse gas emission allowances at the reporting period. As at 31 December 2010 the number of allowances in the Group purchased was 280,000 (31/12/2009: 230,000), see Note 12. b). The forward agreements for purchase or sale of emission allowances for trade rather than for own use in the Group are defined as derivatives (see points 2.18, 3.3. and Note 24. c).

2.5. Property, plant and equipment

All property, plant and equipment (PPE) are stated at historical cost or revalued amount (see Note 2.8) less accumulated depreciation and accumulated impairment loss.

The cost comprises of the purchase price, transportation costs, installation, and other direct expenses related to the acquisition or implementation. The cost of the self-constructed item of PPE includes the cost of materials, services and workforce. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of an item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance expenses are charged directly to the Consolidated Income Statement when the expenditure is incurred. Borrowing costs are capitalised proportionally to the part of the cost of fixed assets under construction over the period of borrowings.

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

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

Type of property, plant and equipment	Estimated useful life, years
Buildings and structures:	
• hydropower plants, thermal power plants	15 – 80
• electricity transmission lines	30 – 50
• electricity distribution lines	20 – 30
Machinery and equipment:	
• at hydropower plants	3 – 12
• at thermal power plants	3 – 10
• at transformer stations	10
Other fixed assets	2 – 5

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.7).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. Those are included in the Consolidated Income Statement.

If revalued property, plant and equipment have been sold, appropriate amounts are reclassified from revaluation reserve to retained earnings of previous accounting periods.

2.6. Leases

(a) The Group is the lessee

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

(b) The Group is the lessor

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

2.7. Impairment of non-financial assets

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

The key assumptions used in determining impairment losses are based on the Group entitiesí or the Parent Company's management best estimation of the range of economic conditions that will exist over the remaining useful life of the asset, on the basis of the most recent financial budgets and forecasts approved by management for maximum period of 10 years. Assets are reviewed for possible reversal of the impairment at each reporting date. Revenue from the reversal of this impairment is recognised in the Consolidated Income Statement.

2.8. Assets revaluation

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

The following fixed asset groups are revalued regularly but not less frequently than every five years:

- Hydropower plants' buildings and plants,
- Hydropower plants' machinery and technology equipment,
- Other fixed assets of hydropower plants,
- Electricity transmission system engineering structure,
- Electricity transmission lines,
- Electrical equipment and other fixed assets of electricity transmission system,
- Electricity distribution system engineering structure,
- Electricity distribution lines,
- Electrical equipment and other fixed assets of electricity distribution system.

Increase in the carrying amount arising on revaluation net of deferred tax is credited to Non-current investments revaluation reserveî in shareholdersí equity. Decreases that offset previous increases of the same asset are charged against the revaluation reserve directly in equity; all other decreases are charged to the current year's Consolidated Income Statement. Any accumulated depreciation at the date of revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after the revaluation equals its revalued amount.

Non-current assets revaluation reserve is decreased at the moment, when revalued asset has been eliminated or disposed.

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

2.9. Inventories

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

Purchase cost of inventories consists of the purchase price, import charges and other fees and charges, freight-in and related costs as well as other costs directly incurred in bringing the materials and goods to their present location and condition. The value of inventories is assigned by charging trade discounts, reductions and similar allowances.

Amount of inventories as of the end of reporting period is verified during inventory.

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

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

a) Inventories that haven't turned over during last 12 months are fully impaired,

b) Machinery and equipment of hydropower plants and thermal power plants that haven't turned over

during last 12 months are impaired in amount of 90%,
c) Inventories that haven't turned over during last 6 months are impaired in amount of 50%,
d) Machinery and equipment of hydropower plants and thermal power plants that haven't turned over during last 6 months are impaired in amount of 45%,
e) The provisions are not calculated for the inventory of heating materials necessary to ensure uninterrupted operations of heat power plants,
f) Provisions are not calculated for scrap metal obtained in the process of fixed assetsí dismantling and are accounted at recoverable value.

2.10. Trade receivables

Trade receivables are recognized initially at fair value and subsequently measured at amortised cost, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of repayment.

Significant financial difficulties of the debtor, probabilities that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered as indicators that the trade receivable is impaired.

A provision for impairment of doubtful debts is calculated on the basis of trade receivables aging according to estimates defined by the Group entities and the Parent Company's management, which are revised at least once a year. Provisions for electricity trade receivables are calculated for debts overdue 45 days, and, if the debt is overdue more than 181 days, provisions are established at 100%. For other trade receivables provisions are calculated for debts overdue 31 day, and, if the date of payment is overdue more than 91 days, provisions are established at 100% (see Note 16 a).

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

2.11. Cash and cash equivalents

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

2.12. Dividend distribution

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

2.13. Pensions and employment benefits

(a) Pension obligations

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

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

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

Independent qualified actuaries value these obligations annually. The expected costs of those benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit pension plans.

The liability recognised in the Consolidated Statement of Financial Position in respect of post-employment benefit plan is the present value of the defined benefit obligation at the end of reporting period less accrued costs or revenue referring to employment relationships until the change of benefit conditions. The defined benefit obligation is calculated annually using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows with sufficient regularity. The Group uses the projected unit credit method to measure the present value of its defined benefit obligations and related current and past service 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 Group's total post-employment obligations. The Group 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 Group's net total of current service cost, interest cost, actuarial gains and losses arising from changes in assumptions, past service costs, and the effect of any settlements is recognized as expense or income in the Consolidated Income Statement. Gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of 10% of the defined benefit obligation are charged or credited to the Consolidated Income Statement. Past-service costs are recognised in the Consolidated Income Statement using linear method over the employees' expected average remaining working lives until benefits are guaranteed. If benefits are guaranteed promptly after establishment or changes of defined benefit plan, the Group immediately recognizes past-service costs in the Consolidated Income Statement.

2.14. Deferred income tax

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

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

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

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

2.15. Borrowings

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

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability at least for 12 months after the end of reporting period. The Group capitalises the borrowing costs arising on financing of new capital investments by adopting the requirements of IAS 23 Borrowing costs starting from 1 January 2008.

2.16. Provisions

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

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

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

2.17. Grants

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

Financing provided by European Union funds

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

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

2.18. Derivative financial instruments and hedging activities

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

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

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

The Group designates certain derivatives as either:

(a) Hedges of a particular risk associated with a recognised liability or highly probable forecast transactions denominated in foreign currency (cash flow hedge),

(b) Derivatives at fair value through profit or loss and accounted for at fair value through profit or loss.

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

The fair values of derivative instruments used for hedging purposes are disclosed in Note 24. Movements on the hedging reserve in shareholders' equity are shown in Note 19. The fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Those derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

(a) Cash flow hedge

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

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

The gain or loss relating to the ineffective portion of electricity swaps hedging variable electricity prices and interest rate swaps hedging variable rate borrowings is recognised in the Consolidated Income Statement position "Raw materials and consumables used" (see Note 7) and "Finance income/costs" (Note 10a and Note

10b), respectively.

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

(b) Derivatives at fair value through profit or loss and accounted for at fair value through profit or loss

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any of these derivative instruments are recognised immediately in the Consolidated Income Statement within “Finance income” or “Finance costs”.

2.19. Revenue recognition

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

(a) Electricity sales

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

(b) Heat sales

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

(c) Connection fees

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

(d) Interest income

Interest income is recognized using the effective interest method. Interest income is recorded in the Consolidated Income Statement as “Finance income”.

2.20. Related parties

The Parent Company is owned by the Latvian state. The Parent Company’s related parties are defined as companies in which the state has the control or significant influence, members of the Supervisory Board and the Management Board and key management personnel, their close relatives and companies in which they have a control or significant influence.

2.21. Non-current assets held for sale

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

2.22. Share capital

The Group’s share capital consists of ordinary shares.

2.23. Trade payables

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

2.24. Investment property

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

2.25. Held-to-maturity investments

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

If the Group fails to keep these investments to maturity other than for specific circumstances explained in IAS 39, it will be required to reclassify the whole class as available-for-sale. Therefore the investments would be measured at fair value not at amortised cost. At 31 December 2010, if the class of held-to-maturity investments had been tainted with all other variables held constant, the fair value would have not increase neither decrease significantly.

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

Consolidated Financial Statements 2010

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

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

a) Market risk

I) Foreign exchange risk

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

However, the peg of Lat to Euro at the beginning of the year 2005 resulted in limited EUR / LVL currency risk, as the Group had no any substantial liabilities in any other foreign currency except Euro. At 31 December 2010 the Group had none of their borrowings denominated in other currencies than the Euro (see Note 20).

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

The Group Treasury's Financial Risk Management Policy is to hedge all anticipated cash flows (capital expenditure and purchase of inventory) in each major foreign currency that might create significant currency risk. During 2010 the Group had one committed capital expenditure project whose expected transactions in USD created significant currency risk and qualified as 'highly probable' forecast transactions for hedge accounting purposes (Note 24d).

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

II) Cash flow and fair value interest rate risk

As the Group has no significant floating interest-bearing assets, the Group's financial income and operating cash flows are not substantially dependent on changes in market interest rates. The Group's internal financing is organized on mutual loan bases, which occasionally creates receivable balances to the benefit of the Parent Company. Such loans issued have floating interest rates based on market rates; therefore the internal Group loans have some impact on profit or loss of the Parent Company.

However, during 2010, if Euro and Lats interest rates had been 50 basis points higher or lower with all other variables held constant, the Group's income from the cash reserves held at bank for the year would have been LVL 305 thousand higher or lower (2009: LVL 259.3 thousand).

The Group's cash flow interest rate risk mainly arises from long-term borrowings at variable rates. They expose the Group to risk that finance costs might increase significantly when interest rates rise up. The Group's policy is to maintain at least 35% of its borrowings as fixed interest rate borrowings (taking into account the effect of interest rate swaps) with duration in between 2-4 years. To hedge cash flow risk, the Group has entered into 15 interest rate swap agreements with the notional amount EUR 348.2 million or LVL 244.7 million (2009: 15 interest rate swap agreements in amount of EUR 341 million or LVL 239.7 million) (see Note 24a).

As at 31 December 2010 43.4% of the Group's borrowings (31/12/2009: 42.2%) had fixed interest rate (considering the interest rate swaps) and average fixed rate duration 2.3 years (2009: 2.4 years).

The Group analyses their interest rate risk exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and hedging. Based on these scenarios, the Group calculates the impact on profit and loss as well as on cash flows of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies. The scenarios are run only for liabilities that represent the major interest-bearing positions.

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

During 2010, if interest rates on Euro denominated borrowings had been 50 basis points higher or lower with all other variables held constant, the Group's post-tax profit for the year would have been LVL 1,341 thousand lower or higher (2009: LVL 1,403 thousand).

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

At 31 December 2010, if short and long term Euro interest rates had been 50 basis points higher or lower with all other variables held constant fair value of interest rate swaps would have been LVL 4,286 thousand higher or lower (31/12/2009: LVL 4,091 thousand). Furthermore LVL 795 thousand (2009: LVL 1,020 thousand) would have been attributable to profit or loss and LVL 3,491 thousand (2009: LVL 3,071 thousand) to the Consolidated Statement of Changes in Equity as hedge accounting item.

III) Price risk

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

Consolidated Financial Statements 2010

The most significant price risk is related to purchase of electricity. To hedge the risk the Parent Company has purchased electricity swap contracts that are used to hedge the risk related to changes in the price of electricity (Note 24 b).

b) Credit risk

Credit risk is managed at the Group level. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks, outstanding receivables. Credit risk exposure in connection with trade receivables is limited due to broad range of the Group's customers. The Group has no significant concentration of credit risk with any single counterpart or group of counterparts having similar characteristics. Impairment loss has been deducted from accounts receivable (Note 16).

Advance payments subject to substantial credit risk have been secured by bank guarantees.

The maximum credit risk exposure related to financial assets comprises of carrying amounts of cash and cash equivalents (see table below and Note 17), trade and other receivables (Note 16) and nominal amounts of issued guarantees (Note 26).

Assessment of max possible exposure to credit risk

LVL '000

	Note	31/12/2010	31/12/2009
Trade receivables (external)	16 a	63 031	48 963
Deferred expenses	16 b	364	624
Other receivables	16 b	483	412
Cash and cash equivalents	17	234 266	154 938
Derivative financial instruments	24	3 968	145
		302 112	**205 082**

For banks and financial institutions, independently rated parties with own or parent bank's minimum rating of investment grade are accepted. Otherwise, if there is no independent rating, management performs risk control to assess the credit quality of the financial counterpart, taking into account its financial position, past co-operation experience and other factors. After performed assessment individual credit limits are set based on internal ratings in accordance with principles set by the financial risk management policy. Credit limits are regularly monitored.

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

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

LVL '000

	31/12/2010	31/12/2009
Investment level credit rating	202 767	143 729
No or non investment level credit rating	31 499	11 209
	234 266	**154 938**

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

c) Liquidity risk

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

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

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

Liquidity analysis (contractual undiscounted cash flows):

LVL '000

31/12/2010	Less than 1 year	Between 1 and 2 years	Between 3 and 5 years	Over 5 years	Total
Borrowings	46 723	63 804	339 721	200 414	650 662
Derivative financial instruments	7 772	8 350	9 456	2 310	27 888
Trade and other payables*	71 441	–	–	–	71 441
	125 936	**72 154**	**349 177**	**202 724**	**749 991**

LVL '000

31/12/2009	Less than 1 year	Between 1 and 2 years	Between 3 and 5 years	Over 5 years	Total
Borrowings	31 060	43 465	209 722	265 622	549 869
Derivative financial instruments	10 447	9 221	11 922	3 201	34 791
Trade and other payables*	67 385	–	–	–	67 385
	108 892	**52 686**	**221 644**	**268 823**	**652 045**

* Excluding advances received, deferred income and other non-current payables

3.2. Capital risk management

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

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

This ratio is calculated by dividing the sum of equity and subordinated debt by the sum of total assets and nominal value of issued and outstanding financial guarantees.

Consolidated Financial Statements 2010
Latvenergo

According to the Group's strategy and defined loan covenants as per loan agreements the capital ratio shall be maintained at least at 30% level.

The capital ratio on 31 December 2010 and on 31 December 2009 was as follows:

		LVL '000
	31/12/2010	31/12/2009
Total equity (LVL'000)	1 344 748	889 440
Total assets (LVL'000)	2 279 266	1 699 491
Outstanding financial guarantees issued (LVL'000)	10 825	11 733
Capital Ratio	**59%**	**52%**

3.3. Fair value estimation of financial instruments

The fair value of financial instruments is defined as the amount at which an instrument could be exchanged in a current transaction between financially uncommitted, knowledgeable, willing parties other than by forced or liquidation sale. Fair values are estimated based on market prices and discounted cash flow models as appropriate.

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of reporting period. The quoted market price used for financial assets held by the Group is the current bid price, i.e. interest rates by respective term and currency.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group use a variety of methods and make assumptions that are based on market conditions existing at each end of reporting period. Quoted market prices for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. Those fair values are compared to counterparty bank revaluation reports.

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

The fair value of CO_2 emission allowances for greenhouse gases forward contracts is calculated as discounted difference between actual market and settlement prices for CO_2 emission allowances multiplied by the volume of the forward contract.

The fair value of non-current borrowings with fixed interest rates (considering the effect of derivative financial instruments) for disclosure purposes is estimated by discounting their future contractual cash flows at the current market interest rates for similar financial instruments.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

a) Estimates concerning property, plant and equipment

I) Useful live

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

II) Recoverable amount

When the events and circumstances indicate a potential impairment, the Group performs impairment tests for items of property, plant and equipment. According to these tests assets are written down to their recoverable amounts, if necessary. When carrying out impairment tests management uses various estimates for the cash flows arising from the use of the assets, sales, maintenance, and repairs of the assets, as well as in respect of the inflation and growth rates. The estimates are based on forecasts of the general economic environment, consumption and the sales price of electricity. If the situation changes in the future, either additional impairment could be recognised, or the previously recognised impairment could be partially or fully reversed. Such factors as high maintenance and reconstruction costs, low load of several auxiliaries, comparatively substantial maintenance expense, limited facilities to sell property, plant and equipment in market and other essential factors have an impact on decreasing of revalued values. If discount rate used for the purposes of impairment charge calculation would be lower or higher by one percent point current year's impairment charge on technological equipment would be by 76% higher or lower (2009: 64%). Impairment charges recognised during the current reporting year are disclosed in Note 13 b.

III) Fair valuation

External, certified valuers have performed revaluation of the Group's property, plant and equipment by applying the amortised replacement cost model. Valuation has been performed according to international standards on property valuation and IAS 16, Property, plant and equipment, based on current use of property, plant and equipment. As a result of valuation, amortised replacement value was determined for each asset. Amortised replacement value is calculated as land's instant market value at its current use, increased by the replacement value of existing buildings and refinements on the said land plot and decreased by the depreciation expenses and other impairment losses. If there is no any recognizable market value due to specific nature of property, plant and equipment and rare occurrence of sales transactions of those assets (except for sales in the Group), then these units should be valuated at replacement fair value. Fair value of property, plant and equipment is calculated on the basis of their current use. Results of revaluation are described in Note 13 a).

b) Recoverable amount of trade receivables

The estimated collectability of accounts receivable is assessed on an individual basis for each customer. In case individual assessment is not possible due to the large number of individual balances, receivables are classified into groups of similar credit risk characteristics and are collectively assessed for impairment, using historical loss experience. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of

Consolidated Financial Statements 2010

current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The circumstances indicating an impairment loss may include initiated insolvency of the debtor and inability to meet payment terms (Note 2.10). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss incurred (Note 16).

c) Fair value estimation for financial instruments

Effective 1 January 2009, the Group adopted the amendment to IFRS 7 for financial instruments that are measured in the Consolidated Statement of Financial Position at fair value and disclosed fair value measurements by level of the following fair value measurement hierarchy:

a) Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1),
b) Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2),
c) Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The following tables present the Group's assets and liabilities that are measured at fair value:

31/12/2010	Level 1	Level 2	Level 3	Total balance
Assets:				
Electricity trading derivatives (Note 24 b)	2 393	–	–	**2 393**
Interest rate derivatives used for hedging (Note 24 a)	–	1 011	–	**1 011**
Forward foreign exchange contracts used for hedging (Note 24 d)	–	564	–	**564**
Total assets	**2 393**	**1 575**	**–**	**3 968**
Liabilities				
Financial liabilities at fair value through profit or loss:				
• CO_2 emission allowances forward contracts (Note 24 c)	3 442	–	–	**3 442**
Interest rate derivatives used for hedging (Note 24 a)	–	8 054	–	**8 054**
Total liabilities	**3 442**	**8 054**	**–**	**11 496**

31/12/2009	Level 1	Level 2	Level 3	Total balance
Assets:				
Interest rate derivatives used for hedging (Note 24 a)	–	145	–	**145**
Total assets	**–**	**145**	**–**	**145**
Liabilities				
Financial liabilities at fair value through profit or loss:				
• Electricity trading derivatives (Note 24 b)	10 258	–	–	**10 258**
• CO_2 emission allowances forward contracts (Note 24 c)	3 366	–	–	**3 366**
Interest rate derivatives used for hedging (Note 24 a)	–	6 270	–	**6 270**
Total liabilities	**13 624**	**6 270**	**–**	**19 894**

The fair value of financial instruments traded in active markets is based on quoted market prices at the preparation date of the statement of financial position. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the group is the current bid price. These instruments are included in Level 1.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

Specific valuation techniques used to value financial instruments include:

a) Quoted market prices or dealer quotes for similar instruments,
b) The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves,
c) The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value,
d) Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

Changes in assumptions about these factors could affect reported fair value of financial instruments (Note 24).

d) Recognition of connection service fees

Connection and other service fees are recognised as income over the estimated customer relationship period, which is 20 years (see Note 22). The estimated customer relationship period is based on the Management's estimate. In the reporting period the Group's received connection fees totalled LVL 12.4 million (2009: LVL 16 million), and to the Consolidated Income Statement credited LVL 5.2 million (2009: LVL 4.4 million). If the estimated customer relationship period is reduced/increased by 25%, the annual income from connection service fees would increase/decrease by LVL 1.3 million (2009: LVL 0.9 million).

e) Evaluation of effectiveness of hedging instruments

The Group has concluded significant number of swap transactions to hedge the risk of the changes in prices of electricity and interest rate fluctuations to which cash flow hedge risk accounting is applied and the gains and losses from changes in the fair value of the effective hedging instruments and items secured against risk are included in respective equity reserve. The evaluation of the effectiveness of the hedging is based on Management's estimates with regard to future purchase transactions of electricity and signed variable interest loan agreements. When hedging instruments turn out to be ineffective, the total gain/loss from the changes in the fair value are recognized in the Consolidated Income Statement (Note 24).

Consolidated Financial Statements 2010

5 REVENUE

LVL '000

	2010	2009
Electricity sales:		
• Corporate customers	343 634	278 907
• Residential customers	131 777	125 816
	475 411	**404 723**
Transmission and distribution services	7 932	8 238
Heat sales	71 863	71 403
Revenue from assets lease	110	508
Other services	19 374	15 641
Total revenue:	**574 690**	**500 513**

6 OTHER INCOME

LVL '000

	2010	2009
Gain from sale of assets held for sale and PPE	264	415
Gain from sale of current assets and other income	2 452	5 866
Total other income:	**2 716**	**6 281**

7 RAW MATERIALS AND CONSUMABLES USED

LVL '000

	2010	2009
Electricity:		
• Imported from the Baltic countries	65 298	50 214
• Purchased from producers in Latvia	56 590	66 652
• Imported from other countries	24 025	6 877
• Fair value (income) / loss on electricity swaps (Note 24 b)	(12 651)	4 915
	133 262	**128 658**
Fuel expense	121 335	105 061
Fair value (income) / loss on CO_2 emission allowances forward contracts (Note 24 c)	(532)	3 366
Raw materials, spare parts and maintenance costs	24 128	24 596
Total raw materials and consumables used:	**278 193**	**261 681**

8 PERSONNEL EXPENSES

LVL '000

	2010	2009
Wages and salaries	43 621	44 247
Expenditure of employment termination	1 084	3 216
Pension costs – defined contribution plan	2 046	2 026
State social insurance contributions and other benefits defined in the Collective Agreement	10 942	11 112
Total personnel expenses:	**57 693**	**60 601**

LVL '000

	2010	2009
Including remuneration to the management:		
Wages and salaries	606	743
Expenditure of employment termination	8	-
Pension costs – defined contribution plan	31	37
State social insurance contributions and other benefits defined in the Collective Agreement	151	180
Total remuneration to the management:	**796**	**960**

	2010	2009
Number of employees at the end of the year	4 513	4 701
Average number of employees during the year	4 594	4 969

Remuneration to the management includes remuneration to the members of the Management Boards of the Group entities.

In accordance with the directions of the Cabinet of Ministers of Latvia No. 1577 "On distribution of the obligatory state social insurance contribution rate for 2010" 65% from the obligatory state social insurance contributions are used for financing the state fixed contribution pension scheme (2009: 69%).

9 OTHER OPERATING EXPENSES

LVL '000

	2010	2009
Selling expenses and customer service costs	3 604	8 824
Information technology maintenance expenses	2 206	2 313
Transportation expenses	4 758	4 796
Environment protection and work safety expenses	2 679	2 563
Rent, maintenance and utilities costs	4 879	5 545
Electric power transit and capacity services costs	4 604	3 122
Loss from disposal of property, plant and equipment	1 969	2 125
Real estate tax	780	657
Telecommunications expenses	1 764	1 832
Public utilities regulation fee	1 017	1 016
Other expenses	6 253	6 834
Total other operating expenses:	**34 513**	**39 627**

Consolidated Financial Statements 2010

10 FINANCE INCOME AND COSTS

10 a) Finance income

	2010	2009
		LVL '000
Interest income on bank accounts, deposits and loans	5 351	9 768
Interest income on derivative financial instruments	-	54
Fair value gain on derivative financial instruments (Note 24 a)	1 241	947
Fair value gain on issued guarantees (Note 26)	141	-
Interest income on treasury bills	1	-
Total finance income:	**6 734**	**10 769**

10 b) Finance costs

	2010	2009
		LVL '000
Interest cost on borrowings	9 023	13 684
Interest cost on derivative financial instruments	5 360	2 739
Management commission on bank borrowings	1 671	157
Fair value loss on derivative financial instruments (Note 24 a)	1 220	2 171
Fair value loss on issued guarantees (Note 26)	-	389
Net foreign exchange losses	1 142	357
Capitalized interest cost*	(666)	(1 254)
Total finance costs:	**17 750**	**18 243**

* See Note 2.15.

11 INCOME TAX

	2010	2009
		LVL '000
Current tax	11 551	4 682
Deferred tax	(5 096)	(68)
Total income tax:	**6 455**	**4 614**

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

	2010	2009
		LVL '000
Profit before tax	**50 780**	**24 170**
Corporate income tax at the statutory rate 15%	7 617	3 625
Loss in PPE value from revaluation	1 124	-
Gain on deferred income tax asset value	(7)	(391)
Expense not deductible for tax purpose	915	4 568
Income not subject to tax	(294)	(256)
Accelerated depreciation of newly constructed technological equipment	(2 900)	(2 932)
Total income tax:	**6 455**	**4 614**

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

	31/12/2010	31/12/2009
		LVL '000
Deferred income tax liabilities:		
- Deferred tax liabilities to be recovered after more than 1 year	185 124	116 037
- Deferred tax liabilities to be recovered within 1 year	4 310	5 773
Deferred income tax assets:		
- Deferred tax assets to be recovered after more than 1 year	(1 811)	(2 544)
- Deferred tax assets to be recovered within 1 year	(913)	(2 158)
Total deferred income tax assets	**(925)**	**(932)**
Total deferred income tax liabilities	**187 635**	**118 040**

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

	2010	2009
		LVL '000
At the beginning of the year	**117 108**	**117 432**
Income credited to the Consolidated Income Statement	(5 096)	(68)
Attributable to non-current assets revaluation reserve in equity (Note 19)	74 698	(256)
Deferred tax asset at the end of the year	**(925)**	**(932)**
Deferred tax liabilities at the end of the year	**187 635**	**118 040**

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

	2010	2009
		LVL '000
Deferred tax liabilities:		
	Accelerated tax depreciation	
At the beginning of the year	**121 810**	**122 573**
Income credited to the Consolidated Income Statement	(7 074)	(507)
Attributable to non-current assets revaluation reserve in equity	74 698	(256)
At the end of the year	**189 434**	**121 810**
Deferred tax assets:		
	Accruals/provisions	
At the beginning of the year	**(4 702)**	**(5 141)**
(Income) / expense (credited) / charged to the Consolidated Income Statement	1 978	439
At the end of the year	**(2 724)**	**(4 702)**

12 INTANGIBLE ASSETS

12 a) Intangible assets

LVL '000

	Licenses	Software	Emission allowances	Assets under construction and advances	Total
Year ended 31 December 2009					
Opening net book amount	1 479	7 879	1 914	33	11 305
Additions	-	950	-	-	950
Disposals	-	-	(1 914)	-	(1 914)
Amortisation charge	(149)	(2 000)	-	-	(2 149)
Closing net book amount	**1 330**	**6 829**	**-**	**33**	**8 192**
At 31 December 2009					
Cost	1 750	17 206	-	33	18 989
Accumulated amortisation	(420)	(10 377)	-	-	(10 797)
Net book amount	**1 330**	**6 829**	**-**	**33**	**8 192**
Year ended 31 December 2010					
Opening net book amount	1 330	6 829	-	33	8 192
Additions	-	1 626	-	47	1 673
Disposals	-	(1)	-	-	(1)
Amortisation charge	(147)	(2 239)	-	-	(2 386)
Closing net book amount	**1 183**	**6 215**	**-**	**80**	**7 478**
At 31 December 2010					
Cost	1 750	18 793	-	80	20 623
Accumulated amortisation	(567)	(12 578)	-	-	(13 145)
Net book amount	**1 183**	**6 215**	**-**	**80**	**7 478**

12 b) Emission allowances:

Number of allowances

	2010	2009
At the beginning of the year	**459 095**	**311 983**
Allocated allowances*	1 107 445	1 107 445
Purchased allowances	280 000	230 000
Used allowances	(1 268 233)	(1 015 333)
Sales of allowances	(95 000)	(175 000)
At the end of the year	**483 307**	**459 095**

*Allowances are allocated free of charge in accordance with the law ˝On Pollution˝ and Directives of the Ministry of Environment.

13 PROPERTY, PLANT AND EQUIPMENT

13 a) Property, plant and equipment

LVL '000

	Revalued property, plant and equipment			Non-revalued land and buildings	Land and buildings, total	Revalued property, plant and equipment			Non-revalued technology equipment, machinery	Technology equipment and machinery, total
	Daugava hydropower plants' land and buildings	Transmission system land and buildings	Distribution system land and buildings			Daugava hydropower plants' technology equipment, machinery	Transmission system technology equipment, machinery	Distribution system technology equipment, machinery		
Year ended 31 December 2009										
Opening net book amount	471 855	116 346	227 537	154 010	969 748	44 275	113 864	82 037	159 749	399 925
Additions	1 471	5 059	34 089	15 644	56 263	13 117	20 040	16 585	2 694	52 436
Transfers	-	-	24	314	338	-	-	(96)	(535)	(631)
Disposals	-	(1 130)	(18)	(386)	(1 534)	(53)	(618)	(82)	(3)	(756)
Impairment charge*	-	-	-	-	-	-	-	-	(15 908)	(15 908)
Depreciation	(9 240)	(6 076)	(11 763)	(5 740)	(32 819)	(11 989)	(9 249)	(13 432)	(14 104)	(48 774)
Closing net book amount	**464 086**	**114 199**	**249 869**	**163 842**	**991 996**	**45 350**	**124 037**	**85 012**	**131 893**	**386 292**
At 31 December 2009										
Cost or valuation	1 041 449	302 528	352 204	204 713	1 900 894	147 044	250 075	166 099	209 029	772 247
Accumulated depreciation and impairment	(577 363)	(188 329)	(102 335)	(40 871)	(908 898)	(101 694)	(126 038)	(81 087)	(77 136)	(385 955)
Net book amount	**464 086**	**114 199**	**249 869**	**163 842**	**991 996**	**45 350**	**124 037**	**85 012**	**131 893**	**386 292**
Year ended 31 December 2010										
Opening net book amount	464 086	114 199	249 869	163 842	991 996	45 350	124 037	85 012	131 893	386 292
Revaluation of PPE	-	-	349 863	-	349 863	-	-	149 777	-	149 777
Additions	542	8 582	17 819	14 652	41 595	11 819	4 495	8 766	8 239	33 319
Transfers	-	(1 552)	4 501	1 995	4 944	-	-	(4 538)	(242)	(4 780)
Disposals	-	(700)	(265)	(175)	(1 140)	(78)	(406)	(298)	(5)	(787)
Impairment charge*	-	-	(2 276)	(850)	(3 126)	-	-	(5 144)	(17 223)	(22 367)
Depreciation	(9 252)	(6 204)	(36 419)	(6 466)	(58 341)	(11 560)	(9 869)	(14 245)	(12 709)	(48 383)
Closing net book amount	**455 376**	**114 325**	**583 092**	**172 998**	**1 325 791**	**45 531**	**118 257**	**219 330**	**109 953**	**493 071**
At 31 December 2010										
Cost or valuation	1 041 991	305 217	1,261 427	223 733	2 832 368	156 685	252 433	468 911	216 984	1 095 013
Accumulated depreciation and impairment	(586 615)	(190 892)	(678 335)	(50 735)	(1 506 577)	(111 154)	(134 176)	(249 581)	(107 031)	(601 942)
Net book amount	**455 376**	**114 325**	**583 092**	**172 998**	**1 325 791**	**45 531**	**118 257**	**219 330**	**109 953**	**493 071**

LVL '000

Year ended 31 December 2009	Revalued property, plant and equipment: Daugava hydropower plants' other fixed assets	Revalued property, plant and equipment: Transmission system other fixed assets	Revalued property, plant and equipment: Distribution system other fixed assets	Non-revalued other fixed assets	Other fixed assets, total	Assets under construction and advances	Property, plant and equipment, total
Opening net book amount	4 738	1 811	823	26 491	33 863	54 428	1 457 964
Additions	-	96	150	6 276	6 522	(11 665)	103 556
Transfers	-	-	-	576	576	-	283
Disposals	-	(23)	-	(49)	(72)	(127)	(2 489)
Impairment charge*	-	-	-	-	-	(3 440)	(19 348)
Depreciation	(314)	(651)	(282)	(9 082)	(10 329)	-	(91 922)
Closing net book amount	**4 424**	**1 233**	**691**	**24 212**	**30 560**	**39 196**	**1 448 044**
At 31 December 2009							
Cost or valuation	7 477	3 299	2 065	84 864	97 705	43 193	2 814 039
Accumulated depreciation and impairment	(3 053)	(2 066)	(1 374)	(60 652)	(67 145)	(3 997)	(1 365 995)
Net book amount	**4 424**	**1 233**	**691**	**24 212**	**30 560**	**39 196**	**1 448 044**
Year ended 31 December 2010							
Opening net book amount	4 424	1 233	691	24 212	30 560	39 196	1 448 044
Revaluation of PPE	-	-	306	-	306	-	499 946
Additions	-	61	141	4 612	4 814	46 138	125 866
Transfers	-	-	521	(632)	(111)	-	53
Disposals	-	(8)	(1)	(63)	(72)	(73)	(2 072)
Impairment charge*	-	-	(76)	-	(76)	(788)	(26 357)
Depreciation	(313)	(605)	(173)	(8 855)	(9 946)	-	(116 670)
Closing net book amount	**4 111**	**681**	**1 409**	**19 274**	**25 475**	**84 473**	**1 928 810**
At 31 December 2010							
Cost or valuation	7 477	3 309	4 135	81 629	96 550	89 193	4 113 124
Accumulated depreciation and impairment	(3 366)	(2 628)	(2 726)	(62 355)	(71 075)	(4 720)	(2 184 314)
Net book amount	**4 111**	**681**	**1 409**	**19 274**	**25 475**	**84 473**	**1 928 810**

* Impairment charge is included in the Consolidated Income Statement under "Depreciation, amortisation and impairment of intangible assets and property, plant and equipment".

Latvenergo AS revalued assets of Daugava hydropower plants as at 1 January 2007 and transmission system assets were leased to subsidiary Augstsprieguma t¥kls AS at 1 January 2008. As at 1 January 2010 distribution system assets leased to subsidiary Sadales t¥kls AS. Valuation have been revalued by external certified valuators by applying the depreciated replacement cost model, which provides, that the assets value comprises replacement or renewal costs of similar asset at the date of revaluation and less the accrued total depreciation. Instant construction and purchase costs of similar assets are used to state the renewal costs of those assets as conjunctive valuation basis. In 2010 the increase in revalued distribution system assets' carrying amount of LVL 499,946 thousand, net off deferred tax, was charged to non-current assets revaluation reserve under the Parent Company's equity (2009: decrease in amount of LVL 1,701 thousand). The decrease in the carrying amount of assets, as a result of a distribution system assets revaluation, in the amount of LVL 7,496 thousand was recognised in the Consolidated Income Statement under "Depreciation, amortisation and impairment of intangible assets and property, plant and equipment" (2009: LVL 0).

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

LVL '000

	Revalued property, plant and equipment categories: Land and buildings	Technology equipment, machiner	Other fixed assets	Total
At revalued amounts				
At 31 December 2009				
Revalued cost	1 696 181	563 218	12 841	2 272 240
Accumulated depreciation	(868 027)	(308 819)	(6 493)	(1 183 339)
Revalued net book amount	**828 154**	**254 399**	**6 348**	**1 088 901**
At 31 December 2010				
Revalued cost	2 614 632	880 603	12 605	3 507 840
Accumulated depreciation	(1 459 457)	(495 588)	(6 926)	(1 961 971)
Revalued net book amount	**1 155 175**	**385 015**	**5 679**	**1 545 869**
At amounts stated on historical cost basis				
At 31 December 2009				
Cost	469 595	351 197	10 815	831 607
Accumulated depreciation	(143 757)	(170 558)	(8 026)	(322 341)
Net book amount	**325 838**	**180 639**	**2 789**	**509 266**
At 31 December 2010				
Cost	496 062	374 573	10 951	881 586
Accumulated depreciation	(153 748)	(184 264)	(8 483)	(346 495)
Net book amount	**342 314**	**190 309**	**2 468**	**535 091**

13 b) Impairment

Impairment review performed in accordance with IAS 36 Impairment of Assets resulted in an impairment charge on technological equipment and machinery of the Riga TEC-2 combined heat and power plant based on value in use calculations. The accumulated impairment as at 31 December 2010 is in the amount of LVL 38,358 thousand (31/12/2009: LVL 21,259 thousand). The cash-generating unit is defined as the assets of TEC-2 plant. Additional impairment is due to TEC-2 technological equipment and machinery planned to be partly discontinue after 2013, specification of heat demand forecasts and new additional legislation regulations for excise tax application to natural gas used in generation of electricity. Nominal pre-tax discount rate for the future cash flows has diminished from 11.1% in 2009 to 8.5% in 2010, which is caused by decreased state credit risk factor.

13 c) Investment properties (buildings):

LVL '000

	Augstsprieguma tīkls AS buildings	Liepājas Enerģija SIA buildings	Total
Year ended 31 December 2009			
Opening net book amount	456	283	739
Reclassified to property, plant and equipment	-	(283)	(283)
Depreciation	(20)	-	(20)
Closing net book amount	**436**	**-**	**436**
At 31 December 2009			
Costs	507	-	507
Accumulated depreciation	(71)	-	(71)
Net book amount	**436**	**-**	**436**
Year ended 31 December 2010			
Opening net book amount	436	-	436
Reclassified to property, plant and equipment	(53)	-	(53)
Depreciation	(1)	-	(1)
Closing net book amount	**382**		**382**
At 31 December 2010			
Costs	454	-	454
Accumulated depreciation	(72)	-	(72)
Net book amount	**382**	**-**	**382**

14 INVESTMENTS IN ASSOCIATES AND OTHER FINANCIAL INVESTMENT

LVL '000

	2010	2009
At the beginning of the year	**4 261**	**4 063**
Share of profit	203	198
At the end of the year	**4 464**	**4 261**

The table below discloses the Group's share of profit from investments in significant associates and summarised financial information on the amounts of assets, liabilities and net sales of these entities.

LVL '000

Name	Assets	Liabilities	Net sales	Share of profit
As of 31 December 2009				
Nordic Energy Link AS	67 955	50 931	12 492	198
	67 955	**50 931**	**12 492**	**198**
As of 31 December 2010				
Nordic Energy Link AS*	63 105	45 368	10 500	203
	63 105	**45 368**	**10 500**	**203**

* Unaudited financial data (financial year of associate ends on 31 December 2010)

The Parent Company's participating interest in subsidiaries and associates:

Name	Country of incorporation	Business activity held	Interest held, % 31/12/2010	Interest held, % 31/12/2009
Subsidiaries				
Augstsprieguma tīkls AS	Latvia	Transmission	100%	100%
Sadales tīkls AS	Latvia	Distribution	100%	100%
Latvenergo Kaubandus OÜ	Estonia	Electricity trading	100%	100%
Latvenergo Prekyba UAB	Lithuania	Electricity trading	100%	100%
Liepājas enerģija SIA	Latvia	Heating	51%	51%
Associates:				
Nordic Energy Link AS	Estonia	Transmission	25%	25%
Pirmais Slēgtais Pensiju Fonds AS	Latvia	Management of pension plans	50%	50%

The Group owns 50% of the shares in *Pirmais Slēgtais Pensiju Fonds AS*. However, the Group is only a nominal shareholder as all risks and benefits arising from associate's activities will accrue to the Group's employees who are members of the pension plan. Therefore, investment in *Pirmais Slēgtais Pensiju Fonds AS* is valued at cost.

15 INVENTORIES

LVL '000

	31/12/2010	31/12/2009
Raw materials and spare parts	9 807	11 001
Technological fuel	4 124	3 731
Advance payments for inventories	29	79
Provision for raw materials, spare parts, technological fuel	(2 459)	(1 768)
	11 501	**13 043**

Changes in the provision for raw materials and spare parts are included in the Consolidated Income Statement classification "Raw materials and consumables used".

Movement on the provision for raw materials, spare parts and technological fuel:

LVL '000

	2010	2009
At the beginning of the year	**1 768**	**1 414**
Inventories written off	(1 026)	(791)
Charged to the Consolidated Income Statement	1 717	1 145
At the end of the year	**2 459**	**1 768**

16 TRADE RECEIVABLES AND OTHER CURRENT RECEIVABLES

16 a) Trade receivables, net

	31/12/2010	LVL '000 31/12/2009
Receivables		
• Electricity customers	48 494	39 894
• Heating customers	16 816	10 865
• Other trade receivables	5 939	4 341
	71 249	**55 100**
Provision for impairment of receivables		
• Electricity customers	(6 809)	(5 003)
• Heating customers	(394)	(345)
• Other trade receivables	(1 015)	(789)
	(8 218)	**(6 137)**
Receivables, net		
• Electricity customers	41 685	34 891
• Heating customers	16 422	10 520
• Other trade receivables	4 924	3 552
	63 031	**48 963**

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

Electricity receivables grouped by overdue days and calculated impairment loss:

	31/12/2010	LVL '000 31/12/2009
Electricity receivables:		
Fully performing receivables	37 870	30 487
Overdue receivables but not impaired:		
• Receivables overdue by 1-45 days	3 339	3 636
Impaired receivables:		
• Receivables overdue by 46-90 days	602	945
• Receivables overdue by 91-180 days	703	1 180
• Receivables overdue by more than 181 day	5 980	3 646
	48 494	**39 894**
Provision for impaired electricity receivables:		
• Receivables overdue by 46-90 days	(301)	(472)
• Receivables overdue by 91-180 days	(528)	(885)
• Receivables overdue by more than 181 day	(5 980)	(3 646)
	(6 809)	**(5 003)**
Electricity receivables, net		
Fully performing receivables	37 870	30 487
Net overdue receivables but not impaired:		
• Receivables overdue by 1-45 days	3 339	3 636
Net impaired receivables:		
• Receivables overdue by 46-90 days	301	473
• Receivables overdue by 91-180 days	175	295
	41 685	**34 891**

Heating and other receivables grouped by overdue days and calculated impairment loss:

	31/12/2010	LVL '000 31/12/2009
Heating and other trade receivables:		
Fully performing receivables	20 820	13 685
Overdue receivables but not impaired:		
• Receivables overdue by 1-30 days	404	308
Impaired receivables:		
• Receivables overdue by 31-90 days	242	152
• Receivables overdue by more than 91 day	1 289	1 061
	22 755	**15 206**
Provision for overdue heating and other trade receivables classified as doubtful:		
• Receivables overdue by 31-90 days	(120)	(73)
• Receivables overdue by more than 91 day	(1 289)	(1 061)
	(1 409)	**(1 134)**
Heating and other trade receivables, net		
Fully performing receivables	20 820	13 685
Net overdue receivables but not impaired:		
• Receivables overdue by 1-30 days	404	308
Net impaired receivables:		
• Receivables overdue by 31-90 days	122	79
	21 346	**14 072**

The Group's Management has estimated provisions for impairment of receivables on the basis of aging of trade receivables and by evaluating liquidity and history of previous payments of each significant debtor (see Note 2.10). The carrying amount of trade receivables, less provision for impairment, is assumed to approximate their fair values.

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

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

	2010	LVL '000 2009
At the beginning of the year	**6 137**	**2 773**
Receivables written off during the year as uncollectible	(288)	(203)
Provision for impaired receivables	2 369	3 567
At the end of the year	**8 218**	**6 137**

The creation and release of provision for impaired trade receivables have been included in the Consolidated Income Statement classification ìOther operating expensesî as sales and customer services costs (Note 9).

16 b) Other current receivables

LVL '000

	31/12/2010	31/12/2009
Accrued income	7 522	7 344
Pre-tax and overpaid taxes	13 513	11 133
Deferred expenses	364	624
Other receivables	483	412
	21 882	**19 513**

None of the receivables are secured with pledges or otherwise. The carrying amounts of trade receivables and other receivables are assumed to approximate their fair values.

17 CASH AND CASH EQUIVALENTS

LVL '000

	31/12/2010	31/12/2009
Electricity receivables:		
Cash at bank and on hand	52 399	46 455
Short-term bank deposits	181 867	108 483
	234 266	**154 938**

Cash at bank earns daily interest mostly based on floating interbank deposit rates. Short-term deposits are placed for different periods between several days and three months depending on the immediate cash needs of the Group and cash flow forecasts. During 2010 the average annual effective interest rate earned on short-term cash deposits was 3.49% (2009: 11.43%). See also Note 3.1.b).

The carrying amounts of cash and cash equivalents are assumed to approximate their fair values.

18 SHARE CAPITAL

The registered share capital of the Parent Company is LVL 323,544 thousand (2009: 317,653 thousand) and consists of 323,544 thousand (2009: 317,653 thousand) ordinary shares with the nominal value of LVL 1 per share (2009: LVL 1 per share). All shares are fully paid up.

In 2010, in accordance with the Cabinet of Ministers Directive No. 496 dated 23 July 2009: "On the Investment of the State's property units in the Share Capital of Latvenergo AS", Directive No. 519 dated 3 August 2009: "On the granting of authorization to the Investment of the Salaspil's electric power supply unit in the Share Capital of Latvenergo AS", and Directive No. 815 dated 30 November 2009: "On the Investment of the State's land property units in the Share Capital of Latvenergo AS", real estate in the amount of LVL 5,891 thousand was invested in the Parent Company's share capital. The real estate value was determined by external certified valuators applying cost model, based on purchase costs of similar assets. Increase in the share capital was approved by the Parent Company's Shareholders' meeting on 5 February 2010 and registered with the Commercial Register of Latvia on 18 February 2010.

19 RESERVES AND DIVIDENDS

As at 31 December 2010, the Group's reserves in the amount of LVL 972,278 thousand (31/12/2009: LVL 549,354 thousand) consist of the property, plant and equipment revaluation reserve, hedge reserve and other reserves. The Group cannot distribute the property, plant and equipment revaluation and hedge reserves. Other reserves are maintained with the aim to maintain stability in the operations of the Group entities. Other reserves of prior accounting periods were restated with the deferred tax asset adjustment relating to the previously estimated and recognised received investment credit for corporate income tax purposes.

LVL '000

	Non-current assets revaluation reserve	Hedge reserve	Translation	Other reserves	TOTAL
As at 31 December 2008	**554 334**	**(12 940)**	**-**	**3 818**	**545 212**
Transfer from previous year profit	-	-	-	2	2
Restated error of prior period	-	-	-	(3 818)	(3 818)
Disposal of non-current assets revaluation reserve (Note 13a)	(1 701)	-	-	-	(1 701)
Deferred tax related to PPE revaluation reserve (Note 11)	256	-	-	-	256
Gains from fair value changes in derivative financial instruments (Note 24 a, b)	-	9 403	-	-	9 403
As at 31 December 2009	**552 889**	**(3 537)**	**-**	**2**	**549 354**
Currency translation differences	-	-	8	-	8
Revaluation of property, plant and equipment (PPE) (Note 13a)	499 946	-		-	499 946
Disposal of non-current assets revaluation reserve (Note 13a)	(1 957)	-	-	-	(1 957)
Deferred tax related to PPE revaluation reserve (Note 11)	(74 698)	-	-	-	(74 698)
Loss from fair value changes in derivative financial instruments (Note 24 a, d)	-	(375)	-		(375)
As at 31 December 2010	**976 180**	**(3 912)**	**8**	**2**	**972 278**

The dividends paid in 2010 were LVL 20,230 thousand (LVL 0.064 per share) and in 2009 - LVL 13,001 thousand (LVL 0.041 per share).

The distribution of net profit for the 2010 is subject to a resolution of the Parent Company's Shareholder's meeting.

Fulfilling the requirements of the "Law on state and municipality owned shares and companies", Regulations No. 1074 of the Cabinet of Ministers of Latvia dated 25 November 2010 "On amendments of regulations No. 1471 dated 15 December 2009 "On Procedure how the payable part of the profit for the use of the state's capital is determined and paid into the state's budget"" and the "Law on state's budget for 2011" the Management Board of Latvenergo AS proposes to allocate LVL 35,000,000 as dividends and to reinvest the remaining profit portion of LVL 9,562,097 as share capital of the Parent Company.

20 BORROWINGS

	31/12/2010	LVL '000 31/12/2009
Non-current borrowings (excl. current portion)	**506 756**	**483 652**
Current portion of non-current borrowings	36 935	21 906
Accrued interest on non-current borrowings	1 916	1 410
Current borrowings	-	257
Total current borrowings	**38 851**	**23 573**
Total borrowings	**545 607**	**507 225**

Movement in borrowings:

	2010	LVL '000 2009
Balance as of 1 January	**507 225**	**496 317**
Borrowings received	60 041	35 140
Borrowing repaid	(22 164)	(21 658)
Accrued interest on borrowings	505	(2,574)
Balance as of 31 December	**545 607**	**507 225**

Borrowings by categories of lenders:

	31/12/2010	LVL '000 31/12/2009
Foreign investment banks	334 517	311 332
Foreign commercial banks	40 229	42 760
Financial institutions registered in the Republic of Latvia	170 861	153 133
Total borrowings:	**545 607**	**507 225**

Borrowings by maturity:

	31/12/2010	LVL '000 31/12/2009
Fixed rate non-current borrowings:		
• < 1 year	292	713
• 1- 5 years	1 124	1 123
• > 5 years	141	422
Total fixed rate non-current borrowings:	**1 557**	**2 258**
Floating rate borrowings:		
• < 1 year (current borrowings)	-	257
• < 1 year (current portion of non-current borrowings)	38 559	22 605
• 1- 5 years	333 613	227 875
• > 5 years	171 878	254 230
Total floating rate borrowings:	**544 050**	**504 967**
Total borrowings:	**545 607**	**507 225**

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

	31/12/2010	LVL '000 31/12/2009
• < 1 year	309 836	293 854
• 1– 5 years	185 029	76 957
• > 5 years	50 742	136 414
Total borrowings:	**545 607**	**507 225**

At 31 December 2010 and at 31 December 2010 the Group had none of their borrowings denominated in other currencies than the Euro.

The fair value of current and non-current borrowings with floating rates equals their carrying amount, as their actual floating interest rates approximate the market price of similar financial instruments available to the Group, and the effect of fair value revaluation is not significant. The fair value of current and non-current borrowings with fixed rates (excluding the effect of derivative financial instruments) exceeds their carrying amounts by LVL 143.68 thousand (2009: 83 thousand). The fair value calculations are based on discounted cash flows using discount factor of respective EUR swap rates increased by average market margin. The average interest rate for discounting cash flows of non-current borrowings was at 2.99% level (2009: 4.85%).

a) Pledges

The Group's assets are not pledged to secure the borrowings, except the pledge assets of Liepājas Enerģija SIA of maximum secured claims in the amount of LVL 33.5 million (2009: LVL 20.3 million) to secure its current and non-current borrowings.

b) Un-drawn borrowing facilities

As at 31 December 2010 the undrawn portion of committed non-current credit facilities amounts to LVL 253 million (31/12/2009: LVL 140.6 million).

At 31 December 2010 the Group had available LVL 17.57 million (31/12/2009: LVL 20.5 million) of undrawn committed short-term borrowing facilities in respect of which all conditions precedent had been met.

c) Weighted average effective interest rate

During the reporting year the weighted average effective interest rate on non-current borrowings was 1.70% (2009: 2.75%), weighted average effective interest rate for current borrowings was 1.949% (2009: 1.894%). At 31 December 2010 the interest rates for the non-current borrowings in Euro were 3 and 6 month EURIBOR +0.453% (31/12/2009: +0.536%). At 31 December 2010 fifteen interest rate swap agreements were concluded for the notional amount of EUR 348.2 million or LVL 244.7 million (31/12/2009: EUR 341 million or LVL 239.7 million) and the interest rate was fixed for the periods from 3 to 10 years (see Note 24).

Consolidated Financial Statements 2010

21 PROVISIONS

21 a) Provisions for post-employment benefits

LVL '000

	2010	2009
At the beginning of the year	**7 473**	**10 103**
Current service cost	309	1 368
Interest cost	360	326
Post-employment benefits paid	(440)	(2 117)
Gains as a result of changes in actuarial assumptions	(381)	(2 207)
At the end of the year	**7 321**	**7 473**

Total charge is included in the Consolidated Income Statement classification "Personnel expenses" (see Note 8):

LVL '000

	2010	2009
At the beginning of the year	**7 473**	**10 103**
Charged to the Consolidated Income Statement	(152)	(2 630)
At the end of the year	**7 321**	**7 473**

Discount rate used for discounting benefit obligations was 5.53% (2009: 6.75%), considering the market yields on government bonds at the end of the reporting period. The Group's Collective Agreement provides indexation of employees' wages at least at the level of inflation. Long-term inflation determined at the level of 2.7% (2009: 4%) when calculating long-term post-employment benefits. In calculation of these liabilities also the probability, determined on the basis of previous experience, of retirement in different employees' aging groups was also considered.

21 b) Environmental provisions

LVL '000

	2010	2009
At the beginning of the year	**1 376**	**1 376**
At the end of the year	**1 376**	**1 376**

The environmental provision in the amount of LVL 1,376 thousand (2009: LVL 1,376 thousand) represents the estimated cost of cleaning up Riga TEC-1 combined heat and power plant ash-fields in accordance with the requests made by the regional Environmental Authority of Riga and feasibility study on this project. The amount of the provision is calculated taking into account the construction cost index (data from the Central Statistical Bureau). The changes in construction costs in 2010 were not significant for revaluation of the provision.

22 OTHER LIABILITIES AND DEFERRED INCOME

LVL '000

	31/12/2010	31/12/2009
Deferred non-current income from connection fees	82 688	76 296
Deferred income from plant and equipment received free of charge and financing from EU funds	234	948
Other liabilities	11 967	1 201
Total other liabilities and deferred income:	**94 889**	**78 445**

Movement in deferred connection fees (non-current and current portion):

LVL '000

	2010	2009
At the beginning of the year	**80 699**	**69 010**
Received	12 415	16 092
Credited to the Consolidated Income Statement	(5 213)	(4 403)
At the end of the year	**87 901**	**80 699**

23 TRADE AND OTHER PAYABLES

LVL '000

	31/12/2010	31/12/2009
Payables for materials and services	30 034	21 080
Payables for electricity	15 169	8 571
Accrued tax liabilities for revenue	15 320	14 073
State social security contributions and other taxes	2 467	4 494
Advances received	5 702	7 967
Deferred income from connection fees	5 213	4 403
Accrued expenses	6 274	10 399
Other current payables	2 177	2 239
Total trade and other current payables:	**82 356**	**73 226**

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

24 DERIVATIVE FINANCIAL INSTRUMENTS

a) Interest rate swaps

The notional amounts of the outstanding interest rate swap contracts at 31 December 2010 were EUR 348.2 million or LVL 244.7 million (31/12/2009: EUR 341 million or LVL 239.7 million). Interest rate swaps are agreed with 3 to 10 year maturities and hedged floating rates are 3 and 6 month EURIBOR. At 31 December 2010 fixed interest rates vary from 2.3835% to 4.493% (31/12/2009: from 2.3835% to 4.493%).

The Parent Company has signed eleven interest rate swap agreements that are designated to comply with hedge accounting and were re-measured prospectively and retrospectively to test whether they are effective within the hedging period. It was established that they are fully effective and therefore there is no ineffective portion to be recognized within profit or loss in the Consolidated Income Statement.

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

LVL '000

	2010 Assets	2010 Liabilities	2009 Assets	2009 Liabilities
Outstanding fair value at the beginning of the year	**(145)**	**6,270**	**(43)**	**3 125**
Included in the Consolidated Income Statement, net (Note 10a and Note 10b)	-	(21)	43	1 181
Included in Equity (Note 19)	(866)	1 805	(145)	1 964
Outstanding fair value at the end of the year	**(1 011)**	**8 054**	**(145)**	**6 270**

The main interest rate hedging criteria stated in the Financial Risk Management policy is to ensure average fixed rate duration from 2 to 4 years and fixed rate portion at more than 35% of borrowings. As at 31 December 2010 43.4% (31/12/2009: 42.2%) of the Group's borrowings had fixed interest rates (considering the interest rate swaps), and average remaining time to interest re-pricing was 2.3 years (2009: 2.4 years).

b) Electricity swaps

As at 31 December 2010 the Parent Company has agreed 85 (31/12/2009: 39) electricity swap contracts with total outstanding volume of 3 007 701 MWh (31/12/2009: 1 866 336 MWh) and value of EUR 152 million or LVL 106.8 million (2009: EUR 96.7 million or LVL 68 million). Electricity swaps are signed for the maturities from one month to one year starting from 1 January 2010 to 31 December 2012.

Electricity swap contracts are agreed through financial counterparties and by using the Nordic energy exchange NordPool pricing either to lock in favourable price movements or according to the Group's Financial Risk Management Policy for hedging purposes. All purchased swap contracts were contracts with fixed amount of electricity and price in Euros. Electricity swaps that were designated to comply with hedge accounting treatment were re-measured prospectively and retrospectively to test whether they are effective within the hedging period, see Note 3.1. It was established that due falling consumption and increase of overdue electricity receivables they were ineffective according to hedge accounting treatment and therefore were recognized within profit or loss in Consolidated Income Statement (Note 7). As all purchased swaps did not hedge open positions any more, then they were effectively closed through concluding opposite electricity swaps, except ones related to year 2012.

The Parent Company also used favourable price movements in the NordPool by fixing selling price for flood energy of April 2011. As at 31 December 2010 all electricity swaps were recognized within profit or loss in Consolidated Income Statement.

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

LVL '000

	2010 Assets	2010 Liabilities	2009 Liabilities
Outstanding fair value at the beginning of the year	**-**	**10 258**	**16 565**
Included in the Consolidated Income Statement (Note 7)	(2 393)	(10 258)	4 915
Included in Equity (Note 19)	-	-	(11 222)
Outstanding fair value at the end of the year	**(2 393)**	**-**	**10 258**

c) CO_2 emissions allowances forward contracts

As at 31 December 2010 the Parent Company has agreed 25 forward contracts of CO_2 emission allowances purchase or sale (31/12/2009: 31) which included 9 purchase contracts of European Union Allowances, hereinafter – EUAs (31/12/2009: 9), 12 purchase contracts of Certified Emission Reductions, hereinafter – CERs (31/12/2009: 19) and 4 sale contracts of CERs (31/12/2009: 3). The total value of agreed contracts was EUR 9.4 million or LVL 6.6 million (31/12/2009: EUR 12.4 million or LVL 8.7 million).

As at 31 December 2010 total amount of allocated and procured CO_2 emission allowances for the current allocation period till the end of 2012 is sufficient to offset expected emissions. The Parent Company plans to procure and offset about 0.5 million tons of CO_2 emission with cheaper CERs in the current allocation period.

At 31 December 2010 EUAs were recognized as derivative financial instruments, and the fair value of EUAs was negative in the amount of EUR 3 612 thousand or LVL 2 538 thousand (31/12/2009: EUR 3,816 thousand or LVL 2,682 thousand).

As at 31 December 2010 CO_2 emissions allowances forward contracts fair value changes are included in the Consolidated Income Statement in the amount of EUR 757 thousand or LVL 532 thousand (see Note 7) (31/12/2009: EUR 4,789 thousand or LVL 3,366 thousand).

In the table below fair value changes of CO_2 emission allowances forward contracts are disclosed:

LVL '000

	2010 Liabilities	2009 Liabilities
Outstanding fair value at the beginning of the year	**3 366**	**-**
Included in accrued liabilities	608	-
Included in the Consolidated Income Statement (Note 7)	(532)	3 366
Outstanding fair value at the end of the year	**3 442**	**3 366**

d) Forward foreign currencies exchange contracts

The notional principal amounts of the outstanding EUR/USD forward foreign currencies exchange contracts as at 31 December 2010 were USD 38.5 million or LVL 19.2 million (2009: nil).

The hedged highly probable forecast transactions denominated in foreign currency are expected to occur at various dates during the next 33 months. Fair value gains and losses on forward foreign currencies exchange contracts as at 31 December 2010 are recognized in the hedging reserve in Equity (Note 19) as they qualify under IAS 39 requirements of hedge accounting.

All outstanding EUR/USD forward foreign currencies exchange contracts at 31 December 2010 were designed as cash flow hedges for USD transactions of Riga TEC-2 combined heat and power plant second power generation unit reconstruction contract. As it was not possible to use LVL/USD forward foreign currencies exchange contracts due to limited maturities and availability, then instead the EUR/USD forward foreign currencies exchange contracts were used to employ the existing peg between Latvian lats and Euros. The plus/minus 1% corridor within the EUR/LVL peg may create insignificant inefficiency of designed hedges, which then is recognized through profit or loss in Consolidated Income Statement.

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

LVL '000

	2010		2009	
	Assets	Liabilities	Assets	Liabilities
Outstanding fair value at the beginning of the year	**-**	**-**	**-**	**-**
Included in Equity (Note 19)	(564)	-	-	-
Outstanding fair value at the end of the year	**(564)**	**-**	**-**	**-**

There was no ineffectiveness to be recorded through profit or loss in Consolidated Income Statement from forward foreign currencies exchange contracts. The maximum exposure to credit risk at the reporting date is the fair value of the derivative assets in Consolidated Statement of Financial Position.

e) Classification of fair values of derivatives

According to amendments to IAS 1 a financial liability or asset that is not held for trading purposes should be presented as current or non-current on the basis of its settlement date. The Group implemented the above-mentioned amendments to IAS 1 in the Consolidated Financial Statements for 2008. Derivatives that have a maturity of more than twelve months and have been expected to hold for more than twelve months after the end of the reporting period were classified as non-current assets or liabilities.

LVL '000

	2010		2009	
Outstanding fair value of derivatives:	**Current**	**Non-current**	**Current**	**Non-current**
Assets	3 968	-	145	-
Liabilities*	4 910	7 088	10 402	10 135

* incl. fair value of guarantees (Note 26)

25 RELATED PARTY TRANSACTIONS

The Parent Company and, indirectly, the other Group entities are controlled by the Latvian state. Related parties, other than subsidiaries and associates, are those companies in which the State exercises control or has significant influence.

The following transactions were carried out with related parties:

LVL '000

	2010	2009
a) Sales of goods and services:		
• Associates	13 762	213
• Other entities under common control	61 336	60 472
Total sales to related parties:	**75 098**	**60 685**
b) Purchase of goods and services:		
• Associates	3 425	2 324
• Other entities under common control	12 378	11 725
Total purchases from related parties:	**15 803**	**14 049**

LVL '000

	31/12/2010	31/12/2009
c) Balances at the end of year arising from sale of goods/services:		
Trade receivables from:		
• Associates	28	-
• Other entities under common control	13 699	8 599
Total trade receivables from related parties:	**13 727**	**8 599**
d) Balances at the end of year arising from purchase of goods/services:		
Trade payables to:		
• Associates	138	12
• Other entities under common control	2 013	1 070
Total trade payables to related parties:	**2 151**	**1 082**
e) Accrued liabilities due to related party transactions:		
• Other entities under common control	78	61
	78	**61**

The Group has not created any provisions or incurred write-offs from transactions with related parties, as all debts are recoverable.

The transactions disclosed above do not include sales of electricity in the ordinary course of business of the Group due to a very large volume of those transactions and the fact that these transactions are performed at tariffs regulated by the Latvian Regulatory authority (Public Utilities Commission) applicable to other similar customers.

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

Remuneration to the Members of the Management Boards of the Group entities is disclosed in Note 8.

Consolidated Financial Statements 2010

26 ISSUED GUARANTEES

LVL '000

	2010	2009
Issued guarantees by the Group to guarantee obligations to third parties:		
Guarantee on behalf of Nordic Energy Link AS	10 825	11 733
Total issued guarantees by the Group to guarantee obligations to third parties:	**10 825**	**11 733**

Guarantee on behalf of Nordic Energy Link AS was provided for receiving long-term loan facility. The fair value of guarantee on behalf of Nordic Energy Link AS (validity term – December 15, 2014) exceeds its carrying amount by LVL 502 thousand (2009: LVL 643 thousand). The fair value calculations are based on discounted cash flows using discount factor of respective EUR swap rates increased by average market margin of loans with respective maturities. During 2010 the average interest rate for discounting cash flow was 2.57% (2009: 4.25%).

27 CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

As of 31 December 2010 the Parent Company had commitments amounting to LVL 221.7 million (31/12/2009: LVL 76.5 million) for capital expenditure contracted but not delivered at the end of the reporting period.

The tax authorities may at any time inspect the books and records within 3 years subsequent to the reported tax year, and may impose additional tax assessments and penalties. The Group's and the Parent Company's management is not aware of any circumstances which may give rise to a potential material liability in this respect.

28 HELD-TO-MATURITY FINANCIAL ASSETS

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

No financial assets measured at amortised cost were reclassified during 2010 (2009: nil). There were no gains or losses realized on the disposal of held-to-maturity financial assets in 2010 (2009: nil), as all the financial assets were disposed of at their redemption date. All held-to-maturity financial assets are denominated in the LVL currency. The maximum exposure to credit risk at the reporting date is the carrying amount of held-to-maturity financial assets.

As at 31 December 2010 all the Group's held-to-maturity financial assets were State Treasury bills with six months maturity purchased with the purpose to invest liquidity reserve in the low risk financial instruments with higher yield.

LVL '000

	2010		2009	
Outstanding amortised value:	**Current**	**Non-current**	**Current**	**Non-current**
Held-to-maturity financial assets (State Treasury Bills)	2 387	-	-	-

29 EVENTS AFTER THE REPORTING PERIOD

On 10 February 2011 Latvijas elektriskie tīkli AS – 100% subsidiary of Latvenergo AS has been registered in the Commercial Register of Latvia, and since 1 April 2011 it provides electricity transmission system assets management functions.

There have been no other significant events subsequent to the end of the reporting year that might have a material effect on the Group's Consolidated Financial Statements for the year ended 31 December 2010.

30 FINANCIAL INFORMATION ON THE PARENT COMPANY

Financial information disclosed on the Parent Company includes the primary separate Financial Statements of the Parent Company, the disclosure of which is required by the Accounting Act of Latvia. The primary Financial Statements of the Parent Company have been prepared using the same accounting policies that have been used in the preparation of the Consolidated Financial Statements. Investments in subsidiaries are reported at cost less any impairment charge in the separate Financial Statements of the Parent Company.

30 a) Income Statement

LVL '000

	2010	2009
Revenue	655 247	609 750
Other income	2 322	6 054
Raw materials and consumables used	(246 204)	(250 210)
Personnel expense	(19 400)	(19 396)
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	(142 867)	(112 034)
Other operating expenses	(189 165)	(204 421)
Operating profit	**59 933**	**29 743**
Finance costs, net	(10 929)	(6 991)
Profit before tax	**49 004**	**22 752**
Income tax	(6 399)	(4 223)
Profit for the year	**42 605**	**18 529**

30 b) Statement of Financial Position

LVL '000

	31/12/2010	31/12/2009
ASSETS		
Non-current assets	1 929 846	1 459 655
Current assets	340 477	234 618
TOTAL ASSETS	**2 270 323**	**1 694 273**
EQUITY		
Share capital	323 544	317 653
Non-current assets revaluation reserve	978 137	554 590
Hedge reserve	(3 912)	(3 537)
Retained earnings	42 605	18 529
Total equity	1 340 374	887 235
LIABILITIES		
Non-current liabilities	791 312	688 982
Current liabilities	138 637	118 056
TOTAL EQUITY AND LIABILITIES	**2 270 323**	**1 694 273**