

2013 ANNUAL
UNAUDITED CONDENSED
CONSOLIDATED
FINANCIAL STATEMENTS



Latvenergo Group is the most valuable company in Latvia and one among the most valuable companies in the Baltics. The annual revenue of Latvenergo Group exceeds EUR 1 billion and its asset value exceeds EUR 3.5 billion.

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Prepared in accordance with the International Financial Reporting Standards as adopted by the European Union

FINANCIAL CALENDAR

16. 04. 2014.

Latvenergo Consolidated Annual Report 2013

30. 05. 2014.

Unaudited Interim Condensed Consolidated Financial Statements for the 3-month period ending 31 March 2014

29. 08. 2014.

Unaudited Interim Condensed Consolidated Financial Statements for the 6-month period ending 30 June 2014

28. 11. 2014.

Unaudited Interim Condensed Consolidated Financial Statements for the 9-month period ending 30 September 2014

CONTACTS FOR INVESTOR RELATIONS

E-mail: investor.relations@latvenergo.lv

Homepage: <http://www.latvenergo.lv>

DISCLAIMER

The financial report includes forward-looking statements that are subject to risks, uncertainties and other important factors beyond the control of Latvenergo Group; therefore, the actual results in the future may differ materially from those stated or implied in the future projections.

On 1 January 2014, Latvia has joined the European Economic and Monetary Union, conversion rate for the Latvian Lats against the Euro: **1 EUR = 0.702804 LVL**

Summary

- In 2013, electricity spot prices in the Nordic and Baltic countries increased due to a lower water level in Nordic hydropower plant reservoirs and transmission capacity limitations on Estonia-Latvia border. Taking into account the fact that, from the energy balance position, Latvia and Lithuania are deficit region countries, electricity prices in the Nord Pool Spot Latvia and Lithuania bidding areas, compared to the Nordic countries, was higher due to limitations of transmission system capacity.
- The Nord Pool Spot Latvia bidding area opened on 3 June 2013, thus all three Baltic States have joined the Nord Pool Spot power exchange, bringing the Baltics into a common Nordic-Baltic power market structure and providing a transparent electricity price formation process.
- The economic growth in the Baltics continues. In 2013, GDP growth in Latvia was among the fastest in the European Union.
- In 2013, the revenue of Latvenergo Group grew by 3%, reaching EUR 1,100.0 million. Revenue has increased in all operating segments of the Group. EBITDA of the Group grew by 2% reaching 248.9 million.
- Financial results of the Group were positively impacted by increase of revenues due to a change of mandatory procurement public service obligation fee (on 1 April 2013) and recognition of balanced revenues and costs of mandatory procurement. While the results were negatively affected by such factors as 1) losses due to electricity supply at the regulated tariff in Latvia; 2) lower water inflow in the Daugava River; 3) increase of electricity purchase costs; 4) decline in electricity consumption in the industrial sector in Latvia.
- In 2013, as a result of focused electricity trade activities, the Group has strengthened its position in the Baltic market. The retail electricity supply outside Latvia has increased by 32% and exceeds ¼ of retail electricity supply. The number of retail customers in neighbouring countries exceeds 20 thousands.
- In 2013, we have invested EUR 225.5 million. We have significantly increased the amount invested in network assets, which represents 70% of the total investments.
- In late 2013, along with the commissioning of the second power unit of Riga TEC-2, the reconstruction project of Riga TEC-2 has been completed. Riga TEC-2 has become the most effective and up-to date combined-cycle heat and power plant in the Baltics. From now on the Group possesses the base-load in order to fully cover Latvian electricity consumption thus allowing to limit electricity import costs.
- We have diversified the borrowing sources by issuing bonds – the total amount of bonds issued reaches EUR 105 million.

Latvenergo Group in Brief

Latvenergo Group is a pan-Baltic power supply company operating in electricity and thermal energy generation and supply, electricity distribution services and transmission system asset management.

Latvenergo Group comprises the parent company Latvenergo AS and six subsidiaries. All shares of Latvenergo AS are owned by the State and they are held by the Ministry of Economics of the Republic of Latvia.

Latvenergo AS is a shareholder in two associated companies – Nordic Energy Link AS (25%) and Pirmais Slēgtais Pensiju Fonds AS (46.3%; Latvenergo Group – 48.15%) – along with a shareholding in Rīgas siltums AS (0.005%).

Latvenergo Group divides its operations into three operating segments: *generation and supply*, *distribution* and *management of transmission system assets*. This division in segments is made according to the needs of the internal organizational structure, which forms the basis for a regular performance monitoring, decision-making on resources allocated to segments and their performance measurement. Each segment is managed differently from a commercial point of view.

The generation and supply segment comprises electricity and thermal energy generation operations, conducted by Latvenergo AS and Liepājas enerģija SIA, as well as electricity supply (retail and wholesale) operations in the Baltics carried out by Latvenergo AS, Elektrum Eesti OÜ and Elektrum Lietuva UAB.

	COUNTRY OF OPERATION	TYPE OF OPERATION	PARTICIPATION SHARE
Latvenergo AS	Latvia	Electricity and thermal energy generation and supply	
Sadales tīkls AS	Latvia	Electricity distribution	100%
Latvijas elektriskie tīkli AS	Latvia	Management of transmission system assets	100%
Elektrum Eesti OÜ	Estonia	Electricity supply	100%
Elektrum Latvija SIA	Latvia	Electricity supply	100%
Elektrum Lietuva UAB	Lithuania	Electricity supply	100%
Liepājas enerģija SIA	Latvia	Thermal energy generation and supply in Liepāja city, electricity generation	51%

The distribution segment provides electricity distribution services in Latvia (approximately 99% of the territory). Services are provided by Sadales tīkls AS – the largest distribution system operator in Latvia (about 900 thousand customers). Distribution tariffs are approved by the Public Utilities Commission (PUC).

The management of transmission system assets segment is managed by Latvijas elektriskie tīkli AS – the company that owns the transmission system assets (330 kV and 110 kV transmission lines, substations and distribution points) and conducts their maintenance, construction and lease to the transmission system operator Augstsprieguma tīkls AS. The payments for the lease of transmission system assets are calculated in accordance with the methodology approved by the PUC.

Latvenergo Group Strategy represents a transparent and rational vision of pan-Baltic development during the opening of the Baltic electricity market and development of new electricity interconnections. Latvenergo Group has set the following strategic objectives to be reached until 2016:

- strengthening of the market position in the Baltics;
- diversification of electricity generation sources;
- balanced development of networks.

Key Performance Indicators

OPERATIONAL FIGURES

		2013	2012
Retail electricity supply	GWh	7,954	8,287
Electricity generation	GWh	4,854	5,077
Thermal energy supply	GWh	2,520	2,669
Number of employees		4,512	4,457
Moody's credit rating		Baa3 (stable)	Baa3 (stable)

FINANCIAL FIGURES

		2013	2012
Revenue	MEUR	1,100.0	1,063.7
EBITDA ¹⁾	MEUR	248.9	244.1
Net profit	MEUR	42.3	50.9
Assets	MEUR	3,570.3	3,517.8
Equity	MEUR	2,017.9	2,007.0
Net debt ²⁾	MEUR	689.2	604.5
Investments	MEUR	225.5	264.3

FINANCIAL RATIOS

	2013	2012
Net debt/EBITDA ratio ³⁾	2.8	2.5
EBITDA margin ⁴⁾	23%	23%
Capital ratio ⁵⁾	57%	57%

- 1) EBITDA: earnings before interest, corporate income tax, share of profit or loss of associates, depreciation and amortisation, and impairment of intangible and fixed assets
2) Net debt: borrowings at the end of the period minus cash and cash equivalents at the end of the period
3) Net debt / EBITDA: net debt to EBITDA ratio
4) EBITDA margin: EBITDA / revenue
5) Capital ratio: total equity / total assets

Operating Environment

HIGHER NORD POOL SPOT ELECTRICITY PRICE IN THE BALTIC AND NORDIC COUNTRIES

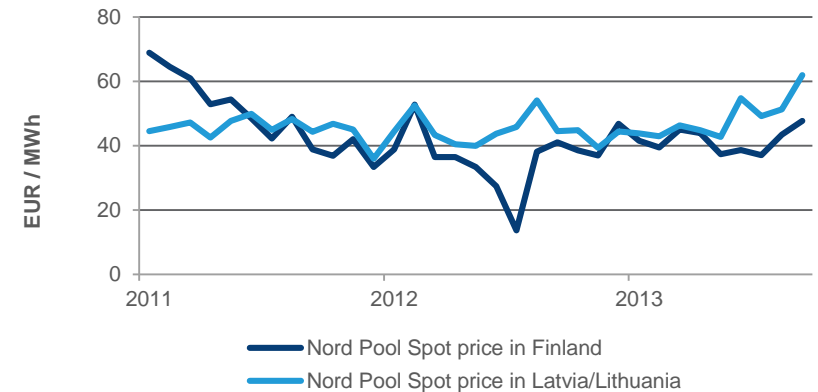
In 2013, electricity spot price in the Nordic and Baltic countries has been higher than in the previous year. The average Nord Pool Spot electricity price in the Finland bidding area has increased by 12% to 41.2 EUR/MWh, while in the Latvia/Lithuania bidding areas – by 9%, reaching 48.9 EUR/MWh.

The increase of electricity price in Finland and in the Baltics was mainly due to a lower water level in Nordic hydropower plant reservoirs, which was approximately 10% lower compared to 2012 and 6% below the long-term average.

Taking into account the fact, that, from the energy balance position, Latvia and Lithuania are deficit region countries, the interconnection capacity shortage between power systems in Latvia and Estonia is another significant price-determining factor in the Latvia/Lithuania bidding areas. The transmission capacity deficit has the most significant impact on electricity price outside the period of heating and flooding season, when the demand for electricity import reaches the peak and electricity transmission capacity is limited due to transmission line repairs. Meanwhile the rest of the time prices are relatively equal. During the period from June to October, the average electricity price in the Latvia/Lithuania bidding areas was on average 10.0 EUR/MWh higher than in the Estonia bidding area. During the period, transmission capacity on Estonia-Latvia border was fully loaded 19% of all hours, while for the rest of the time – only 3% on average.

It is expected that the price differences will be reduced along with the Sweden-Lithuania interconnection launch in 2016 and the construction of Latvia-Estonia third interconnection, which is scheduled for completion in late 2020.

In 2013, the total amount of electricity generated in the Baltics reached 21,113 GWh, which is 7% higher than in the previous year (19,817 GWh). Thus, power plants in the Baltics provided 84% of the Baltic electricity consumption (2012: 79%). The largest increase of generation volume was observed in



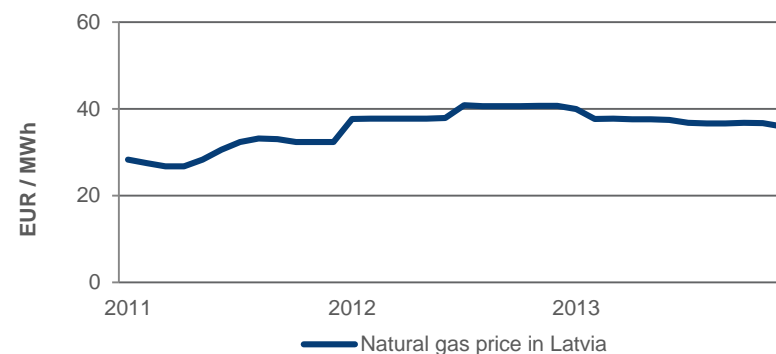
Estonian oil shale-fired power plants. In 2013, the CO₂ emission allowance prices remained low thus contributing to shale and coal-fired power plant competitiveness, but reducing the competitiveness of gas-fired power plants. In 2013, the European Union Allowance (EUA) price was 4.6 EUR/t, which is by 39% lower than in 2012 (7.5 EUR/t). Besides, the coal price has declined by 14% compared to the respective period last year reaching 82.8 USD/t (2012: 95.8 USD/t).

The Nord Pool Spot Latvia bidding area started to operate on 3 June 2013, thus all three Baltic States have joined the Nord Pool Spot power exchange, bringing the Baltics into a common Nordic-Baltic power market structure and providing a transparent electricity price formation process. Since Latvia joined Nord Pool Spot, electricity prices in the Latvia and Lithuania bidding areas have been equal – there are no transmission capacity limitations between the bidding areas.

Operating Environment

NATURAL GAS PRICE IN LATVIA REMAINS HIGH

The natural gas price in Latvia is linked to the crude oil product price (to the 9-month average heavy fuel oil and diesel quotations index), which, compared to 2012, remained nearly unchanged. Thus, the natural gas price in Latvia has not substantially changed and still remains high. The average natural gas price (incl. excise tax) in Latvia for the user group with consumption above 100,000 thousand nm³ was 37.3 EUR/MWh, which is 5% lower the last year (39.2 EUR/MWh).



ECONOMIC GROWTH IN THE BALTICS CONTINUES

In 2013, the economic growth in the Baltic continues and it is mainly enhanced by the increase of household consumption expenditure. According to the European Commission forecast, in 2013, GDP growth in Latvia is 4.0%, Lithuania – 3.4% and Estonia – 1.3%. Latvia shows one of the fastest GDP growth rates in the European Union (EU). It is expected that in a mid-term the economic growth in the Baltics will continue and it will remain higher than in most of the EU economies. Hence, a growth in purchase power and electricity consumption is expected in the Baltics.

In 2013, the metallurgical company Liepājas metalurģis AS, which is one of the largest electricity consumers in Latvia, has closed its operations, thus electricity consumption in Latvia declined by 5%. Electricity consumption in the Baltics also declined by 2% and is estimated at 25 TWh.

According to the data provided by the Statistical Office of the European Union (Eurostat), the average consumer price level in Latvia remained unchanged, the annual average inflation rate in Lithuania was 1.2%, in Estonia – 3.2%, while it was 1.4% in the Euro zone and 1.5% in the EU.

On 1 January 2014, Latvia has joined the European Economic and Monetary Union (EMU). Estonia has joined the EMU on 1 January 2011.

In 2013, the economic growth in the Baltics was also recognised by credit rating agencies, including *Standard & Poor's*, who raised credit rating of Latvia to BBB+ with a positive outlook and Lithuania – BBB with a positive outlook. The credit rating of Estonia remained unchanged – AA- with a stable outlook.

Operating Environment

FUTURE EVENTS

- On 6 November 2013, in a final reading the *Saeima* (Parliament of Latvia) passed amendments to the Electricity Market Law, providing for the opening of the electricity market, therefore also households in Latvia will buy electricity at market price as of 1 April 2014. In the beginning of 2014, along with Latvenergo AS, Baltcom TV SIA and BCG Riga SIA have claimed their willingness to supply electricity for households. To attract a broader range of customers, Latvenergo AS has introduced a product line *Elektrum*, thus enabling customers to choose the most appropriate offer. In 2013, Latvenergo Group revenues from electricity supply at the regulated tariff represents 17% of the total revenue.

The full opening of the Baltic electricity market is expected in 2015, when it is planned to open the electricity market for households in Lithuania.

- In order to limit the increase of the mandatory procurement public service obligation fee for electricity consumers in Latvia, a subsidised energy tax (SET) is introduced for a four-year period as of 1 January 2014. For gas-fired cogeneration plants a 15% rate applies to the received support amount. In the following years this will imply a decline in revenues of Latvenergo Group. In 2013, a one-off impairment loss in the amount of EUR 17.7 million has been recognised.
- Amendments to the Electricity Market Law provide that on 1 April 2014 Enerģijas publiskais tirgotājs AS, a newly established subsidiary, will take over the public trader functions from Latvenergo AS and will be obliged to compensate the difference between the received mandatory procurement revenues and mandatory procurement costs above the market price incurred

to the former public trader between 1 January 2013 and 31 March 2014. Taking into account the amendments made to the administration of mandatory procurement process, in 2013, EUR 45.0 million accrued public service obligation fee revenues were recognised, thus balancing revenues and costs of mandatory procurement.

- On 30 January 2013, the Council of the Public Utility Commission (PUC) passed a decision on Certification of the Transmission System Operator (TSO), which was a prerequisite of establishment of the Nord Pool Spot Latvia bidding area. In addition, the PUC decision on TSO certification provides that until 30 January 2015 Augstsprieguma tīkls AS has to take over the transmission system asset construction and maintenance functions from Latvijas elektriskie tīkli AS, also implying a transfer of employees, while Latvijas elektriskie tīkli AS will continue to conduct transmission system asset management functions – financing and lease of the transmission system assets to Augstsprieguma tīkls AS. These changes will not have an adverse impact on financial results.
- Complying with the requirements of Directive 2009/72/EC of the European Parliament and of the Council of 13 July 2009, at the end of 2013, the assets of Nordic Energy Link AS were sold to transmission system operators in Estonia and Finland. In 2014, the shareholding of Latvenergo AS in the company will be discontinued. Thus, Latvenergo AS, as an electricity generator and supplier, will no longer be a shareholder in Nordic Energy Link AS, which is the owner of the transmission cable of a capacity 350 MW between Estonia and Finland. These changes will not have an adverse impact on financial results.

Financial Results

In 2013, Latvenergo Group revenue increased by 3% reaching EUR 1,100.0 million. Revenue has increased in all operating segments of the Group. EBITDA of the Group increased by 2% reaching EUR 248.9 million.

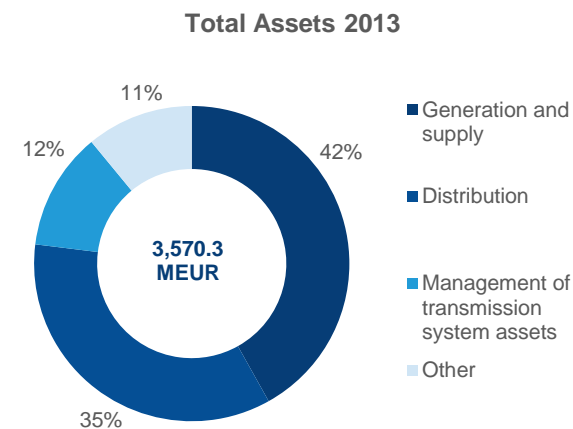
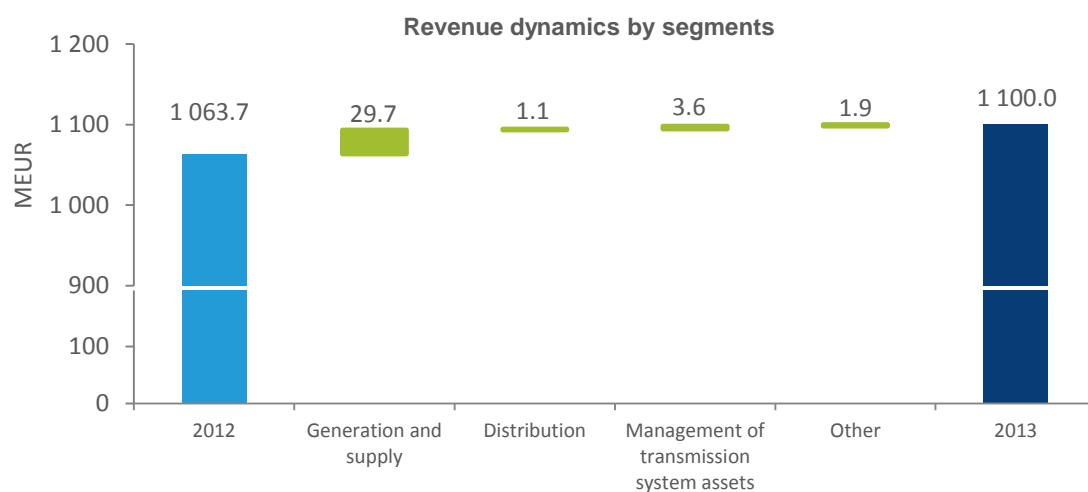
Latvenergo Group revenue grows in all operating segments

Results were positively impacted by increase of mandatory procurement revenues due to a change of the mandatory procurement public service obligation fee (on 1 April 2013) and recognition of balanced revenues and costs of mandatory procurement.

Financial figures		2013	2012	Δ	Δ, %
Revenue	MEUR	1,100.0	1,063.7	36.3	3%
EBITDA	MEUR	248.9	244.1	4.8	2%
Net profit	MEUR	42.3	50.9	(8.6)	(17%)
Assets	MEUR	3,570.3	3,517.8	52.5	1%

While the results were negatively affected by such factors as 1) losses due to electricity supply at the regulated tariff in Latvia; 2) lower water inflow in the Daugava River; 3) higher electricity purchase costs for electricity supply to retail customers due to a lower water level in Nordic hydropower plant reservoirs and transmission capacity limitations; 4) decline in industrial sector electricity consumption in Latvia.

Compared to the previous year, the net profit of Latvenergo Group decreased to EUR 42.3 million. The net profit was negatively affected by a EUR 17.7 million one-off impairment loss recognition of Riga combined heat and power plant (Riga TEC) assets. The necessity of impairment loss recognition was determined by application of the Subsidised Energy Tax as of 1 January 2014. The tax provides a 15% reduction of the receivable amount of guaranteed payments for installed capacity at the Riga TEC.



Generation and Supply



Revenue	66%
EBITDA	42%
Assets	42%
Employees	22%

Segment weight in Latvenergo Group

The generation and supply is the largest operating segment of Latvenergo Group both by revenue and EBITDA. 85% of the segment revenue consists of revenues from electricity and related services, 15% – from thermal energy.

Latvenergo Group – the largest electricity supplier in the Baltics

The results of the segment were affected by the same factors, which impact the results of the Group as mentioned above.

In 2013, a decrease of investments is due to a lower amount invested in reconstruction of Riga 2nd combined heat and power plant (Riga TEC-2) second power unit, which was commissioned in the 3Q 2013.

SUPPLY

Latvenergo Group is the largest electricity supplier in the Baltics. In 2013, we have supplied 7,954 GWh of electricity to retail customer in the Baltics. The total electricity volume supplied by Latvenergo Group, compared to 2012, has decreased by 4% due to a decline in the industrial sector electricity consumption in Latvia.

In 2013, as a result of focused electricity trade activities, retail electricity supply volume in Lithuania and Estonia increased by 32% and exceeds a quarter of retail electricity supply, while the number of customers in neighbouring countries exceeds 20 thousands.

Operational figures		2013	2012	Δ	Δ, %
Retail electricity supply	GWh	7,954	8,287	(333)	(4%)
Electricity generation	GWh	4,854	5,077	(223)	(4%)
Thermal energy generation	GWh	2,566	2,712	(146)	(5%)

Financial figures		2013	2012	Δ	Δ, %
Revenue	MEUR	773.8	744.0	29.8	4%
EBITDA	MEUR	103.5	105.0	(1.5)	(1%)
Assets	MEUR	1,495.3	1,518.5	(23.2)	(2%)
Investments	MEUR	53.4	135.3	(81.9)	(61%)

Electricity supply in Lithuania and Estonia exceeds ¼ of the retail electricity supply

The total electricity supply volume in Lithuania and Estonia reached 2,081 GWh, which is approximately 674 GWh higher than the amount provided by competing electricity suppliers in Latvia.

Latvenergo Group electricity supply volume in Latvia is 5,873 GWh (market share – 81%), in Lithuania – 1,187 GWh (12%), and in Estonia – 894 GWh (11%). Latvenergo Group market share in the Baltics is 32%.

The major part or 70% of the total electricity retail supply were supplied in the open electricity market, while 30% – at the regulated tariff in Latvia.



GENERATION

In 2013, the total amount of electricity generated by the power plants of Latvenergo Group is 4,854 GWh. Compared to 2012, electricity output at Riga TEC increased by 39% or 548 GWh due to commissioning of the Riga TEC-2 second power unit and higher electricity price. While lower water inflow in the Daugava River determined a decrease of Daugavas HPPs output by 21% or 775 GWh.

The total electricity generation volume comprises 61% of electricity supply volume. 36% of the electricity supply volume are generated from renewable energy resources.

In 2013, the total amount of thermal energy generated by Latvenergo Group was 2,566 GWh, which, compared to the previous year, was 5% lower due to a higher average temperature in Riga during the heating season (October – April): according to the data provided by the Central Statistical Bureau of the Republic of Latvia, it was +1.7°C (2012: +1.2°C).

On 16 August 2013, the support scheme for electricity generation in cogeneration plants with installed capacity above 4 MW has been changed. Further on, the compensation for cogeneration plant variable costs above the market price will be removed and fixed capacity payments will be retained at adjusted amount. Due to the amendments to the support scheme, Latvenergo AS is adjusting the operating modes of cogeneration plants, i.e. reducing the generation scale in cogeneration plants under adverse electricity and natural gas market conditions, so as to avoid a significant adverse impact on the financial results of Latvenergo Group.

Operational figures		2013	2012	Δ	Δ, %
Retail electricity supply	GWh	7,954	8,287	(333)	(4%)
Electricity generation	GWh	4,854	5,077	(223)	(4%)
<i>Daugava HPPs</i>	GWh	2,852	3,627	(775)	(21%)
<i>Riga TEC</i>	GWh	1,957	1,409	548	39%
<i>Small plants</i>	GWh	46	41	5	12%
Thermal energy generation	GWh	2,566	2,712	(146)	(5%)
<i>Riga TEC</i>	GWh	2,305	2,446	(141)	(6%)
<i>Liepaja plants and small plants</i>	GWh	262	266	(4)	(2%)

In addition to the amendments mentioned above, to limit the increase of the mandatory procurement public service obligation fee for electricity consumers in Latvia, a subsidised energy tax (SET) is introduced for a four-year period as of 1 January 2014. For gas-fired cogeneration plants a 15% applies to the received support amount. In the following years this will imply a decline in revenues of the generation and supply segment. In 2013, a one-off impairment loss in the amount of EUR 17.7 million has been recognised.



MANDATORY PROCUREMENT

According to the conditions of the public trader licence, Latvenergo AS acts as a public trader and is committed to purchase electricity from generators (including power plants of Latvenergo Group), which have a granted right to supply the generated electricity for the mandatory procurement under electricity purchase tariffs set by legislation.

Latvenergo weight in the eligible costs of mandatory procurement decreased to 38%

Mandatory procurement costs above the market price are covered through a mandatory procurement public service obligation fee charged to the end users in Latvia. The mandatory procurement public service obligation fee is determined based on the actual costs in the preceding year and approved by the PUC. Changes enter into force on 1 April of the following year.

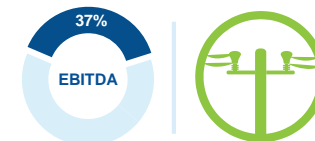
		2013	2012	Δ	Δ, %
Mandatory procurement revenues	MEUR	164.9	121.6	43.3	36%
Accrued public service obligation fee revenues	MEUR	45.0	-	45.0	-
Mandatory procurement costs above the market price	MEUR	(209.9)	(189.0)	(20.9)	11%
<i>Latvenergo AS</i>	MEUR	(79.6)	(79.5)	0.1	0%
<i>other generators</i>	MEUR	(130.3)	(109.4)	(20.9)	19%
Difference	MEUR	0.0	(67.3)	67.3	(100%)

In 2013, for Latvenergo AS as a public trader, revenues from the mandatory procurement have increased due to an increase of the mandatory procurement public service obligation fee from 17.5 EUR/MWh to 26.9 EUR/MWh as of 1 April 2013. Also, taking into account the amendments to administration of mandatory procurement, EUR 45.0 million accrued public service obligation fee revenues were recognised in the results of 2013, thus balancing revenues and costs of mandatory procurement.

In 2013, the volume procured from other generators increased by 231 GWh, reaching 1,286 GWh, thus having an impact on the increase of mandatory procurement costs above the market price. The major impact was left by procurement from biogas and biomass-fired power plants and cogeneration plants with an installed capacity below 4MW.

Weight of Latvenergo AS power plants in the eligible costs decreased to 38% (2012: 42%).

Distribution



Revenue	25%
EBITDA	37%
Assets	35%
Employees	56%

Segment weight in Latvenergo Group

Total asset value of the segment exceeds EUR 1,250 million

The distribution segment is the second largest segment of Latvenergo Group both by revenue and EBITDA. In 2013, the segment revenue has not changed significantly and was EUR 292.6 million, while the segment EBITDA increased by 6%, reaching EUR 91.0 million.

In 2013, investments in distribution assets increased by 7% to EUR 88,6 million. The total value of distribution assets reached EUR 1,252.0 million. During the following years, further large-scale investments are scheduled in order to modernize the network and increase safety of operations according to the needs of customers.

Operational figures		2013	2012	Δ	Δ, %
Electricity distributed	GWh	6,447	6,468	(21)	0%
Distribution losses	GWh	361	432	(71)	(16%)
Financial figures		2013	2012	Δ	Δ, %
Revenue	MEUR	292.6	291.4	1,2	0%
EBITDA	MEUR	91.0	86.3	4,7	5%
Assets	MEUR	1,252.0	1,241.4	10,6	1%
Investments	MEUR	88.6	83.2	5,4	7%

The distributed electricity volume is 6,447 GWh – in 2013 it has remained at the level of the previous year.

Results of the segment were positively impacted by EUR 3.5 million lower costs, also including decreased distribution losses. While the results of the segment were negatively affected by growth of transmission service costs by EUR 1.4 million.

Management of Transmission System Assets

Revenue	5%
EBITDA	15%
Assets	12%
Employees	10%

Segment weight in Latvenergo Group

Transmission segment revenue growth facilitates improvement of profitability ratios

Revenue of the transmission system asset management segment forms 5% of Latvenergo Group revenue. In 2013, the revenue of the segment increased by 7% to EUR 58.4 million, while EBITDA increased by 8%, reaching EUR 37.9 million.

The growth of revenue is determined by a gradual inclusion of the value of regulatory asset revaluation reserve into the lease.

Financial figures		2013	2012	Δ	Δ, %
Revenue	MEUR	58.4	54.8	3.6	7%
EBITDA	MEUR	37.9	35.0	2.9	8%
Assets	MEUR	431.2	383.7	47.5	12%
Investments	MEUR	69.6	33.4	36.2	109%

Likewise, compared to the previous year, the asset value has increased by 12%, reaching EUR 431.2 million due to investments. It is expected that investments in the *Kurzeme Ring* project will continuously exceed depreciation, thus resulting in a further increase of the segment asset value.

In 2013, the return on transmission system assets¹ was 3.5%. It is expected that improvement of profitability ratios will continue gradually approaching the industry averages.

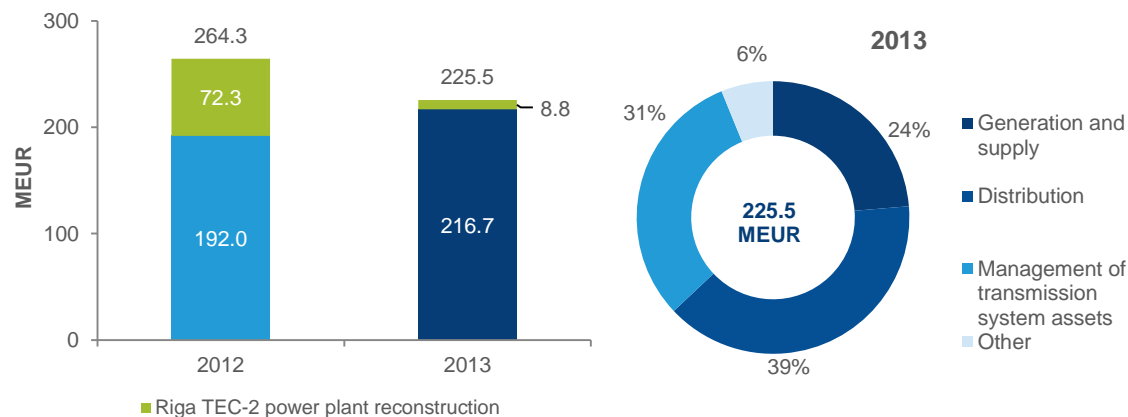
¹Return on segment assets – operating profit of the segment / average segment assets ((assets at the beginning of the year + assets at the end of the year) / 2)

Investments

In 2013, the total amount of investments was EUR 225.5 million, of which EUR 53.4 million were made in generation assets, EUR 88.6 million – in distribution assets, and EUR 69.6 million – in transmission system assets. Compared to 2012, a 15% decrease of investments is mainly due to a lower amount invested in reconstruction of the Riga TEC-2 second power unit.

The Riga TEC-2 second power unit is commissioned

To improve the quality of network services and technical parameters, we continue to increase investments in network assets. In 2013, the amount invested in the networks increased by EUR 41.7 million, comprising 70% of the total investments.



Investment projects:

Reconstruction project of the Riga TEC-2 power unit

In late 2013, the Riga TEC-2 second power unit (electrical capacity – 420 MW_{el}, thermal capacity – 270 MW_{th} in cogeneration mode) was commissioned, completing the reconstruction project of Riga TEC-2, which has become the most effective and up-to date combined-cycle heat and power plant (CHPP) in the Baltics. From now on the Group possesses the basis-load capacity in order to fully cover Latvian electricity consumption in case if the electricity import price is higher than variable costs at CHPPs.

Also, due to reconstruction we have increased power supply safety, improved electricity generation efficiency parameters and met the environmental requirements. The total construction costs of the power unit are EUR 320 million.

NORDBALT-02-330kV Kurzeme Ring

The *Kurzeme Ring* project is part of the international energy infrastructure development project *NordBalt*. It provides for strengthening of the transmission network in the western region of Latvia. The total costs of the project until mid-2014 is estimated at EUR 94.2 million. EUR 50.9 million were invested in 2013. The completed workload was EUR 83.4 million as of 31 December 2013.

Daugava HPPs hydropower unit reconstruction programme

The programme provides for the reconstruction of 11 hydropower units. The programme is scheduled for completion until 2022, with the estimated total reconstruction costs exceeding EUR 200 million. The reconstruction programme is in its initial stage – the completed workload within the contract reached EUR 8.9 million as of 31 December 2013. In 2013, within the framework of reconstruction, a contract for replacement of Plavīnu HPP hydropower units N1 and N3 has been concluded, the total costs of which are estimated up to EUR 28.1 million. The reconstruction will provide for further 40-year operation of hydropower units.

Funding and Liquidity

We have diversified the borrowing sources by issuing bonds - the total amount of bonds issued reaches EUR 105 million.

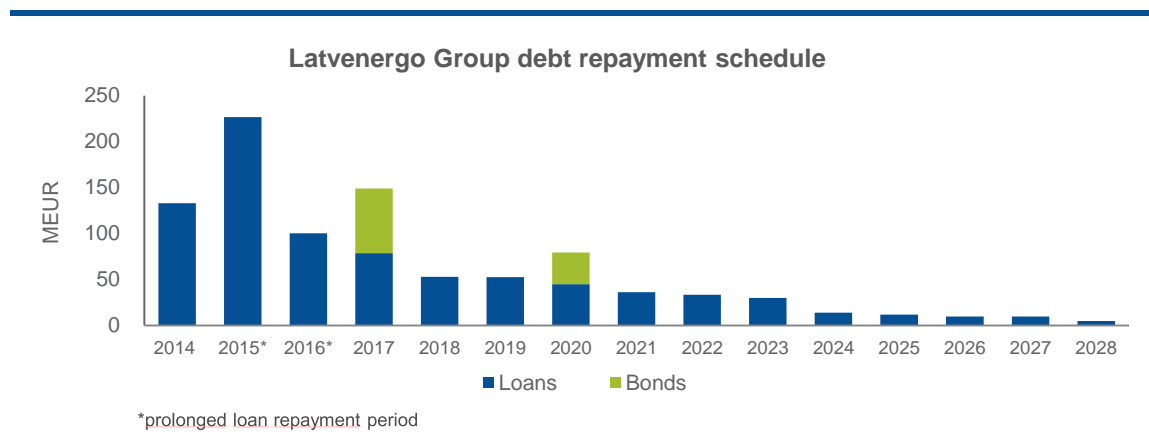
In 2013, we have issued bonds in the amount of EUR 50 million with 5-year maturity and of EUR 35 million with 7-year maturity.

Total amount of bonds issued reaches EUR 105 million

In order to implement the investment programme and fulfil its commitments, Latvenergo Group maintains sufficient liquidity reserves and good liquidity ratios. As at 31 December 2013, the current assets (cash and short term deposits up to 3 months) of Latvenergo Group reached EUR 255.4 million (31 December 2012: EUR 242.5 million), while the current ratio² was 1.5 (1.3).

As at 31 December 2013, the Group borrowings were EUR 944.7 million (EUR 847.0 million). All borrowings are denominated in the Euro currency. The weighted average repayment period remains at the previous year level – 4.4 years. In December 2013, Latvenergo AS has initiated the procurement process for attracting borrowed capital in the form of bank loans up to EUR 150 million. The funds are intended for financing of 2014-2016 investment programme and for refinancing needs.

² Current ratio: current assets / current liabilities



Nearly all borrowings from financial institutions had a variable interest rate, comprising 3 to 6 month EURIBOR and margin rate. Taking into account the effect of interest rate swaps, 43% of the borrowings have a fixed interest rate with an average period of 2.1 years as at 31 December 2013.

In 2013, the effective weighted average interest rate (with interest rate swaps) was 2.5% (2.9%), ensuring sufficient debt service ratios (interest coverage ratio³ – 4.9).

The net borrowings of Latvenergo Group have increased due to investments in the reconstruction of the Riga TEC 2 second power unit and reached EUR 689.2 million (EUR 604.5 million) as at 31 December 2013, while the Net debt/EBITDA ratio was 2.8 (2.5). In 2013, all the binding financial

³ Interest coverage ratio: (net cash flow from operating activities – changes in working capital + interest expense) / interest expense

covenants set in Latvenergo Group loan agreements have been met.

After the end of the reporting period, loan repayment period was prolonged. The term of a principal amount payment of EUR 36.7 million (in 2015) and of EUR 13.3 million (in 2016) was prolonged until 2018 thus reducing the loan refinancing risk in 2015.

In the beginning of 2013, the international rating agency Moody's Investors Service has reconfirmed Latvenergo AS credit rating Baa3 with a stable outlook.

Statement of Management Responsibility

Based on the information available to the Management Board of Latvenergo AS, the *Latvenergo 2013 Annual Unaudited Condensed Consolidated Financial Statements*, including the Management Report, have been prepared in accordance with the applicable laws and regulations and in all material aspects give a true and fair view of the assets, liabilities, financial position and profit or loss of Latvenergo Group.

The *Latvenergo 2013 Annual Unaudited Condensed Consolidated Financial Statements* are approved by the Management Board of Latvenergo AS on 18 February 2014.

THE MANAGEMENT BOARD OF LATVENERGO AS:

Āris Žīgurs
Chairman of the Board

Zane Kotāne
Member of the Board

Uldis Bariss
Member of the Board

Māris Kuņickis
Member of the Board

Arnis Kurgs
Member of the Board

Unaudited Interim Condensed Consolidated Financial Statements

INTERIM CONSOLIDATED INCOME STATEMENT

1 EUR = 0.702804 LVL

	Notes	2013	2012	2013	2012
		LVL'000	LVL'000	EUR'000	EUR'000
Revenue	5	773,112	747,566	1,100,039	1,063,691
Other income		9,957	2,271	14,168	3,231
Materials, consumables and supplies	6	(499,707)	(472,031)	(711,019)	(671,640)
Personnel expenses		(67,053)	(64,152)	(95,408)	(91,280)
Depreciation, amortisation and impairment		(131,848)	(122,196)	(187,603)	(173,869)
Other operating expenses		(41,416)	(42,097)	(58,930)	(59,899)
Operating profit		43,045	49,361	61,247	70,234
Finance income		3,173	3,705	4,515	5,272
Finance costs		(12,515)	(11,250)	(17,807)	(16,007)
Share of profit of an associate		680	253	968	360
Profit before income tax		34,383	42,069	48,923	59,859
Income tax	7	(4,647)	(6,328)	(6,612)	(9,003)
Profit for the year		29,736	35,741	42,311	50,856

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

1 EUR = 0.702804 LVL

	2013	2012	2013	2012
	LVL'000	LVL'000	EUR'000	EUR'000
Profit for the year	29,736	35,741	42,311	50,856
Other comprehensive income / (loss)				
Gain on revaluation of PPE	69	68,829	98	97,935
Income on currency translation differences	10	-	14	-
Income / (loss) from change in hedge reserve	6,215	(4,883)	8,843	(6,948)
Losses as a result of changes in actuarial assumptions on provisions for post-employment benefits	(216)	-	(308)	-
Other comprehensive income for the year	6,078	63,946	8,647	90,987
Total comprehensive income for the year	35,814	99,687	50,958	141,843

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

1 EUR = 0.702804 LVL

	Notes	31/12/2013	31/12/2012	31/12/2013	31/12/2012
		LVL'000	LVL'000	EUR'000	EUR'000
ASSETS					
<i>Non-current assets</i>					
Intangible assets and PPE	8	2,177,220	2,153,881	3,097,905	3,064,697
Investment property		1,035	1,116	1,473	1,588
Investments in associates and other financial investments		29	4,948	41	7,040
Held-to-maturity financial assets		20,092	20,134	28,588	28,649
Other non-current assets		40	32	57	45
Total non-current assets		2,198,416	2,180,111	3,128,064	3,102,019
<i>Current assets</i>					
Inventories	9	15,210	15,604	21,642	22,203
Trade and other receivables	10	110,016	101,913	156,538	145,008
Current financial investments		5,598	-	7,965	-
Financial assets		434	4,237	618	6,029
Cash and cash equivalents	11	179,512	170,425	255,423	242,493
Total current assets		310,770	292,179	442,186	415,733
TOTAL ASSETS		2,509,186	2,472,290	3,570,250	3,517,752
EQUITY					
Share capital		905,219	904,605	1,288,011	1,287,137
Non-current assets revaluation reserve		465,349	465,738	662,132	662,685
Hedge reserve		(6,914)	(13,130)	(9,838)	(18,682)
Other reserves		88	77	125	110
Total reserves		458,523	452,685	652,419	644,113
Retained earnings		49,893	49,761	70,991	70,803
Non-controlling interest		4,536	3,459	6,454	4,922
Total equity		1,418,171	1,410,510	2,017,875	2,006,975
LIABILITIES					
<i>Non-current liabilities</i>					
Borrowings	12	492,237	506,797	700,390	721,107
Issued debt securities (bonds)	12	73,655	14,033	104,802	19,967
Deferred income tax liabilities		189,153	187,822	269,140	267,246
Provisions	13	10,962	10,508	15,598	14,952
Derivative financial instruments		4,384	12,555	6,238	17,864
Other liabilities and deferred income		119,476	105,425	169,999	150,007
Total non-current liabilities		889,867	837,140	1,266,167	1,191,143
<i>Current liabilities</i>					
Borrowings	12	97,528	74,405	138,770	105,869
Issued debt securities (bonds)	12	488	13	694	18
Derivative financial instruments		12,085	12,144	17,196	17,279
Trade and other current liabilities, deferred income		90,590	135,986	128,898	193,491
Current income tax liabilities		457	1,892	650	2,692
Issued guarantees		-	200	-	285
Total current liabilities		201,148	224,640	286,208	319,634
Total liabilities		1,091,015	1,061,780	1,552,375	1,510,777
TOTAL EQUITY AND LIABILITIES		2,509,186	2,472,290	3,570,250	3,517,752

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

1 EUR = 0.702804 LVL

	Attributable to owners of the Parent Company						Attributable to owners of the Parent Company					
	Share capital	Reserves	Retained earnings	Total	Non-controlling interest	TOTAL	Share capital	Reserves	Retained earnings	Total	Non-controlling interest	TOTAL
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
As at 31 December 2011	325,862	976,921	45,773	1,348,556	3,020	1,351,576	463,660	1,390,033	65,129	1,918,822	4,297	1,923,119
Increase in share capital	578,743	(577,990)	-	753	-	753	823,477	(822,406)	-	1,071	-	1,071
Dividends for 2011	-	-	(39,900)	(39,900)	-	(39,900)	-	-	(56,773)	(56,773)	-	(56,773)
Transfer from reserves	-	(10,257)	10,257	-	-	-	-	(14,594)	14,594	-	-	-
Adjustments of revaluation reserve	-	-	(1,606)	(1,606)	-	(1,606)	-	-	(2,285)	(2,285)	-	(2,285)
Profit for the year	-	-	35,302	35,302	439	35,741	-	-	50,231	50,231	625	50,856
Other comprehensive income / (loss) for the year	-	64,011	(65)	63,946	-	63,946	-	91,080	(93)	90,987	-	90,987
Total comprehensive income for the year	-	64,011	33,631	97,642	439	98,081	-	91,080	47,853	138,933	625	139,558
As at 31 December 2012	904,605	452,685	49,761	1,407,051	3,459	1,410,510	1,287,137	644,113	70,803	2,002,053	4,922	2,006,975
Increase in share capital	614	-	-	614	-	614	874	-	-	874	-	874
Dividends for 2012	-	-	(28,547)	(28,547)	(220)	(28,767)	-	-	(40,619)	(40,619)	(313)	(40,932)
Profit for the year	-	-	28,439	28,439	1,297	29,736	-	-	40,466	40,466	1,845	42,311
Other comprehensive income for the year	-	5,838	240	6,078	-	6,078	-	8,306	341	8,647	-	8,647
Total comprehensive income for the year	-	5,838	28,679	34,517	1,297	35,814	-	8,306	40,807	49,113	1,845	50,958
As at 31 December 2013	905,219	458,523	49,893	1,413,635	4,536	1,418,171	1,288,011	652,419	70,991	2,011,421	6,454	2,017,875

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

1 EUR = 0.702804 LVL

	Notes	2013	2012	2013	2012
		LVL'000	LVL'000	EUR'000	EUR'000
Cash flows from operating activities					
Profit before income tax		34,383	42,069	48,923	59,859
Adjustments for:					
- Amortisation, depreciation, impairment loss of non-current assets		134,004	122,885	190,671	174,849
- Net financial adjustments		14,482	6,383	20,606	9,082
- Other adjustments		162	150	231	214
Increase in current assets		(6,440)	(5,473)	(9,164)	(7,787)
(Decrease) / increase in payables, accrued expense, deferred income and other liabilities		(45,660)	18,520	(64,969)	26,352
Cash generated from operations		130,931	184,534	186,298	262,569
Interest paid		(17,113)	(19,141)	(24,350)	(27,235)
Interest received		1,659	1,515	2,361	2,156
Income tax paid		(12,488)	(16,139)	(17,769)	(22,964)
Net cash generated from operating activities		102,989	150,769	146,540	214,526
Cash flows from investing activities					
Purchase of intangible assets and PPE		(147,456)	(175,996)	(209,811)	(250,420)
Proceeds on financing from EU funds		7,125	2,416	10,138	3,438
Net investments in held-to-maturity assets		42	41,348	60	58,832
Net cash used in investing activities		(140,289)	(132,232)	(199,613)	(188,150)
Cash flows from financing activities					
Proceeds on issued debt securities (bonds)	12	59,621	14,020	84,833	19,949
Proceeds on borrowings from credit institutions	12	82,439	116,947	117,300	166,401
Repayment of borrowings	12	(73,916)	(48,056)	(105,173)	(68,378)
Dividends paid to non-controlling interests		(220)	-	(313)	-
Dividends paid*		(21,537)	(39,900)	(30,644)	(56,773)
Net cash used in financing activities		46,387	43,011	66,003	61,199
Net increase in cash and cash equivalents		9,087	61,548	12,930	87,575
Cash and cash equivalents at the beginning of the year	11	170,425	108,877	242,493	154,918
Cash and cash equivalents at the end of the year	11	179,512	170,425	255,423	242,493

* - dividends paid for 2012 in amount of LVL 7,010 thousand or EUR 9,974 thousand are settled by income tax overpayment

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

1. CORPORATE INFORMATION

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

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

Latvenergo AS heads the Latvenergo Group (hereinafter – the Group) that includes following subsidiaries:

- Sadales tīkls AS (18.09.2006.);
- Elektrum Eesti OÜ (27.06.2007.) and its subsidiary Elektrum Latvija SIA (18.09.2012.);
- Elektrum Lietuva UAB (07.01.2008.);
- Latvijas elektriskie tīkli AS (10.02.2011.);
- Liepājas enerģija SIA (06.07.2005.).

The Parent Company's associates:

- Nordic Energy Link AS carries out the functions of the operator of an interconnection power cable between Estonia and Finland;

- Pirmais Slēgtais Pensiju Fonds AS manages a defined-contribution corporate pension plan in Latvia.

On 26 September Shareholder's Meeting of Latvenergo AS decided to terminate Latvenergo AS participation in Nordic Energy Link AS. According to the Directive 2009/72/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in electricity and repealing Directive 2003/54/EC, Latvenergo AS, as electricity producer and trader, needs to perform activities so that after 31 December 2013 it would not be owner of the electricity transmission infrastructure. On 12 February 2014 the Cabinet of Ministers of the Republic of Latvia adopted decision No. 67 „On Latvenergo AS termination of partnership in Nordic Energy Link AS”.

2013 Unaudited Interim Condensed Consolidated Financial Statements were authorised by the Latvenergo AS Management Board on 18 February 2014.

2. ACCOUNTING POLICIES

These Unaudited Interim Condensed Consolidated Financial Statements are prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted for use in the European Union and applied accounting principles or policies have not changed. These policies have been consistently applied to all reporting periods presented, unless stated differently. Where it is necessary, comparatives are reclassified.

The Unaudited Interim Condensed Consolidated Financial Statements are prepared under the

historical cost convention, as modified by the revaluation of non-current assets, financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss disclosed in accounting policies presented in the Latvenergo Group Condensed Consolidated Financial Statements of 2012.

The 2013 Unaudited Interim Condensed Consolidated Financial Statements include the financial information in respect of the Parent Company and its all subsidiaries for the year ending 31 December 2013 and comparative information for the year ending 31 December 2012. Comparative information for financial position includes information as at 31 December 2012.

Latvenergo Consolidated Annual Report 2012 has been approved on 15 May 2013 by Latvenergo AS Shareholder meeting (see on www.latvenergo.lv section “Investors”).

All amounts shown in these Interim Condensed Consolidated Financial Statements are presented in thousands of Latvian Lats (LVL), and are converted into Euros (EUR) using official currency rate of the Bank of Latvia 1EUR = 0.702804 LVL, that conforms with the Latvian lats conversion rate to the Euros determined by the European Central Bank in accordance with the ECOFIN decision accepted on 9 July 2013.

3. FINANCIAL RISK MANAGEMENT

3.1. Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk,

fair value and cash flow interest rate risk), credit risk, pricing risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by the Parent Company's Treasury function (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, and credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

a) Market risk

1) Foreign exchange risk

The Group is not exposed to substantial currency risk primarily because settlements for recognised assets and liabilities (mainly borrowings), for capital expenditures and imported electricity are completed in Euros.

At 31 December 2013 the Group had none of its borrowings and substantial liabilities denominated in any other foreign currency except Euro,

therefore, there is no significant foreign currency exchange risk.

The Parent Company's Management has set up a Financial Risk Management policy inter alia to manage the Group's foreign currencies exchange risk against functional currency. To limit the Group's foreign currencies exchange risk arising from future transactions and recognised assets and liabilities, the Group uses forward contracts, transacted by the Group Treasury. Foreign currencies exchange risk arises when future transactions or recognised assets or liabilities are denominated in a currency other than the Group's functional currency or 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 cash flow interest rate risk mainly arises from long-term borrowings at variable rates. They expose the Group to a 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 rates borrowings (taking into account the effect of interest rate swaps) with duration between 2-4 years.

The Group analyses its interest rate risk exposure on a regular 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.

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 are impacted by the price risk.

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

b) Credit risk

Credit risk is managed at the Group level. Credit risk arises from cash and cash equivalents, derivative financial instruments and bank deposits, 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 counterparty or group of counterparties having similar characteristics. Impairment loss has been deducted from gross accounts receivable.

Credit risk related to cash and short-term deposits in 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.

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 undrawn borrowing facilities and cash, as well as cash equivalents.

3.2. Capital risk management

The Group's objectives when managing capital risk are to ensure the sustainability of the Group's operations 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 equity by the sum of total assets and nominal value of issued and outstanding financial guarantees.

According to the defined loan agreement covenants the capital ratio shall be maintained at least at 30% level.

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 uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each 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's 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 CO₂ emission allowances for greenhouse gases forward contracts is calculated as difference between actual market and settlement prices for CO₂ emission allowances multiplied by the volume of the forward contract.

The fair value of non-current borrowings with floating interest rates fixed by SWAP agreements for disclosure purposes is estimated by discounting their future contractual cash flows at the current market interest rates for similar financial instruments.

4. OPERATING SEGMENT INFORMATION

Operating segments

For segment reporting purposes, the division into operating segments is based on the Group's internal management structure, which is the basis for the reporting system, performance assessment and the allocation of resources by the chief operating decision maker.

The Group divides its operations into three main operating segments – generation and supply, distribution and management of transmission system assets. In addition Corporate Functions, that cover administration and other support services, are presented separately.

The generation and supply operating segment comprises the Group's electricity and thermal energy generation operations, which are organised into the following legal entities: Latvenergo AS and Liepājas enerģija SIA, as well as electricity sales operations, including wholesale, which are conducted on a pan-Baltic level by Latvenergo AS, Elektrum Eesti OÜ and Elektrum Lietuva UAB.

The distribution operating segment relates to the provision of electricity distribution services in Latvia and it is managed by the subsidiary Sadales tīkls AS (the largest distribution system operator in Latvia) and Latvenergo AS – the owner of the real estate assets related to distribution system assets.

The management of transmission system assets operating segment comprises construction and

maintenance of the transmission system assets as well as the lease of assets to the transmission system operator Augstsprieguma tīkls AS. The Republic of Latvia has applied the second unbundling model under EU Directive 2009/72/EC, which provides that the electricity transmission system assets shall remain with a vertically integrated utility, while the activities of the transmission system operator are independently managed. The results of the management of transmission system assets segment derive from activities both of the subsidiary Latvijas elektriskie tīkli AS and Latvenergo AS – the owner of the real estate assets related to transmission system assets.

The following table presents revenue, profit information and segment assets of the Group's operating segments:

LVL	Generation and supply	Distribution system services	Management of transmission system assets	Corporate functions	TOTAL segments	Adjustments and eliminations	Consolidated
2013	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
Revenue							
External customers	525,691	204,280	39,290	3,851	773,112	-	773,112
Inter-segment	18,107	1,330	1,782	31,739	52,958	(52,958)	-
Total revenue	543,798	205,610	41,072	35,590	826,070	(52,958)	773,112
Results							
Segment operating profit	16,376	13,406	9,965	3,298	43,045	(8,662)	34,383
Capital expenditure	37,546	62,264	48,941	9,759	158,510	-	158,510
2012							
Revenue							
External customers	503,039	203,548	36,924	4,055	747,566	-	747,566
Inter-segment	19,862	1,282	1,624	31,756	54,524	(54,524)	-
Total revenue	522,901	204,830	38,548	35,811	802,090	(54,524)	747,566
Results							
Segment operating profit	31,683	5,893	8,086	4,236	49,898	(7,829)	42,069
Capital expenditure	95,072	58,445	23,468	8,738	185,723	-	185,723

EUR	Generation and supply	Distribution system services	Management of transmission system assets	Corporate functions	TOTAL segments	Adjustments and eliminations	Consolidated
2013	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Revenue							
External customers	747,991	290,664	55,905	5,479	1,100,039	-	1,100,039
Inter-segment	25,764	1,892	2,536	45,160	75,352	(75,352)	-
Total revenue	773,755	292,556	58,441	50,639	1,175,391	(75,352)	1,100,039
Results							
Segment operating profit	23,300	19,075	14,179	4,693	61,247	(12,324)	48,923
Capital expenditure	53,423	88,594	69,637	13,886	225,540	-	225,540
2012							
Revenue							
External customers	715,760	289,623	52,538	5,770	1,063,691	-	1,063,691
Inter-segment	28,261	1,824	2,311	45,185	77,581	(77,581)	-
Total revenue	744,021	291,447	54,849	50,955	1,141,272	(77,581)	1,063,691
Results							
Segment operating profit	45,081	8,385	11,505	6,027	70,998	(11,139)	59,859
Capital expenditure	135,275	83,160	33,392	12,433	264,260	-	264,260

Segment assets

		Generation and supply	Distribution	Management of transmission system assets	Corporate functions	TOTAL segments	Adjustments and eliminations	Consolidated
At 31 December 2013	LVL'000	1,050,912	879,915	303,066	60,763	2,294,656	214,530	2,509,186
At 31 December 2012	LVL'000	1,067,218	872,491	269,691	59,192	2,268,592	203,698	2,472,290
At 31 December 2013	EUR'000	1,495,313	1,252,006	431,224	86,458	3,265,001	305,249	3,570,250
At 31 December 2012	EUR'000	1,518,515	1,241,443	383,736	84,222	3,227,916	289,836	3,517,752

Adjustments and eliminations

Finance income and expenses, fair value gains and losses on financial assets are not allocated to individual segments as the underlying instruments are managed on a group basis. Taxes and certain financial assets and liabilities are not allocated to

those segments as they are also managed on a group basis.

Capital expenditure consists of additions of property, plant and equipment, intangible assets

and investment properties including assets from the acquisition of subsidiaries.

Inter-segment revenue is eliminated on consolidation.

Reconciliation of profit

	2013	2012	2013	2012
	LVL'000	LVL'000	EUR'000	EUR'000
Segment operating profit	43,045	49,898	61,247	70,998
Gain on disposal of revalued PPE	-	(537)	-	(764)
Finance income	3,173	3,705	4,515	5,272
Finance costs	(12,515)	(11,250)	(17,807)	(16,007)
Share of profit of associates	680	253	968	360
Group profit before income tax	34,383	42,069	48,923	59,859

Reconciliation of assets

	31/12/2013	31/12/2012	31/12/2013	31/12/2012
	LVL'000	LVL'000	EUR'000	EUR'000
Segment operating assets	2,294,656	2,268,592	3,265,001	3,227,916
Investments in associates	29	4,948	41	7,040
Investments in held-to-maturity financial assets	20,092	20,134	28,588	28,649
Current financial assets	434	42	618	60
Other assets and assets held for sale	14,463	8,149	20,579	11,594
Cash and cash equivalents	179,512	170,425	255,423	242,493
Group operating assets	2,509,186	2,472,290	3,570,250	3,517,752

5. REVENUE

	2013	2012	2013	2012
	LVL'000	LVL'000	EUR'000	EUR'000
Electricity and electricity services	631,144	598,879	898,037	852,128
Heat sales	82,556	90,548	117,466	128,838
Lease and management of transmission system assets	38,823	36,323	55,240	51,683
Other revenue	20,589	21,816	29,296	31,042
Total revenue	773,112	747,566	1,100,039	1,063,691

6. MATERIALS, CONSUMABLES AND SUPPLIES

	2013	2012	2013	2012
	LVL'000	LVL'000	EUR'000	EUR'000
Electricity purchases				
Purchased electricity	267,870	256,580	381,144	365,081
Fair value loss / (income) on electricity swaps	3,126	(1,525)	4,448	(2,170)
Electricity transmission services	52,129	52,262	74,173	74,362
	323,125	307,317	459,765	437,273
Fuel expense	149,674	140,052	212,967	199,276
Fair value income on CO ₂ emission allowances forward contracts	-	(4,598)	-	(6,542)
Raw materials, spare parts and maintenance costs	26,908	29,260	38,287	41,633
Total materials, consumables and supplies	499,707	472,031	711,019	671,640

7. INCOME TAX

	2013	2012	2013	2012
	LVL'000	LVL'000	EUR'000	EUR'000
Current tax	3,248	10,156	4,621	14,450
Deferred tax	1,399	(3,828)	1,991	(5,447)
Total income tax	4,647	6,328	6,612	9,003

8. INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

	Intangible assets	Land, buildings and facilities	Technology equipment and machinery	Other fixed assets	Assets under construction	TOTAL	Intangible assets	Land, buildings and facilities	Technology equipment and machinery	Other fixed assets	Assets under construction	TOTAL
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
At 31 December 2013												
Cost or valuation	25,967	3,044,293	1,438,115	108,057	80,867	4,697,299	36,948	4,331,639	2,046,253	153,751	115,063	6,683,654
Accumulated amortisation, depreciation and impairment	(18,145)	(1,674,950)	(743,287)	(79,025)	(4,672)	(2,520,079)	(25,818)	(2,383,239)	(1,057,602)	(112,442)	(6,648)	(3,585,749)
Net book amount	7,822	1,369,343	694,828	29,032	76,195	2,177,220	11,130	1,948,400	988,651	41,309	108,415	3,097,905
At 31 December 2012												
Cost or valuation	23,499	2,944,041	1,224,864	99,713	296,705	4,588,822	33,436	4,188,993	1,742,824	141,880	422,173	6,529,306
Accumulated amortisation, depreciation and impairment	(17,695)	(1,629,214)	(708,346)	(74,815)	(4,871)	(2,434,941)	(25,178)	(2,318,163)	(1,007,885)	(106,452)	(6,931)	(3,464,609)
Net book amount	5,804	1,314,827	516,518	24,898	291,834	2,153,881	8,258	1,870,830	734,939	35,428	415,242	3,064,697

9. INVENTORIES

	31/12/2013	31/12/2012	31/12/2013	31/12/2012
	LVL'000	LVL'000	EUR'000	EUR'000
Raw materials and spare parts	14,871	14,196	21,160	20,199
Other inventories	3,327	4,192	4,734	5,965
Allowance for raw materials, spare parts, technological fuel	(2,988)	(2,784)	(4,252)	(3,961)
Total inventories	15,210	15,604	21,642	22,203

10. TRADE RECEIVABLES AND OTHER CURRENT RECEIVABLES

Trade receivables:

	31/12/2013	31/12/2012	31/12/2013	31/12/2012
	LVL'000	LVL'000	EUR'000	EUR'000
Receivables:				
- Electricity customers	64,605	64,637	91,925	91,971
- Heating customers	12,355	19,140	17,580	27,234
- Other trade receivables	16,585	14,671	23,598	20,875
	93,545	98,448	133,103	140,080
Provision for impairment of receivables:				
- Electricity customers	(28,564)	(18,894)	(40,643)	(26,884)
- Heating customers	(259)	(295)	(369)	(420)
- Other trade receivables	(1,744)	(1,217)	(2,482)	(1,732)
	(30,567)	(20,406)	(43,494)	(29,036)
Receivables, net:				
- Electricity customers	36,041	45,743	51,282	65,087
- Heating customers	12,096	18,845	17,211	26,814
- Other trade receivables	14,841	13,454	21,116	19,143
	62,978	78,042	89,609	111,044
Accrued income on mandatory procurement component*	31,593	-	44,953	-
Other current receivables and accrued income	15,445	23,871	21,976	33,964
Total trade receivables and other current receivables	110,016	101,913	156,538	145,008

* Accrued income from mandatory procurement component is calculated as difference between procurement expenditure above electricity market price and collected mandatory procurement component payments. Uncollected difference for the year 2013 will be compensated by newly established subsidiary in 12 months period starting from overtake of public supplier obligations as at 1st April 2014, using government grant implicit for mandatory procurement component reduction, stated per Law on the State Budget for 2014, as part of compensation.

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

	2013	2012	2013	2012
	LVL'000	LVL'000	EUR'000	EUR'000
At the beginning of the year	20,406	9,717	29,036	13,825
Receivables written off during the year as uncollectible	(990)	(203)	(1,409)	(289)
Allowance for impaired receivables	11,151	10,892	15,867	15,500
At the end of the year	30,567	20,406	43,494	29,036

11. CASH AND CASH EQUIVALENTS

	31/12/2013	31/12/2012	31/12/2013	31/12/2012
	LVL'000	LVL'000	EUR'000	EUR'000
Cash at bank	62,425	25,316	88,823	36,021
Short-term bank deposits	117,087	145,109	166,600	206,472
Total cash and cash equivalents	179,512	170,425	255,423	242,493

12. BORROWINGS

	31/12/2013	31/12/2012	31/12/2013	31/12/2012
	LVL'000	LVL'000	EUR'000	EUR'000
Non-current borrowings (excl. current portion)	492,237	506,797	700,390	721,107
Issued debt securities (bonds)	73,655	14,033	104,802	19,967
Total non-current borrowings	565,892	520,830	805,192	741,074
Current portion of non-current borrowings	96,289	73,208	137,007	104,165
Accrued interest on non-current borrowings	1,239	1,197	1,763	1,704
Accrued coupon interest on issued debt securities (bonds)	488	13	694	18
Total current borrowings	98,016	74,418	139,464	105,887
Total borrowings	663,908	595,248	944,656	846,961

Movement in borrowings:

	2013	2012	2013	2012
	LVL'000	LVL'000	EUR'000	EUR'000
At the beginning of the year	595,248	513,334	846,961	730,408
Borrowings received	82,439	116,947	117,300	166,401
Borrowing repaid	(73,916)	(48,056)	(105,173)	(68,378)
Accrued interest on borrowings	516	(1,010)	735	(1,437)
Debt securities (bonds) issued	59,621	14,033	84,833	19,967
At the end of the year	663,908	595,248	944,656	846,961

13. PROVISIONS

Provisions for post-employment benefits

Total charged/credited provisions are included in the Consolidated Income Statement position 'Personnel expenses' within state social insurance contributions and other benefits defined in the Collective agreement:

	2013	2012	2013	2012
	LVL'000	LVL'000	EUR'000	EUR'000
At the beginning of the year	7,760	7,734	11,042	11,004
Charged to the Consolidated Income Statement	811	26	1,154	38
At the end of the year	8,571	7,760	12,196	11,042

Environmental provisions

	2013	2012	2013	2012
	LVL'000	LVL'000	EUR'000	EUR'000
At the beginning of the year	2,748	1,783	3,910	2,537
(Credited) / charged to the Consolidated Income Statement	(357)	965	(508)	1,373
At the end of the year	2,391	2,748	3,402	3,910

14. RELATED PARTY TRANSACTIONS

The Parent Company and, indirectly, other Group entities are controlled by the Latvian state. Related parties of the Group are associates, key management personnel of the Group and Supervisory body – Audit committee, as well as companies over which the Group entities have significant influence.

The following transactions were carried out with related parties:

	2013	2012	2013	2012
	LVL'000	LVL'000	EUR'000	EUR'000
Sales of goods and services	146,352	143,818	208,240	204,635
Purchases of goods and services	76,622	73,319	109,023	104,324

Balances at the end of the year arising from sales/purchases:

	31/12/2013	31/12/2012	31/12/2013	31/12/2012
	LVL'000	LVL'000	EUR'000	EUR'000
Trade receivables from related parties	16,710	21,354	23,776	30,384
Trade payables to related parties	7,831	8,871	11,143	12,622

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

Receivables and payables with related parties are current balances for services and goods. None of

the amounts at the end of the reporting period are secured.

In 2013 remuneration of the key management personnel, Supervisory body, including salary, social insurance payments and payments to

pension plan amounted to LVL 1,123.2 thousand or EUR 1,598.2 thousand (2012: LVL 960.2 thousand or EUR 1,366.3 thousand) and is included in the Condensed Consolidated Income Statement position 'Personnel expenses'.

15. EVENTS AFTER THE REPORTING PERIOD

On 9 January 2014 agreement with Nordea Bank Finland Plc Latvian branch has been amended, extending loan repayment terms for two loans from the years 2015 and 2016 to the year 2018. Along with the extension of loan repayment terms refinancing risk of the year 2015 has been reduced.

Amendments to the Electricity Market Law were announced on 27 November 2013 and came into force on 1 January 2014 determining full opening of the Latvian electricity market starting from 1 April 2014. According to these amendments it is expected to liberalise the electricity market fully

and to discontinue electricity prices regulation as from 1 April 2014, as well to establish a new subsidiary of Latvenergo AS that will overtake public supplier obligations from Latvenergo AS as from 1 April 2014 and in 12 month period will compensate to Latvenergo AS the difference between procurement expenditure above electricity market price and collected mandatory procurement component payments for the period from 1 January 2013 until 31 December 2013.. From 1 April 2014 changes will be made in the Group's Accounting policy for the accounting of mandatory procurement component revenues and expenses and public supplier will recognise those

according to agent recognition principle in assets or liabilities.

On 12 February 2014 the Cabinet of Ministers of the Republic of Latvia adopted decision No. 68 „On significant influence of Latvenergo AS in the newly established public limited company Enerģijas publiskais tirgotājs”.

There have been no other significant events subsequent to the end of the reporting year that might have a material effect on the 2013 Unaudited Interim Condensed Consolidated Financial Statements.
