

Unaudited Interim Condensed Consolidated Financial Statements

for the 6 months period ended
30 June 2014



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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Unaudited Interim Condensed Consolidated Financial Statements*

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

FINANCIAL CALENDAR

28. 11. 2014

Interim Condensed Consolidated Financial
Statements for the 9 months period ending 30
September 2014 (unaudited)

27. 02. 2015

Latvenergo 2014 Annual Condensed
Consolidated Financial Statements (unaudited)

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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.

Summary

- In 1H 2014, a decline in electricity spot prices in the Nordic countries was mainly determined by lower electricity consumption due to warmer weather conditions and decline in the global market coal price. Electricity prices in Latvia and Lithuania remained at the level of the respective period last year.
- From the energy balance position, Latvia and Lithuania are deficit region countries. The existing interconnection capacity shortage between power systems determines higher price in the Nord Pool Spot Latvia/Lithuania bidding areas compared to the Nordic countries – in 1H 2014, prices were on average 33% higher.
- In early 2014, power transmission interconnection EstLink-2 was launched thus there are no significant price differences between Nord Pool Spot Finland and Estonia bidding areas.
- Enerģijas publiskais tirgotājs AS, a new subsidiary of Latvenergo AS, was established on 25 February 2014, and it has taken over the mandatory procurement administration functions from Latvenergo AS as of 2014.
- In 1H 2014, Latvenergo Group revenue decreased by 5% reaching EUR 543.1 million, while EBITDA increased by 15% reaching EUR 146.2 million.
- Results were positively impacted by recognition of balanced mandatory procurement revenues and costs (EUR 26.3 million). Results were negatively affected by 35% lower electricity output at Daugava HPPs, lost revenues due to electricity supply at the regulated tariff in Latvia and increase of costs (EUR 7.7 million) due to introduction of Subsidised Energy Tax (SET) as of 1 January 2014.
- In 1H 2014, Latvenergo Group retail electricity supply has increased by 5% despite a decline in the Baltic electricity consumption by approximately 4% due to warmer weather conditions. Latvenergo Group market share exceeds one-third of the Baltic electricity consumption, while 81% of the total electricity retail supply were supplied on the open electricity market.
- In 1H 2014, as a result of focused electricity trade activities, retail electricity supply outside Latvia has been increased by 51% and comprises more than one-third of retail electricity supply. The number of customers in neighbouring countries exceeds 32 thousands.
- The total amount of investments was EUR 64.7 million in 1H 2014. The amount invested in the networks represents more than 70% of the total investments. After the end of the reporting period, construction of 330 kV project *Kurzeme Ring* transmission line connection *Grobiņa-Ventspils* has been completed in August 2014.

Latvenergo Group in Brief

Latvenergo Group is a pan-Baltic power supply utility 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 seven subsidiaries. In order to improve the transparency of administration of mandatory electricity procurement process, new subsidiary Enerģijas publiskais tirgotājs AS was established on 25 February 2014. The subsidiary has taken over the mandatory procurement administration functions from Latvenergo AS as of 1 April 2014. 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 – Pirmais Slēgtais Pensiju Fonds AS (46.3%; Latvenergo Group – 48.15%) and Nordic Energy Link AS (25%); 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 (incl.

	Country of operations	Type of operation	Participation share
Latvenergo AS	Latvia	Generation and supply of electricity and thermal energy	
Sadales tīkls AS	Latvia	Electricity distribution	100%
Latvijas elektriskie tīkli AS	Latvia	Transmission system asset management	100%
Enerģijas publiskais tirgotājs AS	Latvia	Administration of electricity mandatory procurement process	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, electricity generation	51%

electricity wholesale) in the Baltics carried out by Latvenergo AS, Enerģijas publiskais tirgotājs AS, Elektrum Eesti OÜ and Elektrum Lietuva UAB.

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

		1H 2014	1H 2013
Retail electricity supply	GWh	4,591	4,353
Electricity generation	GWh	2,111	2,974
Thermal energy supply	GWh	1,392	1,581
Number of employees		4,548	4,518
Moody's credit rating		Baa3 (stable)	Baa3 (stable)

Financial Figures

		1H 2014	1H 2013
Revenue	MEUR	543.1	570.7
EBITDA ¹⁾	MEUR	146.2	126.8
Net profit	MEUR	42.3	28.7
Assets	MEUR	3,528.3	3,473.7
Equity	MEUR	2,034.5	2,001.3
Net debt ²⁾	MEUR	681.2	636.1
Investments	MEUR	64.7	90.7

Financial Ratios

	1H 2014	1H 2013
Net debt / EBITDA ³⁾	2.5	3.0
EBITDA margin ⁴⁾	25%	20%
Capital ratio ⁵⁾	58%	58%

- 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 (12-month rolling)
- 4) EBITDA margin: EBITDA / revenue (12-month rolling)
- 5) Capital ratio: total equity / total assets

Operating Environment

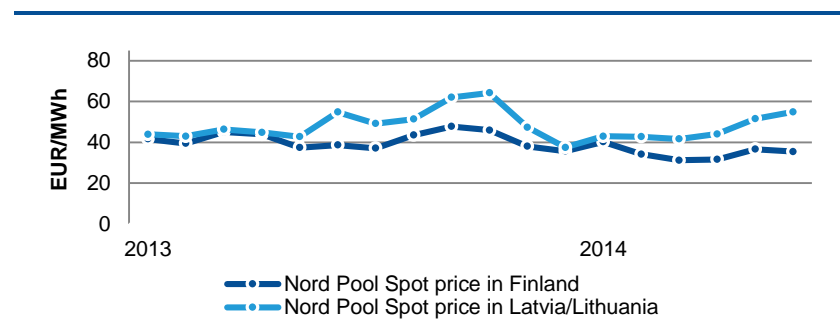
Lower Nord Pool Spot prices in the Nordic countries due to a warmer weather conditions

In 1H 2014, electricity price in the Nord Pool Spot Finland bidding area was 34.9 EUR/MWh – 15% lower than a year before. While spot price in the Latvia/Lithuania bidding areas¹ during the same period has remained at the level of the respective period last year and was 46.3 EUR/MWh.

Compared to the respective period last year, in 1H 2014, a decline in electricity price in the Nordic countries was mainly determined by a 3% lower electricity consumption and a decline in the global market coal price by 10% to 76.6 USD/t on average (1H 2013: 85.4 USD/t on average). The water level in Nordic hydropower plant reservoirs is close to the level of the previous year as well as to the long-term average. While in Latvia the water level in the Daugava River and thus the generation at hydropower plants has decreased compared to the respective period last year.

In early 2014, power transmission interconnection *EstLink-2* was launched thus increasing cross-border capacity between Estonia and Finland by 650 MW to 1,000 MW. Along with increased import capacity, no longer significant price differences have been observed between Finland and Estonia bidding areas: in 1H 2014, electricity prices in the Finland and in the Estonia bidding areas were equal 93% hours (1H 2013: 64%) and electricity price in Estonia decreased to 35.3 EUR/MWh, which is 19% lower than in the respective period last year. As a result, in 1H 2014, the electricity import volume from the Nordic countries to the Baltics increased almost four times compared to the respective period last year and reached 2,035 GWh. From the energy balance position, Latvia and Lithuania are deficit region countries thus the existing interconnection capacity shortage between power systems determines higher price in the Nord Pool Spot Latvia and Lithuania bidding areas compared to the Nordic countries – in 1H 2014, prices were on average 33% higher. Likewise, due to congestions on the Estonia-Latvia transmission line, price difference between the Estonia and the Latvia/Lithuania bidding areas reached 11.0 EUR/MWh (1H 2013: 2.5 EUR/MWh).

Greenhouse gas emission allowance (EUA) price in 1H 2014 was on average by 28% higher than in 1H 2013. Nevertheless, the average EUA price level was



approximately 6 EUR/t, which is still almost five-times lower than the historically highest price level in 2008. Relatively low EUA and coal prices have reduced the generation costs at coal-fired power plants thus leaving an impact on the electricity market price level in the Nordic countries.

In 1H 2014, the total amount of electricity generated in the Baltics reached 9,244 GWh, which is 17% lower than in the respective period last year (1H 2013: 11,145 GWh). Decrease of electricity generation was mainly due to lower electricity prices in the Nordic market, warmer weather conditions during the winter season and lower water level in the Daugava River. Decrease of electricity generation in the Baltics was also fostered by commissioning of *EstLink-2*, which provides an opportunity to import higher volume of cheap electricity from the Nordic countries.

As of 26 June 2014, along with amendments to legislation, Latvenergo Group offers all the electricity generated and purchased from generators on *Nord Pool Spot* exchange, thus multiple times increasing electricity offer and turnover on the energy exchange in Latvia, ensuring greater liquidity and transparency of the market.

¹ Nord Pool Spot Latvia bidding area was opened on 3 June 2013. In 1H 2014, electricity prices in the Latvia and Lithuania bidding areas were equal 99.9% hours

Operating Environment

Still high natural gas price in Latvia

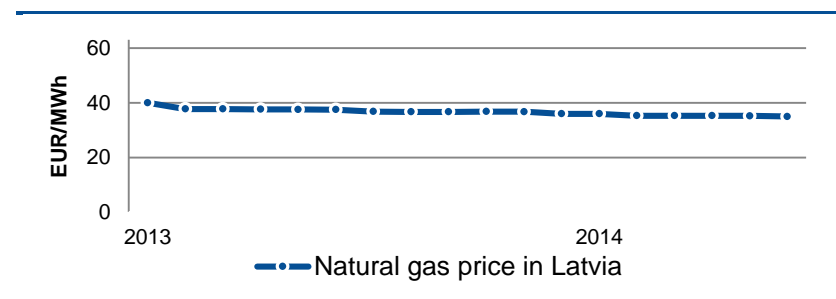
The natural gas price in Latvia is linked to the crude oil product price (to the 9-month average heavy fuel oil and diesel quotations index). Due to its change, in 1H 2014, the average natural gas price (incl. the excise tax) in Latvia for the user group with consumption above 100,000 thousand nm³ was 35.3 EUR/MWh, which is 7% lower than in the respective period last year (38.0 EUR/MWh). In 1H 2014, the average price of *Brent* oil was 108.9 \$/bbl and has not significantly changed compared to the respective period in 2013 (107.5 \$/bbl). Thus, most likely no significant changes are expected in the price of natural gas during the following months.

High price of natural gas in combination with relatively low electricity price decreases the competitiveness of combined heat and power plants and encourages replacement of electricity generation with electricity import.

Economic growth in the Baltics decelerates

Overall, during the first two quarters of 2014, the economic growth in the Baltics was mainly driven by increase in household consumption expenditure. According to the Statistical Office of the European Union (*Eurostat*), compared to the respective period last year, in Q2 2014 the GDP growth rate in Latvia was 3.5% (2013: 4.1%), in Lithuania – 3.0% (3.3%) and in Estonia – 2.5% (0.8%). Slower GDP growth rate in the Baltics was mainly determined by decrease in the export volume. Further economic growth might be adversely affected by uncertainty in relation to geopolitical developments and the respective impact on the economy from the economic sanctions.

According to the *Eurostat*, in June 2014, the average annual inflation rate in Latvia was 0.2%, in Lithuania – 0.4%, in Estonia – 1.8%, meanwhile in the Euro zone it was 0.8% and in the EU - 1.0%.



On 1 January 2014, Latvia joined the European Economic and Monetary Union (EMU). Estonia joined the EMU on 1 January 2011, while Lithuania is expected to join the EMU on 1 January 2015.

The economic growth in the Baltics was recognised also by credit rating agencies, including Standard & Poor's, who during the 1H 2014 raised credit ratings of Latvia and Lithuania to A- with a stable outlook. The credit rating of Estonia remained unchanged – AA- with a stable outlook.

Operating Environment

Future events

- Amendments to Electricity Market Law of 20 March 2014 provide that the electricity market opening for households in Latvia, which initially was planned to take place on 1 April 2014, shall be postponed, besides obliging Latvenergo AS to ensure electricity supply for captive users at current tariffs until 1 January 2015. If the electricity market for households had been opened on 1 April 2014, it would had a positive impact on Latvenergo Group results in 2014. In 1H 2014, lost revenues due to electricity supply at the regulated tariff was EUR 21.0 million (2013: EUR 44.2 million).
- 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, Latvenergo AS participation 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 350 MW transmission cable between Estonia and Finland. These changes will not have an adverse impact on financial results.
- On 30 January 2013, the Council of Public Utilities Commission (PUC) passed a decision on Certification of the Transmission System Operator. In addition, the decision provides that until 30 January 2015 Augstsprieguma tīkls AS has to take over 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.

Financial Results

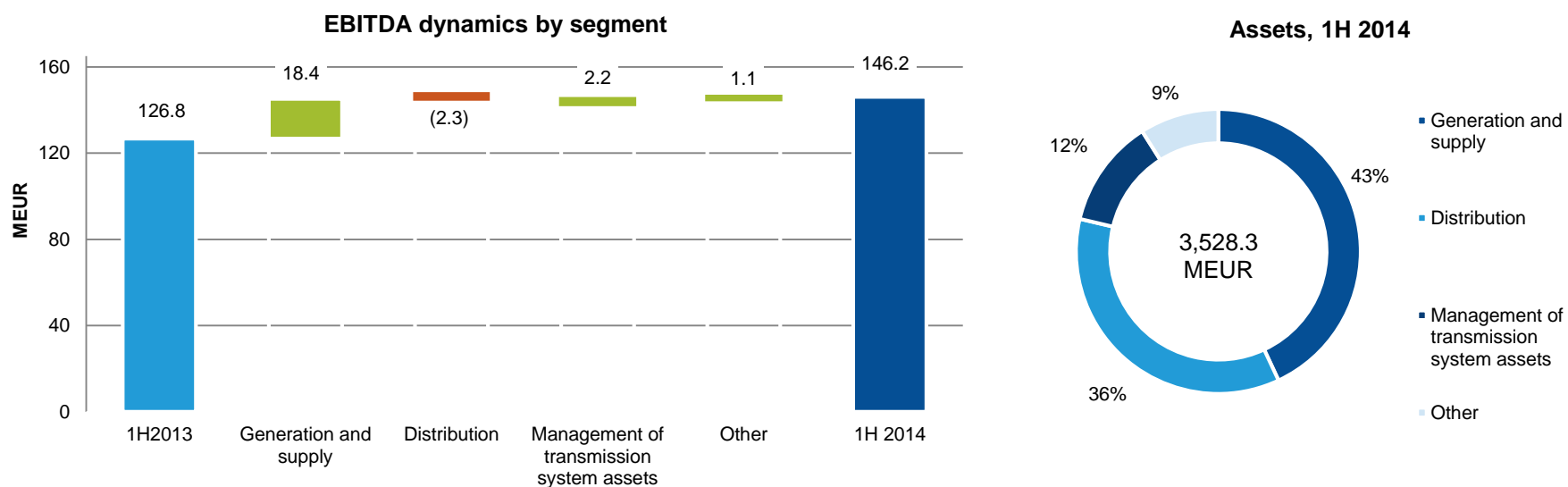
In 1H 2014, Latvenergo Group revenue decreased by 5% to EUR 543.1 million, while EBITDA increased by 15% compared to the respective period last year and reached EUR 146.2 million. In 1H 2014, Latvenergo Group net profit was EUR 42.3 million.

EBITDA of the Group has increased

Results were positively impacted by recognition of balanced mandatory procurement revenues and costs that improved results by EUR 26.3 million compared to 1H 2013.

Financial figures		1H 2014	1H 2013	Δ	Δ, %
Revenue	MEUR	543.1	570.7	(27.7)	(5%)
EBITDA	MEUR	146.2	126.8	19.4	15%
Net profit	MEUR	42.3	28.7	13.7	48%
Assets	MEUR	3,528.3	3,473.7	54.6	2%

While the results were negatively affected by 35% lower electricity output at Daugava HPPs, lost revenues due to electricity supply at the regulated tariff in Latvia and increase of costs (EUR 7.7 million) due to introduction of Subsidised Energy Tax (SET) as of 1 January 2014.





Generation and Supply

Revenue
65%

EBITDA
48%

Assets
43%

Employees
22%

Segment weight in Latvenergo Group

The generation and supply is the largest operating segment of Latvenergo Group both by revenue and by EBITDA. 84% of the segment revenue consists of revenues from electricity and related services, 16% – from thermal energy supply.

Latvenergo Group – the largest electricity supplier in the Baltics

EBITDA of the segment was affected by the same factors that influenced the results of the Group as mentioned above, while decrease in revenues is mainly determined by changes in accounting principles relating to the mandatory procurement as of 1 April 2014 (EUR 41.5 million) as well as by warmer weather conditions and the resultant decrease in thermal energy and electricity consumption.

Supply

Latvenergo Group is the largest electricity supplier in the Baltics. In 1H 2014, we have supplied 4,591 GWh of electricity to retail customer in the Baltics, representing more than one-third of the Baltic market.

More than 1/3 of retail electricity supply in Lithuania and Estonia

Operational figures		1H 2014	1H 2013	Δ	Δ, %
Retail electricity supply	GWh	4,591	4,353	238	5%
Electricity generation	GWh	2,111	2,974	(863)	(29%)
Thermal energy generation	GWh	1,419	1,608	(189)	(12%)

Financial figures		1H 2014	1H 2013	Δ	Δ, %
Revenue	MEUR	376.4	402.8	(26.5)	(7%)
EBITDA	MEUR	70.3	51.9	18.4	35%
Net profit	MEUR	1,518.8	1,476.2	42.6	3%
Assets	MEUR	13.6	28.0	(14.4)	(51%)

Along with the completion of the Riga TEC-2 second power unit reconstruction project in late 2013, investments in generation and supply segment assets have decreased in 1H 2014.

In 1H 2014, as a result of focused electricity trade activities, retail electricity supply in the Baltics has been increased by 5% despite a decline in the Baltic electricity consumption by approximately 4% due to warmer weather conditions.

Most significantly electricity supply increased outside Latvia – in 1H 2014, the electricity supply volume in Lithuania and Estonia has been increased by 51% and comprises more than one-third of retail electricity supply, while the number of customers in neighbouring countries exceeds 32 thousands.

The total electricity supply volume in Lithuania and Estonia reached 1,762 GWh, which is 1,024 GWh higher than the amount provided by competing electricity suppliers in Latvia.

Latvenergo Group electricity supply volume in Latvia was 2,830 GWh, in Lithuania – 1,067 GWh (market share – 23%) and in Estonia – 694 GWh (17%).

81% of the total electricity retail supply were supplied on the open electricity market in the Baltics, while 19% – at the regulated tariff in Latvia.

Generation and Supply

Generation

In 1H 2014, the total amount of electricity generated by the power plants of Latvenergo Group was 2,111 GWh, which is by 29% lower than last year. The decrease of electricity generation was mainly determined by lower water level and the resultant lower electricity output at Daugava HPPs. Compared to 1H 2013, generation at Daugava HPPs decreased by 35% or 740 GWh.

Generation at Riga combined heat and power plants (Riga CHPPs) also decreased by 15% or 128 GWh. Besides, reduction of electricity output at Riga CHPPs was mainly determined by lower thermal energy demand due to warmer weather conditions.

Along with the amendments to legislation, providing that no longer there will be a compensation of variable costs above the market price for electricity generated at cogeneration plants with installed capacity above 4 MW, Latvenergo AS adjusts 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 adverse impact on the financial results of Latvenergo Group.

Electricity generation volume comprises 46% of total retail electricity supply.

In 1H 2014, the total amount of thermal energy generated by Latvenergo Group was 1,419 GWh, which is 12% lower than in the respective period last year. The decrease was determined by a



Operational figures		1H 2014	1H 2013	Δ	Δ, %
Retail electricity supply	GWh	4,591	4,353	238	5%
Electricity generation	GWh	2,111	2,974	(863)	(29%)
<i>Daugava HPPs</i>	GWh	1,370	2,109	(740)	(35%)
<i>Riga CHPPs</i>	GWh	714	842	(128)	(15%)
<i>Liepaja plants and small plants</i>	GWh	27	23	4	16%
Thermal energy generation	GWh	1,419	1,608	(189)	(12%)
<i>Riga CHPPs</i>	GWh	1,270	1,442	(172)	(12%)
<i>Liepaja plants and small plants</i>	GWh	149	166	(16)	(10%)

higher average ambient air temperature: according to the data provided by the Central Statistical Bureau of the Republic of Latvia, during the heating season in 2014 (January – April) it was 2.3 °C (2013: - 1.3 °C).

In order to limit the increase of the mandatory procurement public service obligation fee for electricity consumers in Latvia, a Subsidised Energy Tax (SET) has been 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 1H 2014, Latvenergo AS has paid EUR 7.5 million in SET (Latvenergo Group – EUR 7.7 million).

Reconstruction of Riga TEC-2 was finished in late 2013, thus the installed electrical capacity at Riga CHPPs increased by 199 MW or 26%. Along with increase of installed capacity, Latvenergo AS has received higher capacity payments that have grown by EUR 5.3 million (after SET) or 14% compared to 1H 2013.

In 1H 2014, weight of Latvenergo AS power plants in the eligible costs of mandatory procurement (see Section “Mandatory procurement”), excluding SET costs, was 38% and has remained at the same level as in 2013.

Generation and Supply



Mandatory procurement

As of 1 April 2014, according to Electricity Market Law, the public trader functions are performed by Enerģijas publiskais tirgotājs AS (until 1 April 2014 – by Latvenergo AS). Public trader functions comprise obligation to purchase electricity from generators, who have a granted right to supply the generated electricity for the mandatory procurement under electricity purchase tariffs set by legislation, and to pay guaranteed fee for electrical capacity installed at cogeneration power plants.

As of 1 April 2014, the public trader functions are performed by Enerģijas publiskais tirgotājs AS

Mandatory procurement expenditures² 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 on the basis of the actual costs in the preceding year and approved by the Public Utilities Commission (PUC). Changes enter into force on 1 April of the following year.

In 1H 2014, income from the mandatory procurement public service obligation fee has increased by 17% due to increase of the mandatory procurement public service obligation fee from 17.5 EUR/MWh to 26.9 EUR/MWh as of 1 April 2013. While the mandatory procurement

		1H 2014	1H 2013	Δ	Δ, %
Mandatory procurement public service obligation fee income	MEUR	89.6	76.9	12,8	17%
Uncollected public service obligation fee income recognised in the assets	MEUR	37.8	0.0	37.8	–
Mandatory procurement expenditures ² :	MEUR	(127.5)	(103.2)	(24.3)	24%
<i>Cogeneration after SET</i>	MEUR	(70.3)	(67.0)	(3.3)	5%
<i>Renewable energy resources SET</i>	MEUR	(42.1)	(36.2)	(5.9)	16%
<i>SET</i>	MEUR	(15.2)	0.0	(15.2)	–
Difference	MEUR	0.0	(26.3)	26.3	100%

public service obligation fee has not changed significantly on 1 April 2014 and is 26.8 EUR/MWh.

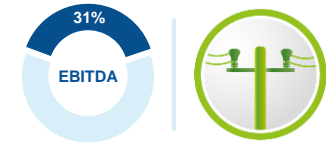
In 1H 2014, the amount of mandatory procurement public service obligation fee income received from customers does not cover the actual supportable electricity procurement expenditures. In accordance with regulations set by the PUC, this income shortfall will be covered by mandatory procurement public service obligation fee income in the following years. In 1H 2014, the recoverable amount comprised EUR 37.8 million and it was included in Latvenergo Group balance sheet under receivables. While, in 1H 2013, uncovered expenditures in the amount of EUR 26.3 million were included in costs.

As of 1 January 2014, a Subsidised Energy Tax (SET) applies to support payments made to electricity generators within the mandatory procurement process. The tax has differentiated

rates for different types of power plants. Along with introduction of SET, in 1H 2014, EUR 15.2 million were withheld from mandatory procurement support payments to generators and transferred into the State Budget. SET transferred to the State Budget will be used as a source of funding for the State Budget programme “Electricity user support” under which a grant of EUR 29.3 million has been approved to limit the increase of the mandatory procurement public service obligation fee.

In 1H 2014, mandatory procurement expenditures increased by EUR 24.3 million compared to the previous year and reached EUR 127.5 million, while mandatory procurement payments to generators, after withholding SET, have increased by EUR 9.2 million. Major part or EUR 5.9 million of expenditure increase comprises payments to generators using renewable energy sources for electricity generation, mostly to biomass and biogas-fired power plants.

² Mandatory procurement expenditures – costs of electricity purchased within the mandatory procurement and guaranteed fee for electrical capacity installed at power plants minus revenues from sale of purchased electricity on the Nord Pool Spot exchange



Distribution

Revenue	25%
EBITDA	31%
Assets	36%
Employees	56%

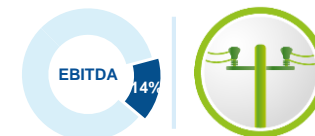
Segment weight in Latvenergo Group

Distribution asset value exceeds 1/3 of the total asset value of the Group

The distribution segment is the second largest segment of Latvenergo Group both by revenue and EBITDA. In 1H 2014, along with a lower distributed electricity volume, revenue of the segment decreased by 2% and was EUR 147.0 million, while EBITDA decreased by 5% compared to the respective period last year and reached EUR 45.8 million.

In 1H 2014, results of the segment were positively impacted by 13 GWh lower distribution losses, as well as by 2% lower electricity purchase price. While the results were negatively affected by 3% decrease in distributed electricity volume due to lower electricity consumption than in the respective period last year. Decrease in electricity consumption in Latvia was determined by higher ambient air temperature and decline in industrial sector electricity consumption in 1H 2014.

Operational figures		1H 2014	1H 2013	Δ	Δ, %
Electricity distributed	GWh	3,217	3,319	(102)	(3%)
Distribution losses	GWh	157	170	(13)	(8%)
Financial figures		1H 2014	1H 2013	Δ	Δ, %
Revenue	MEUR	147.0	149.3	(2.3)	(2%)
EBITDA	MEUR	45.8	48.1	(2.3)	(5%)
Net profit	MEUR	1,257.2	1,236.7	20.4	2%
Assets	MEUR	32.0	32.9	(0.9)	(3%)



Management of transmission system assets

Revenue	5%
EBITDA	14%
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 1H 2014, revenue of the segment increased by 4% reaching EUR 30.3 million, while EBITDA increased by 12% reaching EUR 20.9 million.

The increase in revenue is determined by a gradual inclusion of the value of regulatory asset revaluation reserve into the lease. Likewise, compared to the respective period last year, the asset value has increased by 9% reaching EUR 435.2 million. 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.

Financial figures		1H 2014	1H 2013	Δ	Δ, %
Revenue	MEUR	30.3	29.1	1.2	4%
EBITDA	MEUR	20.9	18.8	2.2	12%
Net profit	MEUR	435.2	398.4	36.8	9%
Assets	MEUR	15.1	24.4	(9.3)	(38%)

In 1H 2014, the return on transmission system assets³ was 4.0%. It is expected that improvement of profitability ratios will continue gradually approaching the industry averages.

³ Return 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 1H 2014, the total amount of investments was EUR 64.7 million, of which EUR 13.6 million were made in generation assets, EUR 32.0 million – in distribution assets, EUR 15.1 million – in transmission system assets. Compared to 1H 2013, a 29% decrease of investments was mainly due to completion of the Riga TEC-2 second power unit reconstruction project in late 2013 and lower investments in the final stage of project *Kurzeme Ring* transmission line connection *Grobiņa-Ventspils* construction.

Construction of transmission line connection *Grobiņa-Ventspils* approaching completion

To improve the quality of network services and technical parameters, we continue to invest in network assets. In 1H 2014, the amount invested in the network assets exceeds 70% of the total investments.

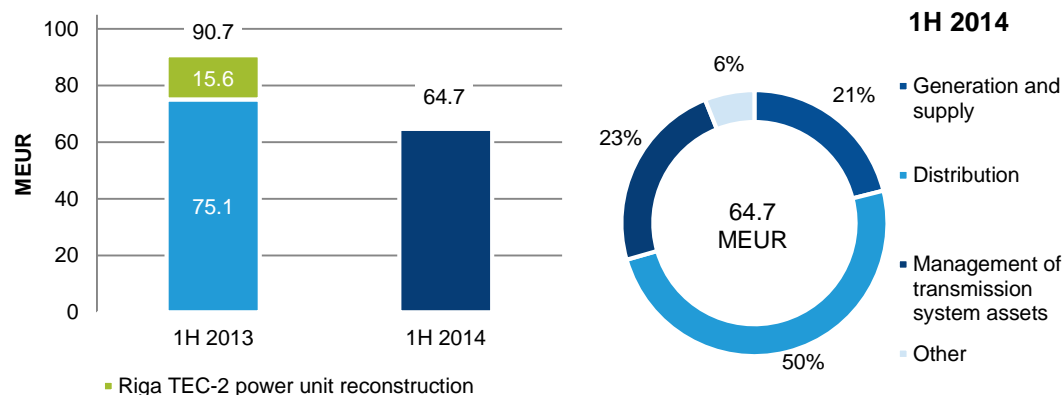
Investment projects:

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 construction costs of the *Kurzeme Ring* project are estimated at EUR 200 million and it is scheduled for completion in 2019. In 1H 2014, EUR 10.9 million were invested in construction of the project, while total investments reached EUR 94.3 million as at 30 June 2014. After the end of the reporting period, construction of 330 kV project *Kurzeme Ring* transmission line connection *Grobiņa-Ventspils* has been completed in August 2014. Environmental impact assessment has been performed for the final stage of the project *Ventspils-Tume-Rīga* and planning preparation works are carried out for further implementation of the project.

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 18.2 million as at 30 June 2014. In late 2013, within the framework of reconstruction, a contract for replacement of Plavinas HPP hydropower units N1 and N3 has been concluded, the total costs of which are estimated up to EUR 28.1 million. In the beginning of 2014, a contract for reconstruction of three hydropower units at Kegums second hydropower plant (Kegums HES-2) has been concluded with total costs estimated at EUR 49.9 million. The reconstruction will provide for further 40-year operation of hydropower units.



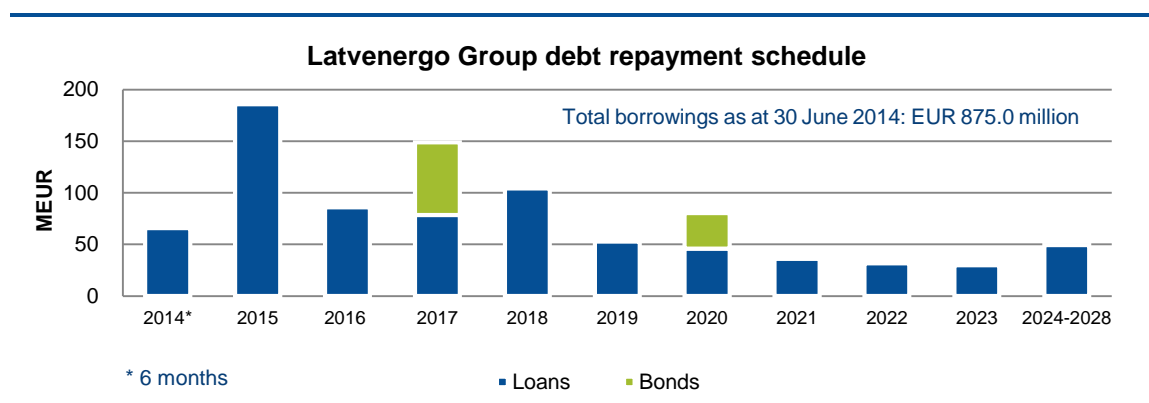
Funding and liquidity

Latvenergo Group regularly sources borrowed capital to ensure the required funding for investment programme of following years in a timely manner. Timely attracted funding is also crucial in order to manage loan refinancing risk management and ensure debt repayments due in 2015.

Currently, a procurement of bank loans is being carried out. Within the framework of the procurement it is planned to attract borrowed funds in the amount of EUR 150 million with maturity of 5 and 7 years. In addition, activities have been initiated to source a new loan of EUR 100 million from the European Investment Bank. Latter mentioned funds are intended for financing capital investments in the electricity distribution network over a 3-year period aimed at reinforcing and modernising an electricity distribution network and foster introduction of smart meter infrastructure.

We plan and source funding in a timely manner

As at 30 June 2014, the Group borrowings were EUR 875.0 million (30 June 2013: EUR 874.1 million). We have diversified the borrowing sources by issuing bonds in 2012 and 2013 – the total amount of bonds issued reaches EUR 105 million.



All borrowings are denominated in the Euro currency. The weighted average repayment period is 4.4 years (4.3 years). Nearly all borrowings from financial institutions have a variable interest rate, comprising 3 to 6 month EURIBOR and margin rate. Taking into account the effect of interest rate swaps, 44% of the borrowings have a fixed interest rate with an average period of 2 years.

In 1H 2014, the effective weighted average interest rate (with interest rate swaps) was 2.5% (2.6%), ensuring sufficient debt service ratios (interest coverage ratio⁴ – 7.1).

The net borrowings of Latvenergo Group have increased due to investments in the reconstruction of network assets and reached EUR 681.2 million (EUR 636.1 million) as at 30 June 2014, while the net debt/EBITDA ratio was 2.5 (3.0).

Latvenergo Group maintains sufficient liquidity reserves and good liquidity ratios in order to implement the investment programme and fulfil its commitments according to the debt repayment schedule. As at 30 June 2014, the liquid assets (cash and short term deposits up to 3 months) of Latvenergo Group reached EUR 193.8 million (EUR 238.0 million), while the current ratio⁵ was 1.4 (1.4).

In 1H 2014, all the binding financial covenants set in Latvenergo Group loan agreements have been met.

In early 2014, the international rating agency Moody's Investors Service has reconfirmed Latvenergo AS credit rating Baa3 with a stable outlook.

⁴ Interest coverage ratio: (net cash flow from operating activities (12-month rolling) – changes in working capital + interest expense (12-month rolling)) / interest expense (12-month rolling)

⁵ Current ratio: current assets / current liabilities

Statement of Management Responsibility

Based on the information available to the Management Board of Latvenergo AS the *Latvenergo Unaudited Condensed Consolidated Financial Statements for the 6 months period ended 30 June 2014*, including the Management Report, have been prepared in accordance with applicable laws and regulations and in all material aspects give a true and fair view of assets, liabilities, financial position and profit and loss of Latvenergo Group.

Latvenergo Unaudited Condensed Consolidated Financial Statements for the 6 months period ended 30 June 2014 are approved by the Management Board of Latvenergo AS on 26 August 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

Consolidated Income Statement for the 6 months period ended 30 June 2014

	Notes	01/01–30/06/2014	01/01–30/06/2013
		EUR'000	EUR'000
Revenue	5	543,082	570,734
Other income		1,842	1,327
Raw materials and consumables used	6	(320,295)	(367,402)
Personnel expenses		(48,814)	(46,778)
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment		(87,917)	(86,699)
Other operating expenses		(29,635)	(31,103)
Operating profit		58,263	40,079
Finance income		1,391	2,513
Finance costs		(10,159)	(8,313)
Share of profit / (loss) of associates		(395)	188
Profit before taxes		49,100	34,467
Income tax	7	(6,751)	(5,784)
Profit for the period		42,349	28,683

Consolidated Statement of Comprehensive Income for the 6 months period ended 30 June 2014

	01/01–30/06/2014	01/01–30/06/2013
	EUR'000	EUR'000
Profit for the period	42,349	28,683
<i>Other comprehensive (loss) / income to be reclassified to profit or loss in subsequent periods:</i>		
(losses) / gains from change in hedge reserve	(4,736)	6,573
(losses) / gains on currency exchange differences	(15)	1
Net other comprehensive (loss) / income to be reclassified to profit or loss in subsequent periods	(4,751)	6,574
TOTAL other comprehensive (loss) / income for the period, net of tax	(4,751)	6,574
TOTAL comprehensive income for the period	37,598	35,257

Consolidated Statement of Financial Position

	Notes	30/06/2014 EUR'000	31/12/2013 EUR'000
ASSETS			
<i>Non-current assets</i>			
Intangible assets and property, plant and equipment	8	3,073,204	3,097,905
Investment property		1,766	1,473
Investments in associates and other financial investments		41	41
Investments in held-to-maturity financial assets		28,558	28,588
Other non-current receivables		30	57
TOTAL non-current assets		3,103,599	3,128,064
<i>Current assets</i>			
Inventories	9	22,132	21,634
Trade receivables and other current receivables	10	203,526	161,560
Current financial investments		5,192	8,060
Derivative financial instruments		21	617
Cash and cash equivalents	11	193,805	255,423
TOTAL current assets		424,676	447,294
TOTAL ASSETS		3,528,275	3,575,358
EQUITY			
Share capital		1,288,011	1,288,011
Reserves		647,668	652,418
Retained earnings		92,715	74,832
Equity attributable to equity holders of the Parent Company		2,028,394	2,015,261
Non-controlling interests		6,115	6,453
TOTAL equity		2,034,509	2,021,714
LIABILITIES			
<i>Non-current liabilities</i>			
Borrowings	12	709,400	805,192
Deferred income tax liabilities		271,268	269,116
Provisions		16,171	15,597
Derivative financial instruments		10,002	6,238
Other liabilities and deferred income		173,312	170,152
TOTAL non-current liabilities		1,180,153	1,266,295
<i>Current liabilities</i>			
Trade and other payables		135,878	130,670
Borrowings	12	165,582	139,483
Derivative financial instruments		12,153	17,196
TOTAL current liabilities		313,613	287,349
TOTAL liabilities		1,493,766	1,553,644
TOTAL EQUITY AND LIABILITIES		3,528,275	3,575,358

Consolidated Statement of Changes in Equity for the 6 months period ended 30 June 2014

	Attributable to equity holders of the Parent Company				Non-controlling interests	TOTAL
	Share capital	Reserves	Retained earnings	Total		
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
As at 31 December 2012	1,287,137	644,113	70,803	2,002,053	4,922	2,006,975
Increase in share capital	874	–	–	874	–	874
Dividends for 2012	–	–	(40,619)	(40,619)	(313)	(40,932)
TOTAL contributions by and distributions to equity holders of the Parent Company, recognised directly in equity	874	–	(40,619)	(39,745)	(313)	(40,058)
Profit for the year	–	–	44,305	44,305	1,844	46,149
Other comprehensive income	–	8,305	343	8,648	–	8,648
TOTAL comprehensive income	–	8,305	44,648	52,953	1,844	54,797
As at 31 December 2013	1,288,011	652,418	74,832	2,015,261	6,453	2,021,714
As at 31 December 2012	1,287,137	644,113	70,803	2,002,053	4,922	2,006,975
Dividends for 2012	–	–	(40,619)	(40,619)	(313)	(40,932)
TOTAL contributions by and distributions to equity holders of the Parent Company, recognised directly in equity	–	–	(40,619)	(40,619)	(313)	(40,932)
Profit for the period	–	–	27,928	27,928	755	28,683
Other comprehensive income / (loss)	–	6,575	(1)	6,574	–	6,574
TOTAL comprehensive income	–	6,575	27,927	34,502	755	35,257
As at 30 June 2013	1,287,137	650,688	58,111	1,995,936	5,364	2,001,300
As at 31 December 2013	1,288,011	652,418	74,832	2,015,261	6,453	2,021,714
Dividends for 2013	–	–	(23,605)	(23,605)	(1,198)	(24,803)
TOTAL contributions by and distributions to equity holders of the Parent Company, recognised directly in equity	–	–	(23,605)	(23,605)	(1,198)	(24,803)
Profit for the period	–	–	41,489	41,489	860	42,349
Other comprehensive loss	–	(4,750)	(1)	(4,751)	–	(4,751)
TOTAL comprehensive (loss) / income	–	(4,750)	41,488	36,738	860	37,598
As at 30 June 2014	1,288,011	647,668	92,715	2,028,394	6,115	2,034,509

Consolidated Statement of Cash Flows for the 6 months period ended 30 June 2014

	Notes	01/01–30/06/2014	01/01–30/06/2013
		EUR'000	EUR'000
Cash flows from operating activities			
Profit before tax		49,100	34,467
Adjustments:			
- Amortisation, depreciation and impairment of non-current assets		88,976	89,173
- Net financial adjustments		4,073	12,557
- Other adjustments		582	370
Operating profit before working capital adjustments		142,731	136,567
(Increase) / decrease in current assets		(55,553)	28,420
Increase / (decrease) in trade and other payables		9,385	(63,284)
Cash generated from operating activities		96,563	101,703
Interest paid		(9,808)	(9,942)
Interest received		1,376	1,554
Income tax paid		(3,427)	(12,734)
Net cash flows from operating activities		84,704	80,581
Cash flows from investing activities			
Purchase of intangible assets and property, plant and equipment		(67,026)	(81,294)
Proceeds on financing from EU funds and other financing		2,074	844
Proceeds from redemption of held-to-maturity assets		30	30
Net cash flows used in investing activities		(64,922)	(80,420)
Cash flows from financing activities			
Proceeds from issued debt securities (bonds)	12	–	70,274
Proceeds from borrowings from financial institutions	12	2,600	7,671
Repayment of borrowings	12	(72,627)	(51,641)
Dividends paid to non-controlling interests		(1,198)	(313)
Dividends paid to equity holders of the Parent Company*		(12,649)	(30,644)
Dividends received from associates	13	2,474	–
Net cash flows used in financing activities		(81,400)	(4,653)
Net decrease in cash and cash equivalents		(61,618)	(4,492)
Cash and cash equivalents at the beginning of the period	11	255,423	242,493
Cash and cash equivalents at the end of the period	11	193,805	238,001

* – dividends for 2013 in the amount of EUR 23,605 thousand are settled by corporate income tax overpayment in the amount of EUR 10,956 thousand (dividends for 2012 – EUR 40,619 thousand are settled by corporate income tax overpayment in the amount of EUR 9,975 thousand).

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 Republic of Latvia and are held by the Ministry of Economics of the Republic of Latvia. The legal address of the Parent Company is 12 Pulkveža Brieža Street, Riga, LV-1230, Latvia. According to the Energy Law of the Republic of Latvia, Latvenergo AS is designated as a national economy object of State importance and, therefore, is not subject to privatisation.

Public limited company Latvenergo is power supply entity engaged in electricity and thermal energy generation, as well as supply of electricity. Latvenergo AS is one of the largest corporate entities in the Baltics.

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

- Sadales tīkls AS (since 18.09.2006);
- Elektrum Eesti OÜ (since 27.06.2007) and its subsidiary Elektrum Latvija SIA (since 18.09.2012);
- Elektrum Lietuva UAB (since 07.01.2008);
- Latvijas elektriskie tīkli AS (since 10.02.2011);
- Liepājas enerģija SIA (since 06.07.2005);
- Enerģijas publiskais tirgotājs AS (since 25.02.2014).

Latvenergo AS is a shareholder in two associated companies:

- Pirmais Slēgtais Pensiju Fonds AS manages a defined-contribution corporate pension plan in Latvia;
- Nordic Energy Link AS (company is under liquidation process since 19 March 2014) carried out the functions of the operator of an interconnection power cable between Estonia and Finland.

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 generator and supplier, is obliged to perform activities so that after 31 December 2013 it would not be owner of the electricity transmission infrastructure. In the Consolidated Statement of Financial Position as at 30 June 2014 and as at 31 December 2013 investment in Nordic Energy Link AS is presented as the current financial investment held for sale. 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” and on 19 March 2014 at the Nordic Energy Link AS Shareholders' meeting was approved decision to liquidate Nordic Energy Link AS.

Latvenergo Consolidated Annual Report 2013 has been approved on 12 May 2014 by the Latvenergo AS Shareholders' meeting (see on Latvenergo AS web page section “Investors” – <http://www.latvenergo.lv/eng/investors/reports/>).

The Unaudited Interim Condensed Consolidated Financial Statements for the 6 months period ending 30 June 2014 include the financial information in respect of the Parent Company and its all subsidiaries for the 6 months period ending 30 June 2014 and comparative information for 6 months period ending 30 June 2013. Comparative information for financial position includes information as at 31 December 2013.

The Unaudited Interim Condensed Consolidated Financial Statements for the 6 month period ending 30 June 2014 were approved by the Latvenergo AS Management Board on 26 August 2014.

2. Summary of most significant accounting policies

These Unaudited Interim Condensed Consolidated Financial Statements had been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted for use in the European Union and in accordance with IAS 34 “Interim Financial Reporting” and accounting policies or principles applied to these financial statements were identical to those used in the Latvenergo Group 2013 Consolidated Financial Statements. These policies have been consistently applied to all reporting periods presented, unless stated differently. Where it is necessary, comparatives are reclassified.

New or revised IFRS adopted and amendments to International Financial Reporting Interpretations Committee interpretations (IFRIC) that became

mandatory for the Group as of 1 January 2014 did not have any impact to the Group’s accounting policies and Consolidated Financial Statements.

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 2013 Consolidated Financial Statements.

Accounting policies are supplemented, and since 1 April 2014 and as at 30 June 2014 mandatory procurement public service obligation revenue and

costs have been recognised as unsettled difference or uncollected revenue on mandatory procurement public service obligation as assets in the Consolidated Statement of Financial position by applying principal-agent accounting principle (see Note 10).

On 1 January 2014, Latvia has joined the Euro zone, converting the Latvian Lats (LVL) into the Euros (EUR) at fixed exchange rate EUR 1 = LVL 0.702804. As of this date, the Group balance account values were converted into the Euro currency and financial reports for 2014 and the following years will be prepared in Euro currency. All amounts shown in these Interim Condensed Consolidated Financial Statements are presented in thousands of EUR.

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 minimize 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 department (the Group Treasury) according to the 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 by approving the Financial Risk Management Policy provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, foreign exchange risk, liquidity risk, and credit risk, use of financial instruments and investment of excess liquidity.

a) Market risk

1) Foreign exchange risk

The adoption of Euro in Latvia on 1 January 2014 prevented the Euro currency risk. As at 30 June 2014, 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 has certain investment in subsidiary, which is exposed to foreign currency risks. Currency exposure arising from the net assets of the Group’s foreign operations in Lithuania is limited as subsidiary has insignificant amount of assets and Lithuania has fixed currency peg to Euro.

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 manage the Group’s foreign currencies exchange risk arising from future transactions and recognised assets

and liabilities, the Group Treasury uses forward contracts. Foreign currencies exchange risk arises when future transactions or recognised assets or liabilities are denominated in a currency that is not the Group's functional currency (Euro).

II) Cash flow and fair value interest rate risk

As the Group has significant floating interest-bearing assets and liabilities exposed to interest rate risk, the Group's financial income and operating cash flows are 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 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. 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.

III) Price risk

Price risk is the risk that the fair value and cash flow 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.

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

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 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 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.

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, and cash and cash equivalents.

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

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 operating segment decision maker.

The Group divides its operations into three main operating segments – generation and supply, distribution system services 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 heat generation operations, which are organised into the legal entities: Latvenergo AS and Liepājas

enerģija SIA; electricity sales operations, including wholesale, which are conducted Pan-Baltic by Latvenergo AS, Elektrum Eesti OÜ and Elektrum Lietuva UAB, as well as management of the mandatory procurement process provided by Enerģijas publiskais tirgotājs AS.

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

The operations of the management of transmission system assets operating segment is managed both by Latvijas elektriskie tīkli AS – the owner of transmission system assets (330 kV and 110 kV transmission lines, substations and distribution

points), which conducts their construction, maintenance and lease to the transmission system operator Augstsprieguma tīkls AS, and Latvenergo AS – the owner of the transmission system real estate assets. 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 following table presents revenue, profit information and segment assets and liabilities of the Group's operating segments. Inter-segment revenue is eliminated on consolidation.

	Generation and supply	Distribution system services	Management of transmission system assets	Corporate functions	TOTAL segments	Adjustments and eliminations	Consolidated
Period 01/01–30/06/2014	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Revenue							
External customers	365,747	145,943	28,887	2,505	543,082	–	543,082
Inter-segment	10,606	1,054	1,428	23,319	36,407	(36,407)	–
TOTAL revenue	376,353	146,997	30,315	25,824	579,489	(36,407)	543,082
Results							
Segment profit	31,699	14,369	9,031	3,164	58,263	(9,163)	49,100
Capital expenditure	13,640	32,037	15,140	3,918	64,735	–	64,735
Period 01/01–30/06/2013							
Revenue							
External customers	391,698	148,344	27,947	2,745	570,734	–	570,734
Inter-segment	11,116	930	1,197	22,313	35,556	(35,556)	–
TOTAL revenue	402,814	149,274	29,144	25,058	606,290	(35,556)	570,734
Results							
Segment profit	21,182	10,705	6,339	1,853	40,079	(5,612)	34,467
Capital expenditure	28,018	32,890	24,435	5,327	90,670	–	90,670

Segment assets

	Generation and supply	Distribution system services	Management of transmission system assets	Corporate functions	TOTAL segments	Adjustments and eliminations	Consolidated
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
As at 30 June 2014	1,518,791	1,257,187	435,181	86,105	3,297,264	231,011	3,528,275
As at 31 December 2013	1,497,066	1,252,016	431,224	86,458	3,266,764	308,594	3,575,358

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 the Group basis.

Taxes and certain financial assets and liabilities are not allocated to those segments as they are also managed on the Group basis.

Capital expenditure consists of additions of property, plant and equipment, intangible assets and investment properties including assets from the acquisition of subsidiaries.

Reconciliation of profit

	01/01–30/06/2014	01/01–30/06/2013
	EUR'000	EUR'000
Segment profit	58,263	40,079
Finance income	1,391	2,513
Finance costs	(10,159)	(8,313)
Share of profit / (loss) of associates	(395)	188
Profit before income tax	49,100	34,467

Reconciliation of assets

	30/06/2014	31/12/2013
	EUR'000	EUR'000
Segment operating assets	3,297,264	3,266,764
Investments in associates and other financial investments	41	41
Investments in held-to-maturity financial assets	28,558	28,588
Current financial assets	21	617
Other assets and assets held for sale	8,586	23,925
Cash and cash equivalents	193,805	255,423
TOTAL assets	3,528,275	3,575,358

5. Revenue

	01/01–30/06/2014	01/01–30/06/2013
	EUR'000	EUR'000
Electricity and electricity services*	441,253	454,598
Heat sales	61,266	74,152
Lease and management of transmission system assets	28,565	27,621
Other revenue	11,998	14,363
TOTAL revenue	543,082	570,734

* – in 2nd Quarter of 2014, revenue from customers' payments for mandatory procurement public service obligation fee is recognised in the Consolidated Statement of Financial Position by applying principal-agent accounting principle

6. Raw materials and consumables used

	01/01–30/06/2014	01/01–30/06/2013
	EUR'000	EUR'000
Electricity:		
Purchased electricity*	185,351	198,169
Fair value (income) / loss on electricity swaps	(5,050)	7,049
Electricity transmission services costs	36,679	37,770
	216,980	242,988
Fuel expense	87,221	111,378
Raw materials, spare parts and maintenance costs	16,094	17,272
Capitalised costs of raw materials and consumables used (fuel)	–	(4,236)
TOTAL raw materials and consumables used	320,295	367,402

* – in 2nd Quarter of 2014, costs of purchased electricity under the mandatory procurement from electricity generators who generate electricity in cogeneration process or using renewable energy sources, as well as guaranteed fees for installed electrical capacity in cogeneration plants (over 4 MW) are recognised in the Consolidated Statement of Financial Position by applying principal-agent accounting principle

7. Income tax

	01/01–30/06/2014	01/01–30/06/2013
	EUR'000	EUR'000
Current tax	4,599	10,830
Deferred tax	2,152	(5,046)
TOTAL income tax	6,751	5,784

8. Intangible assets and property, plant and equipment

	Intangible assets	Land, buildings and facilities	Technology equipment and machinery	Other property, plant and equipment	Assets under construction	TOTAL
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
As at 30 June 2014						
Cost or valuation	37,979	4,357,042	2,056,723	154,945	123,479	6,730,168
Accumulated amortisation, depreciation and impairment	(27,259)	(2,417,637)	(1,088,659)	(116,657)	(6,752)	(3,656,964)
Net book amount	10,720	1,939,405	968,064	38,288	116,727	3,073,204
As at 31 December 2013						
Cost or valuation	33,144	4,331,639	2,046,253	153,752	118,868	6,683,656
Accumulated amortisation, depreciation and impairment	(25,819)	(2,383,239)	(1,057,602)	(112,443)	(6,648)	(3,585,751)
Net book amount	7,325	1,948,400	988,651	41,309	112,220	3,097,905

9. Inventories

	30/06/2014	31/12/2013
	EUR'000	EUR'000
Raw materials and spare parts	21,977	21,160
Other inventories	4,728	4,733
Allowance for raw materials, spare parts, technological fuel	(4,573)	(4,259)
TOTAL inventories	22,132	21,634

10. Trade receivables and other current receivables

Trade receivables, net:

	30/06/2014	31/12/2013
	EUR'000	EUR'000
Receivables:		
– Electricity customers	101,670	91,925
– Heating customers	4,727	17,580
– Other trade receivables	27,698	23,597
	134,095	133,102
Allowances for impairment of receivables:		
– Electricity customers	(41,677)	(40,643)
– Heating customers	(422)	(369)
– Other trade receivables	(2,574)	(2,482)
	(44,673)	(43,494)
Receivables, net:		
– Electricity customers	59,993	51,282
– Heating customers	4,305	17,211
– Other trade receivables	25,124	21,115
	89,422	89,608
Accrued revenue on mandatory procurement public service obligation*	–	44,953
Unsettled revenue on mandatory procurement public service obligation recognised as assets*	82,772	–
Other current receivables and accrued income	31,332	26,999
TOTAL trade receivables and other current receivables	203,526	161,560

* Accrued revenue on mandatory procurement public service obligation is calculated as difference between procurement expenditure above electricity market price and collected payments from electricity end-users for mandatory procurement public service obligation fees for the period from 1 January 2013 to 31 December 2013. According to the conditions included in the article No. 37 of transition terms of the Electricity Market Law of the Republic of Latvia, within 12 months period starting from the overtake of public supplier obligations (1st April 2014), the newly established subsidiary Enerģijas publiskais tirgotājs AS has to compensate the uncollected difference of mandatory procurement for the period from 1st January 2013 until 31st March 2014 in the amount of EUR 64,823 thousand, that is partly covered by a government grant implicit for mandatory procurement public service obligation reduction, stated per Law on the State Budget for 2014. Unsettled revenue on mandatory procurement public service obligation fee of Enerģijas publiskais tirgotājs AS in 2nd Quarter of 2014 comprise EUR 17,949 thousand.

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

	01/01–30/06/2014	01/01–30/06/2013	2013
	EUR'000	EUR'000	EUR'000
At the beginning of the period	43,494	29,036	29,036
Receivables written off during the period as uncollectible	(396)	(215)	(1,409)
Allowance for impaired receivables	1,575	9,361	15,867
At the end of the period	44,673	38,182	43,494

11. Cash and cash equivalents

	30/06/2014	31/12/2013
	EUR'000	EUR'000
Cash at bank	57,979	88,823
Short-term bank deposits	135,826	166,600
TOTAL cash and cash equivalents	193,805	255,423

12. Borrowings

	30/06/2014	31/12/2013
	EUR'000	EUR'000
Non-current borrowings from financial institutions	604,598	700,390
Issued debt securities (bonds)	104,802	104,802
TOTAL non-current borrowings	709,400	805,192
Current portion of non-current borrowings from financial institutions	162,773	137,008
Accrued interest on non-current borrowings	1,630	1,780
Accrued coupon interest on issued debt securities (bonds)	1,179	695
TOTAL current borrowings	165,582	139,483
TOTAL borrowings	874,982	944,675

Movement in borrowings:

	01/01–30/06/2014	01/01–30/06/2013	2013
	EUR'000	EUR'000	EUR'000
At the beginning of the period	944,675	846,961	846,961
Borrowings received	2,600	7,671	117,300
Borrowings repaid	(72,627)	(51,641)	(105,174)
Change in accrued interest on borrowings	334	(245)	753
Issued debt securities (bonds)	–	70,274	84,835
At the end of the period	874,982	873,020	944,675

13. Related party transactions

The Parent Company and, indirectly, the other Group entities are controlled by the Latvian state. Related parties of the Group are associates, Shareholder of the Parent Company who could

control or who has significant influence over the Group's entities in accepting operating business decisions, key management personnel of the Group's entities, including members of Supervisory

body – Audit committee, and close family members of any above-mentioned persons, as well as entities over which those persons have control or significant influence.

The following transactions were carried out with related parties:

	01/01–30/06/2014	01/01–30/06/2013
	EUR'000	EUR'000
a) Sales of goods and services:		
– Sales of goods to associates (electricity)	–	723
– Sales of services to associates	–	–
TOTAL sales	–	723
b) Purchases of goods and services:		
– Purchases of goods from associates (electricity)	–	668
– Purchases of services from associates	–	1,330
TOTAL purchases	–	1,998
c) Finance income:		
– Dividends received from associates	2,474	–
TOTAL finance income	2,474	–

Balances at the end of the period arising from sales / purchases of goods or services:

	30/06/2014	31/12/2013
	EUR'000	EUR'000
a) Trade receivables from related parties:		
– Associates	–	130
TOTAL receivables	–	130
b) Trade payables to related parties:		
– Associates	358	161
TOTAL payables	358	161

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 the 6 month period ending 30 June 2014 remuneration to the management includes remuneration to the members of the Management Boards and Supervisory body of the Group entities,

including salary, social insurance payments and payments to pension plan and is amounted to EUR 880.0 thousand (01/01 – 30/06/2013: EUR 830.6 thousand) and are included in the Consolidated Income Statement position 'Personnel expenses'.

14. Events after the reporting period

There have been no significant events subsequent to the end of the reporting period that might have a material effect on the Unaudited Interim

Condensed Consolidated Financial Statements for the 6 months period ending 30 June 2014.
