

Unaudited Interim Condensed Consolidated Financial Statements

for the 3 months period ended
31 March 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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*Prepared in accordance with the International Financial Reporting
Standards as adopted by the European Union*

FINANCIAL CALENDAR

29. 08. 2014

Unaudited Interim Condensed Consolidated
Financial Statements for the 6 months period
ending 30 June 2014 (unaudited)

28. 11. 2014

Unaudited Interim Condensed Consolidated
Financial Statements for the 9 months period
ending 30 September 2014 (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 Q1 2014, decrease of electricity spot prices in the Nordic countries and in the Baltics was mainly determined by lower electricity consumption both in the Nordic countries and in the Baltics due to warmer weather conditions and by higher water level in Nordic hydropower plant reservoirs.
- 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 Latvia and Lithuania bidding areas compared to the Nordic countries.
- In early 2014, power transmission interconnection *EstLink-2* was launched thus decreasing price differences between the Nord Pool Spot Finland and Estonia bidding areas.
- Energijas 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 1 April 2014.
- In Q1 2014, Latvenergo Group revenue increased by 4% reaching EUR 324.5 million, while EBITDA increased by EUR 22.0 million reaching EUR 82.5 million.
- Results were positively impacted by increase of 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. While the results were negatively affected by lost revenues due to electricity supply at the regulated tariff in Latvia.
- Despite a decline in electricity consumption in the Baltics, overall Latvenergo Group retail electricity supply has been increased by 4% and represents approximately one-third of the Baltic market. 82% of the total electricity retail supply were supplied on the open electricity market in the Baltics.
- In Q1 2014, as a result of focused electricity trade activities, retail electricity supply outside Latvia has been increased by 55% and comprises more than one-third of retail electricity supply. The number of customers in neighbouring countries exceeds 30 thousands.
- The total amount of investments was EUR 27.5 million in Q1 2014. The amount invested in the networks represented more than 70% of the total investments. Construction of *Kurzeme Ring* project 330 kV transmission line connection *Grobiņa-Ventspils* is approaching completion.
- After the end of the reporting period, a decision to issue bonds within a new bond emission programme (up to EUR 100 million) has been taken.

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 – 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)

	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%

operations 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

		Q1 2014	Q1 2013
Retail electricity supply	GWh	2,488	2,402
Electricity generation	GWh	1,192	1,385
Thermal energy supply	GWh	1,077	1,225
Number of employees		4,567	4,466
Moody's credit rating		Baa3 (stable)	Baa3 (stable)

Financial Figures

		Q1 2014	Q1 2013
Revenue	MEUR	324.5	312.7
EBITDA ¹⁾	MEUR	82.5	60.5
Net profit	MEUR	30.8	7.1
Assets	MEUR	3,598.0	3,511.3
Equity	MEUR	2,050.1	2,016.7
Net debt ²⁾	MEUR	679.7	641.3
Investments	MEUR	27.5	36.1

Financial Ratios

	Q1 2014	Q1 2013
Net debt / EBITDA ³⁾	2.5	2.8
EBITDA margin ⁴⁾	24%	21%
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 (12-month rolling)

4) EBITDA margin: EBITDA / revenue (12-month rolling)

5) Capital ratio: total equity / total assets

Operating Environment

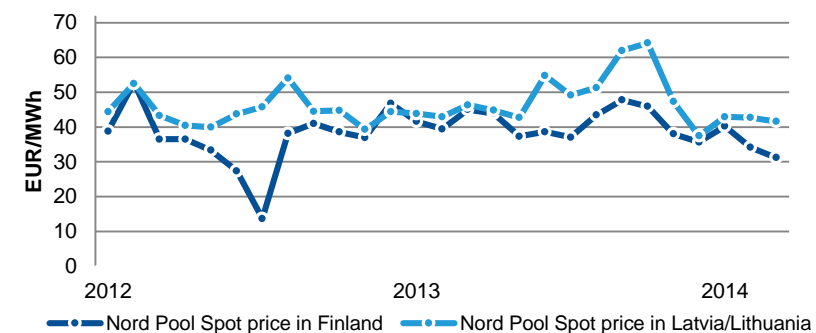
Lower Nord Pool Spot prices in the Nordic countries and in the Baltics due to a warmer weather conditions

In Q1 2014, Nord Pool Spot electricity prices in the Nordic countries and in the Baltics have been lower than a year before. Nord Pool Spot electricity price in the Finland bidding area decreased by 16% to 35.2 EUR/MWh. While in the Latvia/Lithuania bidding areas¹ it decreased by 4% to 42.4 EUR/MWh.

Compared to the respective period last year, in Q1 2014, a decline in electricity price was mainly determined by a 5% lower electricity consumption both in the Nordic countries and in the Baltics due to warmer weather conditions. Similarly, it was impacted by higher water level in Nordic hydropower plant reservoirs, which has increased by 3pp compared to Q1 2013 and reached the long-term average (51%) in Q1 2014. In addition, the decrease of electricity price was fostered by lower export of electricity generated at Nordic power plants to Continental Europe. This was determined by 21% decrease of electricity spot price in Germany and by 15% decline in coal price in the Global market, declining to 75.5 USD/t (Q1 2013: 88.4 USD/t) on average. Greenhouse gas emission allowance EUA price in Q1 2014 was on average by 24% higher than in Q1 2013. Nevertheless, the average EUA price level was approximately 6 EUR/t, which is still almost 5-times lower than it was five years before. Relatively low EUA and coal prices have reduced the generation costs at coal-fired power plants thus impacting the electricity market price level in the Nordic countries.

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, the price differences between Finland and Estonia bidding areas were decreased: in Q1 2014, electricity prices in the Finland and the Estonia bidding areas were equal 89% hours (Q1 2013: 72%) and electricity price in Estonia decreased to 35.8 EUR/MWh, which is 15% lower than in Q1 2013

Taking into account the fact, that, from the energy balance position, Latvia and Lithuania are deficit region countries and that there is interconnection capacity



shortage between power systems in Latvia and Estonia, in Q1 2014 price difference between the Estonia and the Latvia/Lithuania bidding areas reached 6.6 EUR/MWh, which is approximately three-times higher than in Q1 2013. It is expected that the price differences will be reduced along with the launch of Sweden-Lithuania interconnection in 2016 and the construction of *Estonia-Latvia third interconnection*, which is scheduled for completion in late 2020.

In Q1 2014, the total amount of electricity generated in the Baltics reached 4,966 GWh, which is 17% lower than in the respective period last year (Q1 2013: 6,012 GWh), and represents 75% of the Baltic electricity consumption (Q1 2013: 85%). Decrease of electricity generation was mainly due to warmer weather conditions, which caused a decrease in thermal energy demand thus the electricity generation in cogeneration mode was reduced. Decrease of electricity generation in the Baltics was also fostered by commissioning of *EstLink-2*, which provided an opportunity to import higher volume of cheap electricity from the Nordic countries.

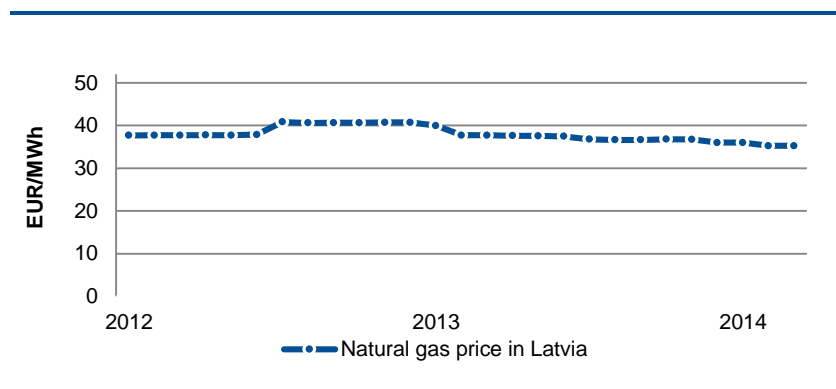
¹ Nord Pool Spot Latvia bidding area was opened on 3 June 2013. In Q1 2014, electricity prices in the Latvia and Lithuania bidding areas were equal 99.9% hours

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 Q1 2014, the natural gas price in Latvia has decreased compared to the respective period last year. In Q1 2014, the average natural gas price (incl. the excise tax) in Latvia for the user group with consumption above 100,000 thousand nm³ was 35.5 EUR/MWh, which is 8% lower than in the respective period last year (38.5 EUR/MWh).

In Q1 2014, the average price of *Brent* crude oil was 108 \$/bbl, which is by 4% lower than 112 \$/bbl in Q1 2013. Considering the decline in crude oil prices observed in the beginning of 2014, in the following months it could foster a moderate decline in natural gas price.



Economic growth in the Baltics continues

In Q1 2014, the economic growth in the Baltics continues and it is mainly enhanced by the increase of household consumption expenditure. According to the data provided by the Statistical Office of the European Union (*Eurostat*), compared to the respective period last year, in Q1 2014, the GDP growth rate in Latvia and Lithuania has slowed down and was 2.4% and 2.9% respectively. While GDP growth rate in Estonia was negative (-1.5%). Slower GDP growth rate in the Baltics was mainly determined by decrease in the export volume. According to the forecast of the Bank of Latvia, in Latvia a moderate growth is also expected in 2014, but it might be affected by further weakening of economic activity in Russia as well by uncertainty about the further development of situation in Russia and Ukraine.

According to the *Eurostat*, in March the average consumer price level in Latvia remained unchanged, the annual average inflation rate in Lithuania was 0.7%, in Estonia – 2.6%, while it was 1.1% in the Euro area and 1.2% 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.

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

- Amendments to the Electricity Market Law of 6 November 2013 passed by Saeima (the Parliament of Latvia) provide that Energijas publiskais tirgotājs AS, a subsidiary of Latvenergo AS, which according to the requirements of the law was established on 25 February 2014, takes over the public trader functions from Latvenergo AS.
- The above-mentioned amendments to Electricity Market Law provide that Energijas publiskais tirgotājs AS shall compensate the difference between the received mandatory procurement public service obligation fee 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, accrued mandatory procurement public service obligation fee revenues have been recognized since 1 January 2013, thus balancing revenues and costs of mandatory procurement.
- Amendments to Electricity Market Law of 20 March 2014 provide that the electricity market opening for household in Latvia, which initially was planned to take place on 1 April 2014, shall be postponed, and obliges Latvenergo AS to ensure electricity supply for captive users at current tariffs until 1 January 2015.
- In order to limit the increase of the mandatory procurement public service obligation fee for electricity consumers in Latvia, a subsidised energy tax has been 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 thus reducing the profit of Latvenergo Group.
- 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 Q1 2014, Latvenergo Group revenue increased by 4% reaching EUR 324.5 million. Compared to the respective period last year, EBITDA increased by EUR 22.0 million reaching EUR 82.5 million.

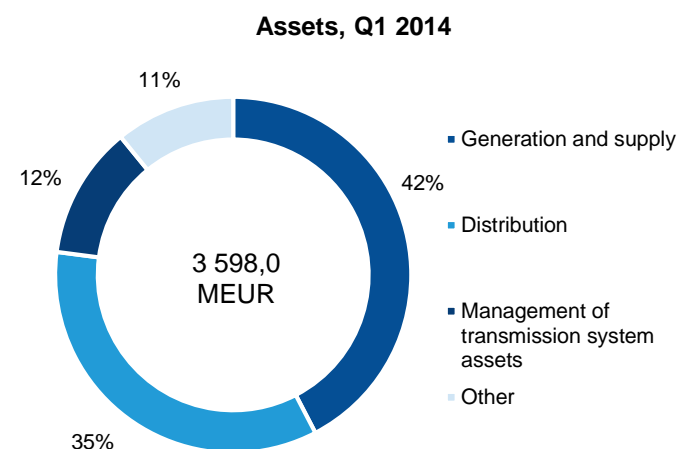
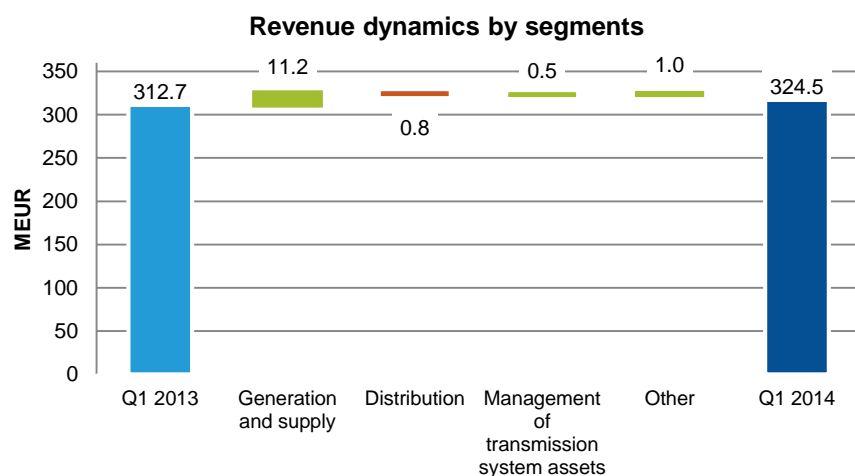
Revenue and EBITDA of the Group has increased

Results were positively impacted by increase of 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 in Q1 2014.

Financial figures		Q1 2014	Q1 2013	Δ	Δ, %
Revenue	MEUR	324.5	312.7	11.8	4%
EBITDA	MEUR	82.5	60.5	22.0	36%
Net profit	MEUR	30.8	7.1	23.7	333%
Assets	MEUR	3,598.0	3,511.3	86.7	2%

While the results were negatively affected by lost revenues due to electricity supply at the regulated tariff in Latvia.

As a result of recognition of balanced mandatory procurement revenues and costs, in Q1 2014, the net profit of the Group has increased to EUR 30.8 million.





Generation and Supply

Revenue
69%

EBITDA
51%

Assets
42%

Employees
22%

Segment weight in Latvenergo Group

Latvenergo Group – the largest electricity supplier in the Baltics

The generation and supply is the largest operating segment of Latvenergo Group both by revenue and by EBITDA. 80% of the segment revenue consists of revenues from electricity and related services, 20% – from thermal energy supply.

The results of the segment were affected by the same factors, which impact the results of the Group as mentioned above, and by 10% higher generation at Daugava HPPs. Revenues of the segment were negatively impacted by lower thermal energy and electricity consumption due to warmer weather conditions.

Supply

Latvenergo Group is the largest electricity supplier in the Baltics. In Q1 2014, we have supplied 2,488 GWh of electricity to retail customer in the Baltics, representing approximately one-third of the Baltic market.

Due to notably warmer weather conditions, compared to the respective period last year, in Q1 2014, the electricity consumption in the Baltics decreased by 6% and was estimated at 6,7 TWh. Despite the decrease of electricity consumption, Latvenergo Group electricity supply volume has been increased by 4% compared to Q1 2013.

Operational figures		Q1 2014	Q1 2013	Δ	Δ, %
Retail electricity supply	GWh	2,488	2,402	86	4%
Electricity generation	GWh	1,192	1,385	(193)	(14%)
Thermal energy generation	GWh	1,094	1,242	(149)	(12%)

Financial figures		Q1 2014	Q1 2013	Δ	Δ, %
Revenue	MEUR	238.8	227.6	11.2	5%
EBITDA	MEUR	42.2	20.5	21.7	106%
Assets	MEUR	1,527.7	1,507.9	19.8	1%
Investments	MEUR	5.2	14.9	(9.7)	(65%)

A decrease of investments compared to Q1 2013 was due to completion of the Riga 2nd combined heat and power plant (Riga TEC-2) second power unit reconstruction project in late 2013.

In Q1 2014, as a result of focused electricity trade activities, retail electricity supply outside Latvia has been increased by 55% and comprises more than one-third of retail electricity supply. The number of customers in neighbouring countries exceeds 30 thousands.

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

The total electricity supply volume in Lithuania and Estonia reached 931 GWh, which is 556 GWh higher than the amount provided by competing electricity suppliers in Latvia.

Latvenergo Group electricity supply volume in Latvia was 1 558 GWh; in Lithuania – 559 GWh (market share – 22%) and in Estonia – 372 GWh (17%).

82% of the total electricity retail supply were supplied on the open electricity market in the Baltics, while 18% – at the regulated tariff in Latvia.

Generation and Supply

Generation

In Q1 2014, the total amount of electricity generated by the power plants of Latvenergo Group was 1,192 GWh. Compared to Q1 2013, generation at Daugava HPPs increased by 10% or 63 GWh, while generation at Riga combined heat and power plants (Riga CHPPs) decreased by 35% or 258 GWh. The decrease was due to both unfavourable market conditions (relatively low electricity price on the exchange and relatively high natural gas price) and warmer weather conditions that imply lower thermal energy demand. Overall, the generated electricity volume at Latvenergo Group power plants decreased by 14% compared to the respective period last year.

The total electricity generation volume represents 48% of retail electricity supply.

In Q1 2014, the total amount of thermal energy generated by Latvenergo Group was 1,094 GWh, which is 12% lower than in the respective period last year. The decrease was determined by a higher average ambient air temperature: according to the data provided by the Central Statistical Bureau of the Republic of Latvia, during the period from January to March 2014, the average temperature in Riga was 0.2 °C (2013: -3.3 °C).

Operational figures		Q1 2014	Q1 2013	Δ	Δ, %
Retail electricity supply	GWh	2,488	2,402	86	4%
Electricity generation	GWh	1,192	1,385	(193)	(14%)
<i>Daugava HPPs</i>	GWh	704	641	63	10%
<i>Riga CHPPs</i>	GWh	473	731	(258)	(35%)
<i>Small plants</i>	GWh	14	13	1	6%
Thermal energy generation	GWh	1,094	1,242	(149)	(12%)
<i>Riga CHPPs</i>	GWh	978	1,114	(135)	(12%)
<i>Liepaja plants and small plants</i>	GWh	115	129	(13)	(10%)

Riga CHPPs electrical and thermal energy capacity structure allows flexibility in choice of generation mode, ensuring both the thermal energy necessary for heat supply in Riga and the opportunity to generate electricity under economically justified conditions. 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 a significant adverse impact on the financial results of Latvenergo Group.



In order to limit the increase of the mandatory procurement public service obligation fee for electricity consumers in Latvia, a subsidised energy tax 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 thus reducing the profit of the generation and supply segment.

Generation and Supply

Mandatory procurement

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

According to the conditions of the public trader licence, the public trader functions comprising obligation to purchase electricity from generators (incl. from 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, and to pay guaranteed fee for electrical capacity installed in cogeneration power plants, had been executed by Latvenergo AS until 31 March 2014. As of 1 April 2014, according to the amendments to Electricity Market Law, the public trader functions are performed by Enerģijas publiskais tirgotājs AS.

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 on the basis of the actual costs in the

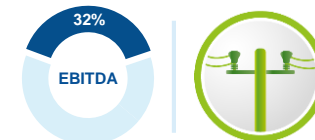
		Q1 2014	Q1 2013	Δ	Δ, %
Mandatory procurement public service obligation fee revenues	MEUR	48.1	33.4	14.7	44%
Accrued public service obligation fee revenues	MEUR	19.9	0.0	19.9	-
Mandatory procurement costs above the market price	MEUR	(68.0)	(54.4)	(13.6)	25%
<i>Latvenergo AS</i>	MEUR	(25.1)	(20.3)	(4.8)	24%
<i>other generators</i>	MEUR	(42.9)	(34.1)	(8.7)	26%
Difference	MEUR	0.0	(21.0)	21.0	(100%)

preceding year and approved by the Public Utilities Commission (PUC). Changes enter into force on 1 April of the following year.

In Q1 2014, mandatory procurement costs above the market price were EUR 68.0 million, which is 25% higher than in the respective period last year. The increase of costs was mainly due to 36% increase in electricity volume procured from biogas and biomass-fired power plants, reaching 129.3 GWh in Q1 2014 (Q1 2013: 95.0 GWh).



In Q1 2014, for Latvenergo AS as a public trader, revenues from the mandatory procurement public service obligation fee have increased 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. In addition, taking into account the amendments to Electricity Market Law, EUR 19.9 million accrued public service obligation fee revenues were recognised in the results of Q1 2014, thus balancing revenues and costs of mandatory procurement.



Distribution

Revenue	23%
EBITDA	32%
Assets	35%
Employees	55%

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. Compared to the respective period last year, in Q1 2014, the revenue and EBITDA of the segment have not changed significantly and were EUR 78.1 million and EUR 26.1 million respectively.

In Q1 2014, results of the segment were positively impacted by 16% decrease of distribution losses, that continue decreasing due to focused management activities, as well as by 3% lower distribution loss costs due to decrease in electricity purchase price. While the results were negatively impacted by 3% decrease in distributed electricity volume, which, compared to the respective period last year, was determined by lower electricity consumption due to higher ambient air temperature and decline in industrial sector electricity consumption in Latvia.

Operational figures		Q1 2014	Q1 2013	Δ	Δ, %
Electricity distributed	GWh	1,724	1,782	(58)	(3%)
Distribution losses	GWh	127	152	(24)	(16%)
Financial figures		Q1 2014	Q1 2013	Δ	Δ, %
Revenue	MEUR	78.1	78.9	(0.8)	(1%)
EBITDA	MEUR	26.1	26.5	(0.4)	(1%)
Assets	MEUR	1,251.5	1,229.5	22.0	2%
Investments	MEUR	12.0	13.0	(1.0)	(7%)

Management of transmission system assets

Revenue	4%
EBITDA	12%
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 4% of Latvenergo Group revenue. In Q1 2014, the revenue of the segment increased by 3% reaching EUR 15.0 million, while EBITDA increased by 5% reaching EUR 10.3 million. The growth of 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 434.5 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		Q1 2014	Q1 2013	Δ	Δ, %
Revenue	MEUR	15.0	14.5	0.5	3%
EBITDA	MEUR	10.3	9.8	0.5	5%
Assets	MEUR	434.5	397.5	37.1	9%
Investments	MEUR	8.0	6.2	1.9	31%

In Q1 2014, the return on transmission system assets² was 3.6%. It is expected that improvement of profitability ratios will continue gradually approaching the industry averages.

The decision on Certification of the Transmission System Operator, passed by the Council of the PUC in 2013, 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.

²Return 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 Q1, the total amount of investments was EUR 27.5 million, of which EUR 5.2 million were made in generation assets, EUR 12.0 million – in distribution assets EUR 8.0 million – in transmission system assets. Compared to Q1 2013, a 24% decrease of investments was mainly due to completion of the Riga TEC-2 second power unit reconstruction project in late 2013.

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

To improve the quality of network services and technical parameters, we continue to increase investments in network assets. In Q1 2014, the amount invested in the networks represented more than 70% of the total investments.

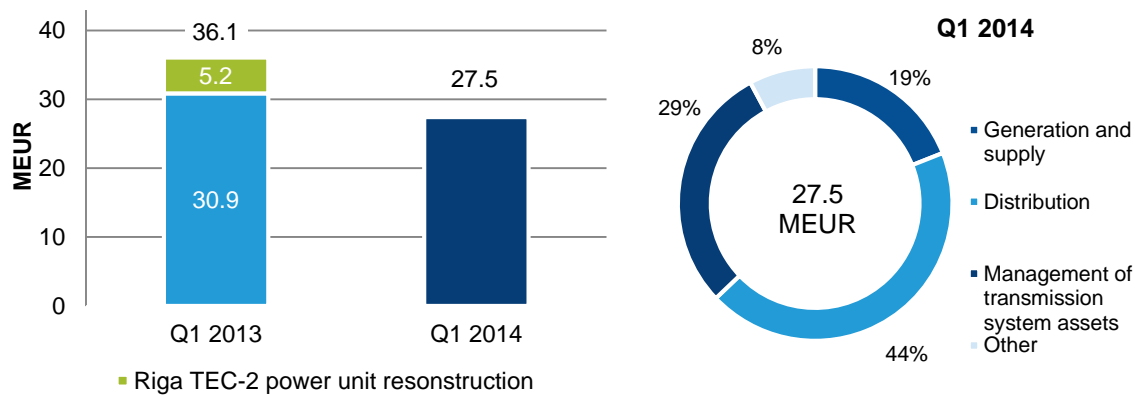
Investment projects:

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 planned to complete the project in 2019. The construction of 330kV *Kurzeme Ring* connection line *Grobiņa-Ventspils* is scheduled for completion in mid-2014. The costs until mid-2014 are estimated at EUR 94.4 million. EUR 7.3 million were invested in Q1 2014, while the total investments in the project reached EUR 90.7 million as of 31 March 2014. Environmental impact assessment has been performed for the final stage of the project *Ventpils-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 13.1 million as of 31 March 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 Kegums HES-2 hydropower units with total costs estimated at EUR 49.9 million. The reconstruction will provide for further 40-year operation of hydropower units.



Funding and liquidity

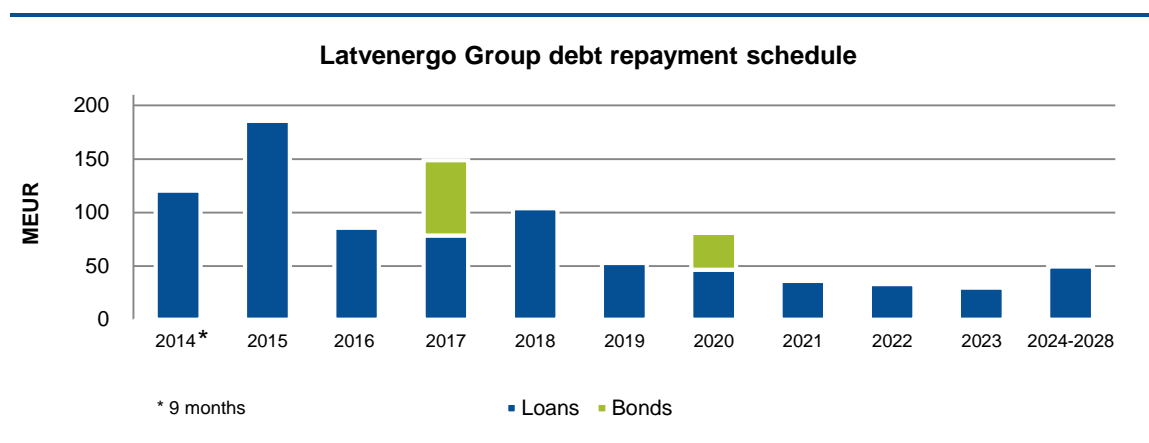
Taking into account the successful bond emission in 2012 and in 2013, as well as following the initiated diversification of the borrowing sources, after the end of the reporting period, a decision to issue bonds within a new bond emission programme (up to EUR 100 million) has been taken.

We are planning to continue bond emission in the Baltics

In order to implement the investment programme and fulfil its commitments, Latvenergo Group maintains sufficient liquidity reserves and good liquidity ratios. As at 31 March 2014, the liquid assets (cash and short term deposits up to 3 months) of Latvenergo Group reached EUR 247.0 million (31 March 2013: EUR 255.4 million), while the current ratio³ was 1.6 (1.5).

As at 31 March 2014, the Group borrowings were EUR 926.7 million (EUR 882.1 million). All borrowings are denominated in the Euro currency. The weighted average repayment period remains at the level of 31 March 2013 – 4.4 years.

³ 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, 42% of the borrowings have a fixed interest rate with an average period of 2 years as at 31 March 2014.

In Q1 2014, the effective weighted average interest rate (with interest rate swaps) was 2.4% (2.6%), ensuring sufficient debt service ratios (interest coverage ratio⁴ – 3.0).

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

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 679.7 million (EUR 641.3 million) as at 31 March 2014, while the net debt/EBITDA ratio was 2.5 (2.8). In Q1 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.

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 3 months period ended 31 March 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 3 months period ended 31 March 2014 are approved by the Management Board of Latvenergo AS on 27 May 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 3 months period ended 31 March 2014

	Notes	01/01-31/03/2014	01/01-31/03/2013
		EUR'000	EUR'000
Revenue	5	324,495	312,654
Other income		1,128	346
Raw materials and consumables used	6	(204,164)	(214,684)
Personnel expenses		(23,528)	(22,732)
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment		(43,798)	(46,316)
Other operating expenses		(15,398)	(15,061)
Operating profit		38,735	14,207
Finance income		751	1,095
Finance costs		(5,132)	(4,197)
Share of profit / (loss) of associates		(329)	141
Profit before taxes		34,025	11,246
Income tax	7	(3,251)	(4,132)
Profit for the period		30,774	7,114

Consolidated Statement of Comprehensive Income

for the 3 months period ended 31 March 2014

	01/01-31/03/2014	01/01-31/03/2013
	EUR'000	EUR'000
Profit for the period	30,774	7,114
<i>Other comprehensive (loss) / income to be reclassified to profit or loss in subsequent periods:</i>		
(Losses) / gains from change in hedge reserve	(2,387)	2,577
Losses on currency translation differences	(16)	(1)
Net other comprehensive (loss) / income to be reclassified to profit or loss in subsequent periods	(2,403)	2,576
TOTAL other comprehensive (loss) / income for the period, net of tax	(2,403)	2,576
TOTAL comprehensive income for the period	28,371	9,690

Consolidated Statement of Financial Position

	Notes	31/03/2014	31/12/2013
		EUR'000	EUR'000
ASSETS			
Non-current assets			
Intangible assets and property, plant and equipment	8	3,081,234	3,097,905
Investment property		1,368	1,473
Investments in associates and other financial investments		41	41
Investments in held-to-maturity financial assets		28,574	28,588
Other non-current receivables		39	57
TOTAL non-current assets		3,111,256	3,128,064
Current assets			
Inventories	9	22,174	21,634
Trade receivables and other current receivables	10	211,732	161,560
Current financial investments		5,807	8,060
Derivative financial instruments		-	617
Cash and cash equivalents	11	246,995	255,423
TOTAL current assets		486,708	447,294
TOTAL ASSETS		3,597,964	3,575,358
EQUITY			
Share capital		1,288,011	1,288,011
Reserves		650,016	652,418
Retained earnings		104,654	74,832
Equity attributable to equity holders of the Parent Company		2,042,681	2,015,261
Non-controlling interests		7,404	6,453
TOTAL equity		2,050,085	2,021,714
LIABILITIES			
Non-current liabilities			
Borrowings	12	783,985	805,192
Deferred income tax liabilities		268,349	269,116
Provisions		15,792	15,597
Derivative financial instruments		7,684	6,238
Other liabilities and deferred income		173,788	170,152
TOTAL non-current liabilities		1,249,598	1,266,295
Current liabilities			
Trade and other payables		138,731	130,667
Borrowings	12	142,753	139,483
Derivative financial instruments		16,797	17,196
TOTAL current liabilities		298,281	287,349
TOTAL liabilities		1,547,879	1,553,644
TOTAL EQUITY AND LIABILITIES		3,597,964	3,575,358

Consolidated Statement of Changes in Equity

for the 3 months period ended 31 March 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		
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
Profit for the period	-	-	6,367	6,367	747	7,114
Other comprehensive income / (loss)	-	2,577	(1)	2,576	-	2,576
TOTAL comprehensive income	-	2,577	6,366	8,943	747	9,690
As at 31 March 2013	1,287,137	646,690	77,169	2,010,996	5,669	2,016,665
As at 31 December 2013	1,288,011	652,418	74,832	2,015,261	6,453	2,021,714
Profit for the period	-	-	29,823	29,823	951	30,774
Other comprehensive loss	-	(2,402)	(1)	(2,403)	-	(2,403)
TOTAL comprehensive (loss) / income	-	(2,402)	29,822	27,420	951	28,371
As at 31 March 2014	1,288,011	650,016	104,654	2,042,681	7,404	2,050,085

Consolidated Statement of Cash Flows

for the 3 months period ended 31 March 2014

	Notes	01/01-31/03/2014	01/01-31/03/2013
		EUR'000	EUR'000
Cash flows from operating activities			
Profit before tax		34,025	11,246
Adjustments:			
- Amortisation, depreciation and impairment of non-current assets		43,798	46,316
- Net financial adjustments		4,548	(2,472)
- Other adjustments		189	308
Operating profit before working capital adjustments		82,561	55,398
Increase in current assets		(52,771)	(4,901)
Increase / (decrease) in trade and other payables		10,426	(29,837)
Cash generated from operating activities		40,215	20,660
Interest paid		(2,934)	(952)
Interest received		1,230	494
Income tax paid		(3,591)	(5,450)
Net cash flows from operating activities		34,920	14,752
Cash flows from investing activities			
Purchase of intangible assets and property, plant and equipment		(26,152)	(48,926)
Proceeds on financing from European Union funds and other financing		2,073	-
Proceeds from redemption of held-to-maturity assets		15	14
Net cash flows used in investing activities		(24,064)	(48,912)
Cash flows from financing activities			
Proceeds from issued debt securities (bonds)	12	-	50,404
Repayment of borrowings	12	(21,208)	(17,959)
Dividends received from associates	13	1,924	-
Net cash flows (used in) / generated from financing activities		(19,284)	32,445
Net decrease in cash and cash equivalents		(8,428)	(1,715)
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	246,995	240,778

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 registered 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 utility 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:

- 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 generator and supplier, needs 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 31 March 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”.

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 3 months period ended 31 March 2014 include the financial information in respect of the Parent Company and its all subsidiaries for the 3 months period ended 31 March 2014 and comparative information for 3 months period ended 31 March 2013. Comparative information for financial position includes information as at 31 December 2013.

The Unaudited Interim Condensed Consolidated Financial Statements for the 3 months period ended 31 March 2014 were authorised by the Latvenergo AS Management Board on 27 May 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 Consolidated Financial Statements for the 2013 financial year. 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 from 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 Consolidated Financial Statements of 2013.

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 Group is exposed to currency risk primarily arising from settlements in foreign currencies for recognised assets and liabilities, capital expenditures and imported electricity.

As at 31 March 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’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 flows of financial instruments will fluctuate in the future due to reasons other than changes in the market prices resulting from interest rate risk or foreign exchange risk. The purchase and sale of goods produced and the services provided by the Group under the free market conditions, as well as

the purchases of resources used in production is impacted by the price risk.

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 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 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 chief operating 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 provides construction and maintenance as well as the lease of assets 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 01/01-31/03/2014	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Revenue							
External customers	231,381	77,531	14,314	1,269	324,495	-	324,495
Inter-segment	7,377	582	697	11,422	20,078	(20,078)	-
TOTAL revenue	238,758	78,113	15,011	12,691	344,573	(20,078)	324,495
Results							
Segment profit	23,127	10,152	4,478	978	38,735	(4,710)	34,025
Capital expenditure	5,215	12,044	8,043	2,148	27,450	-	27,450
Period 01/01-31/03/2013							
Revenue							
External customers	218,885	78,389	13,974	1,406	312,654	-	312,654
Inter-segment	8,697	514	575	11,066	20,852	(20,852)	-
TOTAL revenue	227,582	78,903	14,549	12,472	333,506	(20,852)	312,654
Results							
Segment profit	2,447	7,618	3,527	615	14,207	(2,961)	11,246
Capital expenditure	14,929	13,002	6,158	2,011	36,100	-	36,100

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 31 March 2014	1,527,742	1,251,503	434,544	87,329	3,301,118	296,846	3,597,964
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 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.

Reconciliation of profit

	01/01-31/03/2014	01/01-31/03/2013
	EUR'000	EUR'000
Segment profit	38,735	14,207
Finance income	751	1,095
Finance costs	(5,132)	(4,197)
Share of profit / (loss) of associates	(329)	141
Profit before income tax	34,025	11,246

Reconciliation of assets

	31/03/2014	31/12/2013
	EUR'000	EUR'000
Segment operating assets	3,301,118	3,266,764
Investments in associates	41	41
Investments in held-to-maturity financial assets	28,574	28,588
Current financial assets	-	617
Other assets and assets held for sale	21,236	23,925
Cash and cash equivalents	246,995	255,423
Group operating assets	3,597,964	3,575,358

5. Revenue

	01/01-31/03/2014	01/01-31/03/2013
	EUR'000	EUR'000
Electricity and electricity services	258,031	235,041
Heat sales	46,711	56,901
Lease and management of transmission system assets	14,156	13,810
Other revenue	5,597	6,902
TOTAL revenue	324,495	312,654

6. Raw materials and consumables used

	01/01-31/03/2014	01/01-31/03/2013
	EUR'000	EUR'000
Electricity:		
Purchased electricity	115,718	104,817
Fair value income on electricity swaps	(507)	(3,843)
Electricity transmission services costs	18,969	19,841
	134,180	120,815
Fuel expense	62,579	87,410
Raw materials, spare parts and maintenance costs	7,405	7,246
Capitalised costs of raw materials and consumables used (fuel)	-	(787)
TOTAL raw materials and consumables used	204,164	214,684

7. Income tax

	01/01-31/03/2014	01/01-31/03/2013
	EUR'000	EUR'000
Current tax	4,018	4,168
Deferred tax	(767)	(36)
TOTAL income tax	3,251	4,132

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 31 March 2014						
Cost or valuation	33,645	4,342,565	2,047,015	154,489	125,451	6,703,165
Accumulated amortisation, depreciation and impairment	(26,487)	(2,399,252)	(1,074,131)	(115,261)	(6,800)	(3,621,931)
Net book amount	7,158	1,943,313	972,884	39,228	118,651	3,081,234
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

	31/03/2014	31/12/2013
	EUR'000	EUR'000
Raw materials and spare parts	21,792	21,160
Other inventories	4,726	4,733
Allowance for raw materials, spare parts, technological fuel	(4,344)	(4,259)
TOTAL inventories	22,174	21,634

10. Trade receivables and other current receivables

Trade receivables, net:

	31/03/2014	31/12/2013
	EUR'000	EUR'000
Receivables:		
- Electricity customers	116,101	91,925
- Heating customers	15,779	17,580
- Other trade receivables	25,220	23,597
	157,100	133,102
Allowances for impairment of receivables:		
- Electricity customers	(41,041)	(40,643)
- Heating customers	(368)	(369)
- Other trade receivables	(2,536)	(2,482)
	(43,945)	(43,494)
Receivables, net:		
- Electricity customers	75,060	51,282
- Heating customers	15,411	17,211
- Other trade receivables	22,684	21,115
	113,155	89,608
Accrued income on mandatory procurement component*	64,823	44,953
Other current receivables and accrued income	33,754	26,999
TOTAL trade receivables and other current receivables	211,732	161,560

* Accrued income from mandatory procurement component is calculated as difference between procurement expenditure above electricity market price and collected mandatory procurement component payments from electricity end users. According to the conditions included in the article No. 37 of transition terms of the Electricity Market Law of the Republic of Latvia, uncollected difference will be compensated by newly established subsidiary in 12 months period starting from overtake of public trader obligations as at 1 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:

	01/01-31/03/2014	01/01-31/03/2013	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	(84)	(381)	(1,409)
Allowance for impaired receivables	535	5,230	15,867
At the end of the period	43,945	33,885	43,494

11. Cash and cash equivalents

	31/03/2014	31/12/2013
	EUR'000	EUR'000
Cash at bank	97,767	88,823
Short-term bank deposits	149,228	166,600
TOTAL cash and cash equivalents	246,995	255,423

12. Borrowings

	31/03/2014	31/12/2013
	EUR'000	EUR'000
Non-current borrowings from financial institutions	679,183	700,390
Issued debt securities (bonds)	104,802	104,802
TOTAL non-current borrowings	783,985	805,192
Current portion of non-current borrowings from financial institutions	137,008	137,008
Accrued interest on non-current borrowings	4,316	1,780
Accrued coupon interest on issued debt securities (bonds)	1,429	695
TOTAL current borrowings	142,753	139,483
TOTAL borrowings	926,738	944,675

Movement in borrowings:

	01/01-31/03/2014	01/01-31/03/2013	2013
	EUR'000	EUR'000	EUR'000
At the beginning of the period	944,675	846,961	846,961
Borrowings received	-	-	117,300
Borrowings repaid	(21,208)	(17,959)	(105,174)
Change in accrued interest on borrowings	3,271	2,697	753
Issued debt securities (bonds)	-	50,402	84,835
At the end of the period	926,738	882,101	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:

	01/01-31/03/2014	01/01-31/03/2013
	EUR'000	EUR'000
a) Sales of goods and services:		
- Sales of goods to associates (electricity)	-	382
- Sales of services to associates	-	-
TOTAL sales	-	382
b) Purchases of goods and services:		
- Purchases of goods from associates (electricity)	-	256
- Purchases of services from associates	-	294
TOTAL purchases	-	550
c) Finance income:		
- Dividends received from associates	1,924	-
TOTAL finance income	1,924	-

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

	31/03/2014	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	308	161
TOTAL payables	308	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 3 months period ended 31 March 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, which amounted to EUR 386.2 thousand (01/01 – 31/03/2013: EUR 396.9 thousand) and is included in the Consolidated Income Statement position 'Personnel expenses'.

14. Events after the reporting period

On 25 April 2014 Latvenergo AS has announced procurement for conclusion of loan agreements with the banks for the total amount up to EUR 150 million. Attraction of loans is organized within the borrowing plans and is intended for financing the investment programme of Latvenergo Group, which is based on the long-term strategy of Latvenergo Group.

On 12 May 2014 the Shareholders' Meeting of Latvenergo AS has approved Latvenergo AS Annual Report and Latvenergo Group Consolidated Annual Report 2013 and accepted the resolution of the distribution of Latvenergo AS profit for 2013 by a decision to pay out in dividends EUR 23 605 thousand and to transfer the rest of the profit in the amount of EUR 2,623 thousand to Latvenergo AS reserves.

On 12 May 2014, the Shareholder of Latvenergo AS decided to issue debt securities (bonds) up to EUR 100 million under a new bond offering programme.

There have been no other significant events subsequent to the end of the reporting year that might have a material effect on the Unaudited Interim Condensed Consolidated Financial Statements for the 3 months period ended 31 March 2014.
