Latvenergo

UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE 3 MONTH PERIOD ENDING
31 MARCH 2013

Latvenergo Group is the most valuable company in Latvia and one of the most valuable companies in the Baltics. The annual revenue of Latvenergo Group exceeds EUR 1 billion its asset value exceeds EUR 3.5 billion. Latvenergo Group is the largest electricity supplier in the Baltics with 34% market share.

CONTENT

MANAGEMENT REPORT

UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

FINANCIAL CALENDAR

30. 08. 2013

Unaudited Interim Condensed Consolidated Financial Statements for 6 month period ending 30 June 2013

29. 11. 2013

Unaudited Interim Condensed Consolidated Financial Statements for 9 month period ending 30 September 2013

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DISCLAIMER

The financial report includes forward-looking statements. Such forward-looking statements involve risks, uncertainties and other important factors beyond the control of Latvenergo Group and thus actual results in the future may differ materially from expressly or indirectly presented outlook results.

1 EUR = 0.702804 LVL

Summary

- In Q1 2013, the electricity prices remained at a low level both in the Nordic and the Baltic countries. In turn, the natural gas price in Latvia is relatively high.
- The macroeconomic indicators (GDP, inflation, unemployment rate) in the Baltics show positive tendencies. In 1st January 2014, Latvia is expected to join the European Monetary Union. Latvia has the fastest GDP growth rate in the European Union as at Q1 2013. The improvement of the macroeconomic situation promotes the purchasing power of inhabitants as well as is anticipated to support the consumption growth.
- The revenue of Latvenergo Group remains at the level of 1st quarter 2012 reaching LVL 220.3 million.
- In Q1 2013, Latvenergo AS, as a part of its public supplier obligations, within the mandatory procurement process has procured 56% more electricity than in the 1st quarter 2012. This is the main factor decreasing the profitability ratios and having a negative effect on EBITDA of LVL 7.9 million.
- In Q1 2013, we have supplied 2% more electricity than in the corresponding period previous year, thus increasing the electricity market share in the Baltics to 34%.
- Along with the liberalisation of the Baltic electricity market, in 2013, we continue purposeful electricity sales activities, thus strengthening our position in the Baltic electricity market. In the Baltic electricity market the amount of retail customers in Lithuania and Estonia has increased more than 10 times compared to the corresponding period in 2012.
- The total amount of investments is LVL 25.4 million. The reconstruction project of Riga TEC-2 is nearly finished – equipment adjustments are carried out in the first quarter 2013. While the amount of investments in transmission and distribution network assets is increased to improve the service quality and technical parameters.
- We continue to attract the funding in capital markets – EUR 50 million bonds were issued in the first quarter of 2013, totalling EUR 70 million.
- After the reporting period, considering the high interest from investors, we have increased the total amount of the bond offer programme by LVL 35 million, totalling LVL 85 million (or its equivalent in EUR).
- EUR 20 million bonds with 7-year maturity were issued in May 2013. Despite a relatively long maturity (7 years), investor demand twice exceeded supply of the bonds issued by Latvenergo AS, thus ensuring 2.89% yield.

Latvenergo Group in Brief

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

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

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

Latvenergo Group divides its operations into three core operating segments- generation and supply, distribution and management of transmission system assets. Segments are divided 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 operating segment comprises electricity and thermal energy generation operations, conducted by Latvenergo AS and Liepājas enerģija SIA, as well as electricity supply (retail and wholesale) operations in the Baltics carried out by Latvenergo AS, Elektrum Eesti OÜ and Elektrum Lietuva UAB.

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

The distribution operating 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 clients). Distribution tariffs are approved by the Public Utilities Commission (PUC).

The management of transmission system assets operating segment is managed by Latvijas elektriskie tīkli AS – the owner of transmission system assets (330 kV and 110 kV transmission lines, substations and distribution points), who 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 forms 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 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 2013	Q1 2012
Retail electricity supply	GWh	2,402	2,355
Electricity generation	GWh	1,385	1,387
Aggregate heat supply	GWh	1,225	1,232
Number of employees		4,466	4,440
Moody's credit rating		Baa3(stable)	Baa3(stable)

FINANCIAL FIGURES

		Q1 2013	Q1 2012
Revenue	MLVL	220.3	219.8
EBITDA [1)]	MLVL	42.5	55.3
Net profit	MLVL	5.0	19.0
Total assets	MLVL	2,467.4	2,342.6
Equity	MLVL	1,417.3	1,392.7
Net debt [2)]	MLVL	450.3	399.7
Capital expenditure	MLVL	25.4	64.7

FINANCIAL RATIOS

	Q1 2013	Q1 2012
Net debt/EBITDA [3)]	2.8	2.2
EBITDA margin [4)]	21%	26%
Capital ratio [5)]	57%	59%

1) EBITDA - earnings before interest, income tax, share of result of associates, depreciation and amortisation, and impairment of intangible and fixed assets
2) Net debt - borrowings from financial institutions at the end of the period minus cash and cash equivalents at the end of the period
3) 12 month rolling EBITDA
4) EBITDA margin - EBITDA / revenue (12 month rolling)
5) Capital ratio - long-term liabilities / (total assets + financial and other guarantees)

Operating Environment

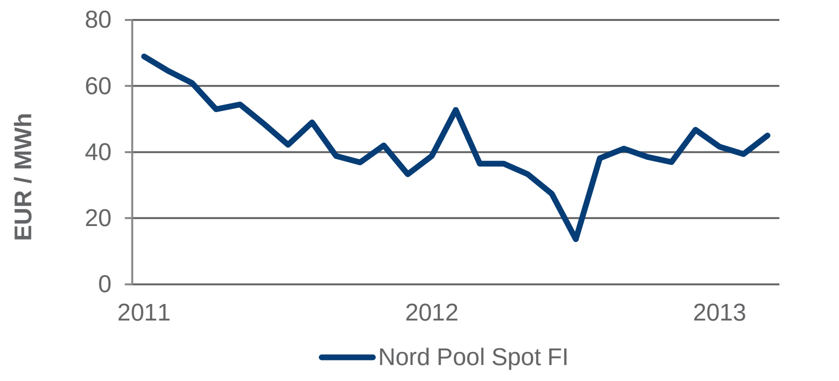
ELECTRICITY PRICE IN THE REGION REMAINS LOW

In Q1 2013 the average market price at Nord Pool Spot Finland was 42 EUR/MWh, which is 2% higher than in Q1 2012 (42.7 EUR/MWh). While in the Lithuania bidding area the Nord Pool Spot market price in the 1st quarter 2013 was 44.4 EUR/MWh – 5% lower than a year before. The decline in electricity prices in the Nordic and Baltic countries was mainly determined by lower coal and CO_2 allowance market prices.

During the first months in 2013 the water level in the basins of Nordic hydroelectric power plants continued diminishing. In the beginning of the year the fill of the basins reached 60.9%, which is a 6.6 pp lower rate than the normal level. While in March, the fill of the Nordic basin were 38%, which is 9.1 pp lower than the normal level.

Q1 2013 is characterized by sharp fluctuations of the electricity consumption in the Baltics. An unusually low temperature in March caused an increase of electricity consumption by 9% compared to February and it reached 2,365 GWh. The increasing demand caused the price fluctuations in the Nord Pool Spot market – the average Nord Pool Spot price in the ELE area (on the border between Estonia and Latvia) increased by 11% compared to February, reaching 46.2 EUR/MWh.

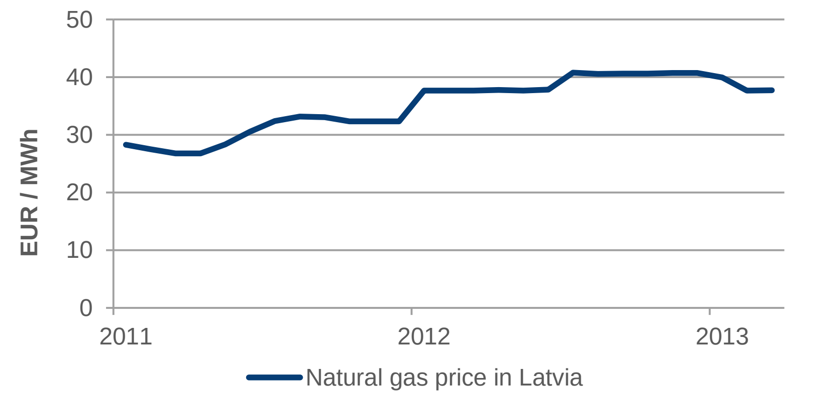
In Q1 2013 power stations in the Baltics generated 6,011 GWh comprising 85% of the total electricity consumption in the Baltics, while the rest amount was imported from the Nordic countries and Russia. The electricity gap results from a cheaper electricity import thus reducing the electricity output at gas-fired power plants.



RELATIVELY 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). As the Brent crude oil price has remained around 110 $/bbl, in the last 12-month period the natural gas price in Latvia has not changed substantially. Compared to Q1 2012 the gas price (incl. excise tax) for the user group with consumption above 100,000 thousand nm^3 has increased by 2% to 38.5 EUR/MWh (Q1 2012 – 37.7 EUR/MWh).

A high natural gas price and a decline in price of electricity reduce the competitiveness of cogeneration power plants and promote the substitution of electricity generation with electricity imports.



Operating Environment

ECONOMIC GROWTH IN THE BALTICS CONTINUES

While the recession persists in the European Union (-0.7%), according to the data of Statistical Office of the European Union (Eurostat) economies of the Baltic countries show a stable GDP growth. In Q1 2013, Latvia (5.6%) shows the fastest GDP growth rate in the EU followed by Lithuania (+4.1%), while Estonia experience a modest growth of 1.2%.

In Q1 2013, a decrease in inflation rate was observed in all three Baltic countries. According to the Eurostat, the inflation rate in Latvia was 1.6% (one of the lowest rates in the EU), in Lithuania – 2.8%, and in Estonia – 4%.

Despite of a relatively high unemployment rate which reached 14.3% in Latvia, 13.2% in Lithuania and 9.8% in Estonia as of Q4 2012, during the end of 2012 and beginning of 2013, according to the Eurostat the Baltics experienced the fastest decrease. Meanwhile the average unemployment rate in the EU was 10.7% as at Q4 2012.

It is expected that a positive improvement of macroeconomic indicators and in the economic sectors related to the export will continue in the Baltics. Taking a slower pace, the growth of Baltic economies will still remain greater than in most of the EU countries.

The improvement of the macroeconomic environment promotes the purchasing power of the inhabitants as well as is anticipated to support the electricity consumption growth.

In March 2013, the international rating Agency Moody's has re-assed the rating of the Latvia, increasing it from Baa3 to Baa2 with a positive outlook. Prior to this, Fitch and Standard & Poor's have also increased the rating to BBB+ and BBB with a positive future outlook respectively.

Positive macroeconomic indicators enable Latvia to meet the Maastricht criteria thus it is expected that Latvia will join the European Monetary Union (EMU) in 2014. Estonia has already joined the EMU on 1 January 2011.

THE LIBERALISATION OF THE BALTIC ELECTRICITY MARKET

According to the Baltic Energy Market Interconnection Plan (BEMIP) in 2013 the Baltic electricity market opening continues. As of 1 January 2013 the electricity market in Estonia is deregulated for all customers, while in Lithuania – for all commercial customers. At end of Q1 2013, the unregulated part of the Baltic electricity market comprises about 90% of the total electricity consumption.

As of 1 November 2012, electricity at a regulated tariff in Latvia is sold only to household customers, which accounts for approximately 25% of the total electricity consumption in Latvia. In the following years it is expected that the market share of the Baltic regulated market will continue to decrease.

Operating Environment

CERTIFICATION OF THE TRANSMISSION SYSTEM OPERATOR

On 30 January 2013 the Public Utilities Commission (PUC) Advisory Council passed a decision concerning the certification of the transmission system operator (TSO). This is a prerequisite for establishment of the Nord Pool Spot Latvia bidding area in 2013.

The PUC decision on TSO certification also 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 as well comprising transfer of related employees. The owner of the transmission system assets will not change due to the function takeover. According to the PUC council decision Augstsprieguma tīkls AS has to develop the function takeover plan and adjust it with Latvijas elektriskie tīkli AS within 6 months after the decision.

As the owner of transmission system assets, Latvijas elektriskie tīkli AS will continue to conduct the transmission system asset management functions, which imply the financing and lease to Augstsprieguma tīkls AS. These changes will not negatively affect the transmission system asset management segment profitability ratios.

Financial Results

In Q1 2013 Latvenergo Group revenue is LVL 220.3 million, which compared to the corresponding period in 2012, remained at a stable level, showing a growth in external revenues. Thus, the negative electricity and gas price tendencies do not have a significant impact on Latvenergo Group revenues.

Latvenergo Group revenue remains stable and in breakdown by segments shows a growth in external revenues

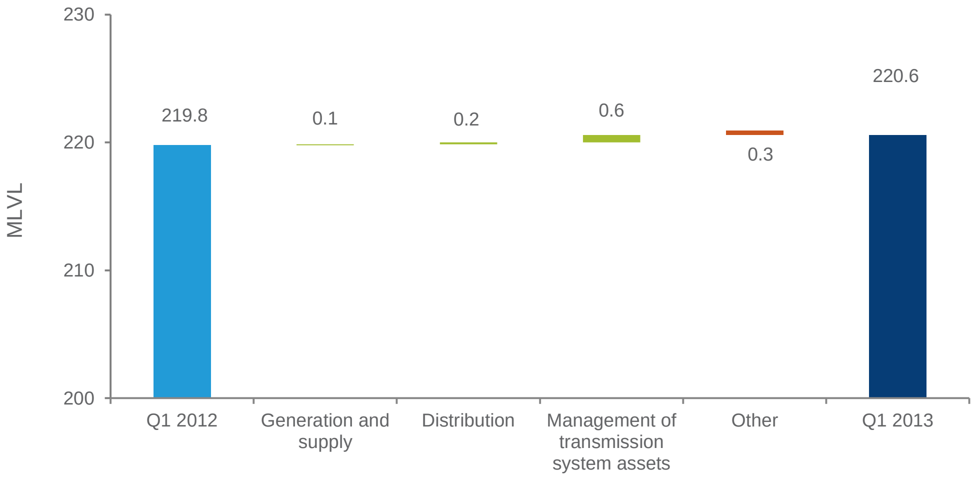
65% of the total revenue consists of regulated service revenues, which weight in the total revenue decreased by 7% due to a gradual opening of the Latvian electricity market in 1 April and 1 November 2012. While the other 35% comprises deregulated service revenues, which mostly imply Pan-Baltic electricity supply to open market customers.

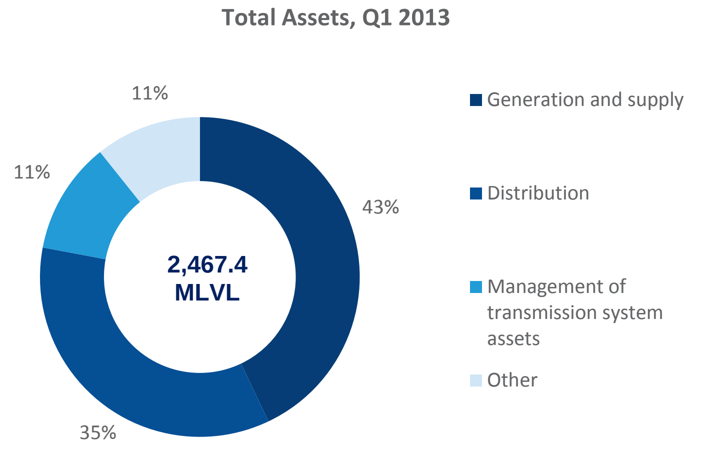
		Q1 2013	Q1 2012	Δ	Δ, %
Revenue	MLVL	220.3	219.8	0.5	0%
EBITDA	MLVL	42.5	55.3	(12.8)	(23%)
Net profit	MLVL	5.0	19.0	(14.0)	(74%)
Total assets	MLVL	2,467.4	2,342.6	124.8	5%

In Q1 2013, within the mandatory procurement process Latvenergo AS as a public supplier has procured 56% more electricity from local generators in Latvia than in Q1 2012. This is the main factor that has a negative impact on the Group profitability ratios, decreasing EBITDA by LVL 7.9 million.

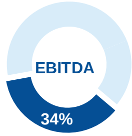
The results of the Group were also negatively affected due to a lower market price of electricity; i.e., it decreased by 5% in the Nord Pool Spot Lithuania bidding area.

In Q1 2013, EBITDA of Latvenergo Group is LVL 42.5 million and net profit is LVL 5.0 million.





Generation and Supply



Segment weight in Latvenergo Group

Revenue	68%
EBITDA	34%
Assets	43%
Employees	21%

The generation and supply is the largest Latvenergo Group operating segment by revenue. In Q1 2013, the revenue of the generation and supply segment (incl. inter-segment revenues) is LVL 160.1 and EBITDA – LVL 14.4 million (Q1 2012: LVL 27.2 million). 75% of revenue of the segment consists of revenue from electricity and related services, 25% of thermal energy revenue.

Latvenergo Group – the largest electricity supplier in the Baltics with a 34% market share

Operational figures		Q1 2013	Q1 2012	Δ	Δ, %
Electricity supply	GWh	2,402	2,355	47	2%
Electricity generation	GWh	1,385	1,387	(2)	0%
Thermal energy generation	GWh	1,242	1,247	(5)	0%
Financial figures		**Q1 2013**	**Q1 2012**	**Δ**	**Δ, %**
Revenue	MLVL	160.1	161.5	(1.4)	(1%)
EBITDA	MLVL	14.4	27.2	(12.8)	(47%)
Total assets	MLVL	1,059.4	1 001.6	57.8	6%
Investments	MLVL	10.5	53.9	(43.4)	(81%)

The results of the segment were negatively affected by the costs of electricity purchased within the mandatory procurement process and a reduction of the electricity price for retail customers due to a decline in the electricity market price in the Nord Pool Spot.

SUPPLY

In Q1 2013, Latvenergo Group supplied 2,402 GWh of electricity to retail customers obtaining a 34% market share in the Baltics. Approximately 75% of retailed electricity was supplied to customers in Latvia, but 25% to retail customers in Lithuania and Estonia.

Retail electricity supply volume increased by 47 GWh or 2% compared to Q1 2012. This is due to an increased volume of electricity supplied in Lithuania and Estonia. Compared to Q1 2012, in Q1 2013 the amount of retail customers in Lithuania and Estonia increased more than ten times.

Latvenergo Group electricity supply volume in Latvia is 1,802 GWh (market share - 86%), in Lithuania – 344 GWh (13%) and in Estonia – 256 GWh (11%).

The total electricity supply volume in Lithuania and Estonia is 600 GWh, which is more than two times greater than the supplied volume by competing electricity suppliers (289 GWh) in Latvia.

In Q1 2013 1,335 GWh or 74% of the total electricity supply of Latvenergo Group were supplied in the open electricity market, while 467 GWh or 26% were supplied at a regulated tariff in Latvia.

It is expected that the opening of the electricity market in Latvia will continue thus the results of the operating segment will be increasingly affected by the competitive activity and skills to retain the existing and attract new customers outside Latvia.

The amount of the customers in Lithuania and Estonia has increased more than 10 times

GENERATION

In Q1 2013 Latvenergo Group power plants generated electricity in a total amount of 1,385 GWh. Despite a lower output at Riga combined heat and thermal energy plants (Riga TEC) due to adverse market conditions, the total electricity output remained at the level of the corresponding period last year. This was ensured by a 4% higher output at Daugava HES due to increased water inflow, which positively influenced the results.

In Q1 2013, electricity output at Riga TEC decreased to 731 GWh, which is 4% less than in Q1 2012 (762 GWh). Higher electricity generation was limited by a relatively high natural gas price and low electricity market price.

Capacity structure of electricity and thermal energy generation at Riga TEC allows flexibility in the choice of generation mode, providing both the necessary amount of thermal energy for heating in Riga as well as possibility of electricity generation in economically justified conditions, thereby mitigating the negative impact of market conditions on mandatory procurement costs

Riga TEC revenue consists of the electricity component which reflects variable costs of electricity generation (mainly natural gas costs) and the fixed capacity component, covering plant maintenance and capital costs.

641 GWh or approximately half of electricity produced by Latvenergo Group (or 27% of electricity supplied) was generated from renewable energy resources. While the weight of electricity generated at Latvenergo Group power plants in the total retail electricity supply is 58% and has not changed significantly compared to the corresponding period in 2012 (59%).

		Q1 2013	Q1 2012	Δ	Δ, %
Electricity supply to retail customers	GWh	2,402	2,355	47	2%
Electricity generation	GWh	1,385	1,387	(2)	0%
Daugava HPPs	GWh	641	615	26	4%
Riga TEC	GWh	731	762	(31)	(4%)
Small plants	GWh	13	10	3	34%

Despite a decreased output by Riga TEC, the electricity volume procured from local generators within the mandatory procurement process increased by 56% compared to Q1 2012 and amounted to 371 GWh. The growth of electricity volume procured within the mandatory procurement process was mainly determined by an increased output at biomass and biogas plants as well as cogenerations plants.

In Q1 2013, the Group purchased 1,467 GWh (Q1 2012: 1,401 GWh) of electricity.

In Q1 2013, Latvenergo Group has generated 1,242 GWh of thermal energy (Q1 2012: 1,247 GWh)

Thermal energy generation		**Q1 2013**	**Q1 2012**	**Δ**	**Δ, %**
Riga TEC	GWh	1,114	1,121	(7)	(1%)
Liepaja plants and small plants	GWh	128	126	2	1%
Total	**GWh**	**1,242**	**1,247**	**(5)**	**0%**

MANDATORY PROCUREMENT

According to the conditions of the public supplier license, Latvenergo AS acts as a public supplier and is committed to purchase electricity from generators (including plants of Latvenergo Group), which have a granted right to generate electricity for the mandatory procurement under electricity purchase tariffs set in regulations.

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

Despite a decreased Riga TEC output, the volume of mandatory procurement has increased

In Q1 2013, Latvenergo Group as a public supplier has received LVL 23.5 million of revenues from the mandatory procurement public service obligation fee (Q1 2012: LVL 22.3 million). The increase of revenues was due to an increase of the mandatory procurement public service obligation fee from 11.7 LVL/MWh to 12.3 LVL/MWh on 1 April 2012.

		Q1 2013	Q1 2012	Δ	Δ, %
Mandatory procurement revenue	MLVL	23.5	22.3	1.2	5%
Mandatory procurement costs	MLVL	(41.0)	(31.9)	(9.1)	29%
Latvenergo AS	MLVL	(16.0)	(14.5)	(1.5)	11%
other generators	MLVL	(25.0)	(17.4)	(7.6)	43%
Difference	**MLVL**	**(17.5)**	**(9.6)**	**(7.9)**	**82%**

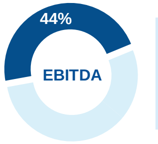
In Q1 2013, the total volume of mandatory procurement is 1,082 GWh (Q1 2012: 974 GWh).

Mandatory procurement costs above the market price comprise LVL 41.0 million (Q1 2012: LVL 31.9 million).

The increase of mandatory procurement costs above the market price was mainly determined by a higher volume of electricity procured from biogas and biomass stations. The increase of costs was also due to a 2% higher price of natural gas.

Weight of Latvenergo AS generation plants in the eligible costs continue to decline and forms 39% as at Q1 2013 (Q1 2012: 45%). Acting responsibly and adjusting operation of Riga TEC power plants according to the market conditions allowed scaling down the generation operatively when it was cheaper to import the electricity.

Mandatory procurement costs above the market price of Latvenergo AS as a public supplier shall be included in the mandatory procurement public service obligation fee. Since 1 April 2013 it is determined at 18.9 LVL/MWh.



Distribution

Segment weight in Latvenergo Group

Revenue	24%
EBITDA	44%
Assets	35%
Employees	56%

Distributed electricity volume continues to grow, while losses – decrease

The distribution segment is the second largest segment by revenue. In Q1 2013, the segment revenue amounts to LVL 55.8 million (Q1 2012: LVL 55.7 million), while EBITDA increased by 4% reaching LVL 18.6 million (Q1 2012: 17.9 million). The distribution system asset value is LVL 864.1 million and has not changed significantly compared to 2011.

The results of the segment were positively influenced by a lower price of purchased electricity and decreased amount of losses (+ LVL 1.2 million) as well as lower operational costs (+ LVL 0.5 million). In turn, it was negatively affected by an increase of the transmission service costs (- LVL 1.4 million).

Operational figures		**Q1 2013**	**Q1 2012**	**Δ**	**Δ, %**
Electricity distributed	GWh	1,782	1,763	19	1%
Distribution losses	GWh	152	176	(24)	(14%)
Distribution losses	%	7.3	8.6		
Financial figures		**Q1 2013**	**Q1 2012**	**Δ**	**Δ, %**
Revenue	MLVL	55.8	55.7	0.2	0%
EBITDA	MLVL	18.6	17.9	0.7	4%
Total assets	MLVL	864.1	859.0	5.1	1%
Investments	MLVL	9.1	8.1	1.1	13%

In Q1 2013, the volume of distributed electricity increased by 1% to 1,782 GWh (Q1 2012: 1,763 GWh). The average distribution service tariff is 29.8 LVL/MWh (-1%) as at Q1 2013.

Due to focused management activities, distribution network losses continue to decline and in Q1 2013 decreased to 152 GWh, which is 25 GWh less than a year ago. The rate of distribution losses decreased to 7.3% (Q1 2012: 8.6%).

Management of transmission system assets

Revenue	EBITDA	Assets	Employees
4%	16%	11%	10%

Segment weight in Latvenergo Group

Growth of transmission segment revenue provides improvement of profitability ratios

Revenue of the transmission system asset management segment forms 4% of Latvenergo Group revenue. The revenue of the segment amounted to LVL 10.3 million, while EBITDA increased to LVL 6.9 million.

The growth of revenue and EBITDA is determined by a gradual inclusion of the value of regulatory asset revaluation reserve into the lease according to the Electricity transmission system services tariff calculation methodology approved by the PUC.

		Q1 2013	Q1 2012	Δ	Δ, %
Revenue	MLVL	10.3	9.6	0.6	7%
EBITDA	MLVL	6.9	6.1	0.8	14%
Total assets	MLVL	279.3	262.9	16.4	6%
Investments	MLVL	4.3	1.7	2.6	152%

Compared to Q1 2012, the asset value has increased to LVL 279.3 million due to investments in the transmission system assets.

The return on transmission system assets in Q1 2013 has increased to 3.1%. It is expected that steady growth of profitability ratios will continue approaching to the industry averages.

Investments

In Q1 2013, the total amount of investments is LVL 25.4 million (Q1 2012: 64.7 million) of which LVL 10.5 million is made in generation assets, LVL 9.1 million in distribution assets and LVL 4.3 million in transmission system assets.

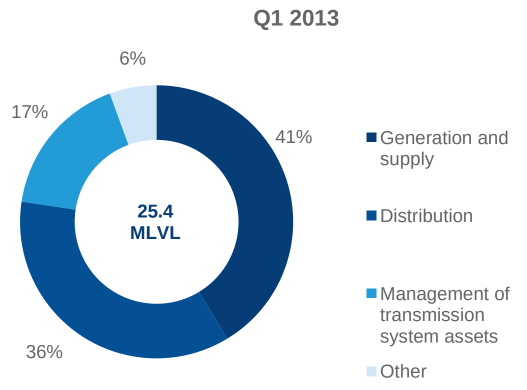
Compared to Q1 2012, the decline in the amount of investments was mainly due to a smaller amount invested in the reconstruction of Riga 2nd combined heat and power plant (Riga TEC-2): LVL 6.4 million were invested in Q1 2013 compared to LVL 44.4 million in Q1 2012. In turn, the amount invested in transmission system and distribution networks increased compared to Q1 2012.

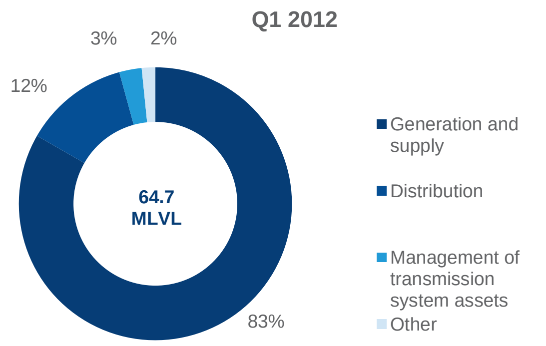
We have increased investments in transmission system and distribution assets

Investments in transmission and distribution network development are made with the aim to improve the service quality and technical parameters.

Major investment projects in 2013:

- Reconstruction of the Riga TEC-2 power plant: the project provides the construction of the second combined-cycle power unit (with electrical capacity of 420 MW, thermal capacity - 270 MW). The project initiated in 2010 and is expected to be completed in the Q3 2013. The total amount of power plant construction agreement is LVL 226 million, of which the completed workload reaches LVL 222.8 million as of 31 March 2013. In Q1 2013, the installation of auxiliary equipment was completed as well continuing the work on equipment adjustments and tests. Along with the commissioning of the power plant the contractor will perform overall adjustments, guaranteed performance tests and continuous performance tests.
- NORDBALT-02-330kV „Kurzeme Ring”: the project is a part of the international energy infrastructure development project NordBalt. It provides strengthening of the transmission network in the western region of Latvia. The total investment is expected to reach LVL 66 million until 2014. In Q1 2013, the amount invested is LVL 3.3 million. The completed workload is LVL 26.1 as of 31 March 2013;
- Biomass fired boiler house construction in Liepaja: the Project provides construction of two modern wood-chip fired heating boilers with the total capacity of 30 MW thus diversifying fuel sources. The project is conducted with co-financing of the EU Cohesion Fund and it is scheduled for completion in October 2013. The total costs of the project are estimated at LVL 9.0 million.
- Daugava HPPs hydropower unit reconstruction programme: it provides reconstruction of 11 hydropower units. The program is expected to be completed until 2022 with the total investment estimated to exceed LVL 100 million. The completed workload is 4.2 million as at 31 March 2013.



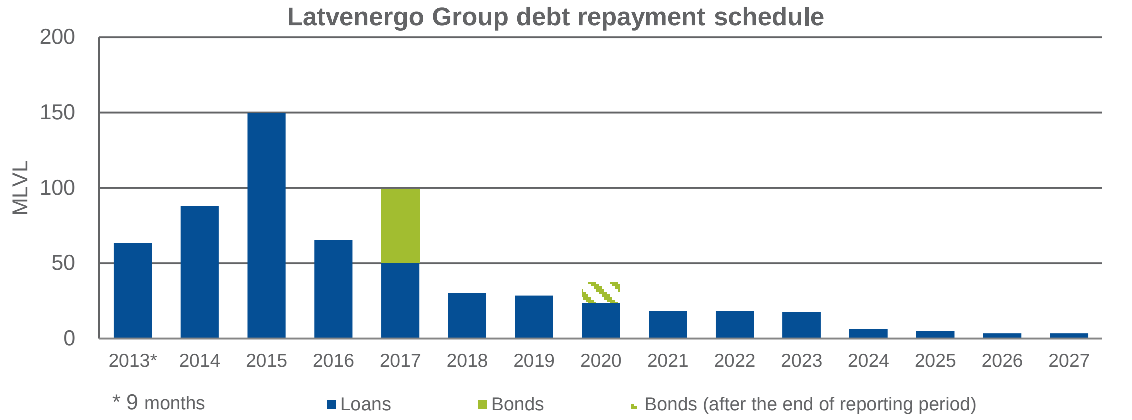


Funding and Liquidity

Following the bond emission programme initiated in 2012, in Q1 2013 Latvenergo AS has issued EUR 50 million, totalling EUR 70 million.

After the reporting period, considering the successful bond emission and a high interest from investors, the amount of the bond offer programme has been raised by LVL 35 million totalling LVL 85 million (or its equivalent in EUR).

EUR 20 million bonds with 7-year maturity were issued in May 2013. Despite a relatively long maturity (7 years), investor demand twice exceeds supply of the bonds issued by Latvenergo AS thus ensuring 2.89% yield.



Latvenergo Group continues the bond emission programme

In order to realize the investment programme and fulfil its commitments, Latvenergo Group maintains sufficient liquidity reserves and good liquidity ratios. In 31 March 2013, the current assets (cash and short term deposits up to 3 months) of Latvenergo Group reached LVL 169.2 million (Q1 2012: LVL 108.6 million), while the current ratio[1] was 1.5 (1.2).

[1] Current ratio: current assets / current liabilities

As at the end of Q1 2013, Latvenergo Group borrowings are LVL 619.6 million (Q1 2012: LVL 508.3 million). The weighted average repayment period has remained at 4.4 years (Q1 2012: 4.3 years).

As of 1 January 2014, along with the expected accession of Latvia to the European Monetary Union, Latvenergo Group operating activities will no longer be a subject to euro currency risk. All borowings are denominated in euro currency. 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, 46% of the borrowings have a fixed interest rate with an average period of 2.1 year as at 31 March 2013.

In Q1 2013, the weighted average effective interest rate (with interest rate swaps) is 2.9% (Q1 2012: 3.1%), ensuring good debt service ratios (interest coverage ratio[2] – 13.6). Net borrowings are LVL 450.3 million (LVL 399.7 million), while net debt/EBITDA ratio is 2.8 (2.2) as of 31 March 2013. In Q1 2013, all the binding financial covenants set in Latvenergo Group loan agreements have been met.

In Q1 2013, the international rating agency *Moody's Investors Service* has reconfirmed Latvenergo AS credit rating Baa3 with a positive outlook.

[2] Interest coverage ratio : (net cash flow from operating activities - changes in working capital + interest expense) / interest expense

Statement of Management Responsibility

Based on the information available to the Management Board of Latvenergo AS in all material aspects Latvenergo Unaudited Condensed Consolidated Financial Statements for the 3 month period ending 31 March 2013 have been prepared in accordance with applicable laws and regulations and give in all material aspects a true and fair view of assets, liabilities, financial position and profit and loss of the Latvenergo Group. All information included in the management report is true.

Latvenergo Unaudited Condensed Consolidated Financial Statements for the 3 month period ending 31 March 2013 denominated in Latvian lats are approved by the Management Board of Latvenergo on 28 May 2013.

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

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT
for the 3 months ended 31 March 2013

1 EUR = 0.702804 LVL

	Notes	01.01.-31.03.2013	01.01.-31.03.2012	01.01.-31.03.2013	01.01.-31.03.2012
		LVL'000	LVL'000	EUR'000	EUR'000
Revenue	5	220,279	219,782	313,429	312,722
Other income		1,241	1,168	1,766	1,662
Materials, consumables and supplies	6	(151,982)	(141,340)	(216,251)	(201,109)
Personnel expenses		(15,983)	(15,358)	(22,742)	(21,852)
Depreciation, amortisation and impairment		(32,551)	(29,044)	(46,316)	(41,326)
Other operating expenses		(11,028)	(8,935)	(15,692)	(12,714)
Operating profit		**9,976**	**26,273**	**14,194**	**37,383**
Finance income		768	651	1,093	926
Finance costs		(2,939)	(3,036)	(4,182)	(4,320)
Share of profit of an associate		99	58	141	83
Profit before income tax		**7,904**	**23,946**	**11,246**	**34,072**
Income tax	7	(2,904)	(4,959)	(4,132)	(7,056)
Profit for the period		**5,000**	**18,987**	**7,114**	**27,016**

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the 3 months ended 31 March 2013

1 EUR = 0.702804 LVL

	01.01.-31.03.2013	01.01.-31.03.2012	01.01.-31.03.2013	01.01.-31.03.2012
	LVL'000	LVL'000	EUR'000	EUR'000
Profit for the period	**5,000**	**18,987**	**7,114**	**27,016**
Other comprehensive income/(loss)				
Losses on revaluation of PPE	-	(1,912)	-	(2,721)
Losses on currency translation differences	(1)	(21)	(1)	(30)
Income from change in hedge reserve	1,811	233	2,577	332
Other comprehensive income/(loss)	**1,810**	**(1,700)**	**2,576**	**(2,419)**
Total comprehensive income for the period	**6,810**	**17,287**	**9,690**	**24,597**

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION as at 31 March 2013

1 EUR = 0.702804 LVL

	Notes	31.03.2013	31.12.2012	31.03.2013	31.12.2012
		LVL'000	LVL'000	EUR'000	EUR'000
ASSETS					
Non-current assets					
Intangible assets and PPE	8	2,146,095	2,153,881	3,053,618	3,064,697
Investment property		1,112	1,116	1,582	1,588
Investments in associates and other financial investments		5,046	4,948	7,180	7,040
Held-to-maturity financial assets		20,124	20,134	28,634	28,649
Other non-current assets		56	32	80	45
Total non-current assets		**2,172,433**	**2,180,111**	**3,091,094**	**3,102,019**
Current assets					
Inventories	9	15,303	15,604	21,774	22,203
Trade and other receivables	10	108,268	101,913	154,052	145,008
Financial assets		2,140	4,237	3,045	6,029
Cash and cash equivalents	11	169,220	170,425	240,778	242,493
Total current assets		**294,931**	**292,179**	**419,649**	**415,733**
TOTAL ASSETS		**2,467,364**	**2,472,290**	**3,510,743**	**3,517,752**
EQUITY					
Share capital		904,605	904,605	1,287,137	1,287,137
Non-current assets revaluation reserve		465,738	465,738	662,685	662,685
Hedge reserve		(11,319)	(13,130)	(16,105)	(18,682)
Other reserves		77	77	110	110
Total reserves		**454,496**	**452,685**	**646,690**	**644,113**
Retained earnings		54,235	49,761	77,169	70,803
Non-controlling interest		3,984	3,459	5,669	4,922
Total equity		**1,417,320**	**1,410,510**	**2,016,665**	**2,006,975**
LIABILITIES					
Non-current liabilities					
Borrowings	12	538,558	520,830	766,299	741,074
Deferred income tax liabilities		187,797	187,822	267,211	267,246
Provisions	13	10,641	10,508	15,141	14,952
Derivative financial instruments		9,594	12,555	13,651	17,864
Other liabilities and deferred income		108,534	105,425	154,430	150,007
Total non-current liabilities		**855,124**	**837,140**	**1,216,732**	**1,191,143**
Current liabilities					
Borrowings	12	80,996	74,405	115,247	105,869
Derivative financial instruments		8,275	12,344	11,774	17,564
Trade and other current liabilities, deferred income		105,649	137,891	150,325	196,201
Total current liabilities		**194,920**	**224,640**	**277,346**	**319,634**
Total liabilities		**1,050,044**	**1,061,780**	**1,494,078**	**1,510,777**
TOTAL EQUITY AND LIABILITIES		**2,467,364**	**2,472,290**	**3,510,743**	**3,517,752**

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the 3 months ended 31 March 2013

1 EUR = 0.702804 LVL

	Attributable to owners of the Parent Company						Attributable to owners of the Parent Company					
	Share capital	Reserves	Retained earnings	Total	Non-controlling interest	TOTAL	Share capital	Reserves	Retained earnings	Total	Non-controlling interest	TOTAL
	LVL'000	LVL'000	LVL'000	**LVL'000**	LVL'000	**LVL'000**	EUR'000	EUR'000	EUR'000	**EUR'000**	EUR'000	**EUR'000**
As at 31 December 2011	**325,862**	**976,921**	**45,773**	**1,348,556**	**3,020**	**1,351,576**	**463,660**	**1,390,033**	**65,129**	**1,918,822**	**4,297**	**1,923,119**
Increase in share capital	578,743	(577,990)	-	**753**	-	**753**	823,477	(822,406)	-	**1,071**	-	**1,071**
Dividends for 2011	-	-	(39,900)	**(39,900)**	-	**(39,900)**	-	-	(56,773)	**(56,773)**	-	**(56,773)**
Transfer from reserves	-	(10,257)	10,257	**-**	-	**-**	-	(14,594)	14,594	**-**	-	**-**
Profit for the year	-	-	33,696	**33,696**	439	**34,135**	-	-	47,946	**47,946**	625	**48,571**
Other comprehensive income/(loss) for the year	-	64,011	(65)	**63,946**	-	**63,946**	-	91,080	(93)	**90,987**	-	**90,987**
Total comprehensive income for the year	**-**	**64,011**	**33,631**	**97,642**	**439**	**98,081**	**-**	**91,080**	**47,853**	**138,933**	**625**	**139,558**
As at 31 December 2012	**904,605**	**452,685**	**49,761**	**1,407,051**	**3,459**	**1,410,510**	**1,287,137**	**644,113**	**70,803**	**2,002,053**	**4,922**	**2,006,975**
As at 31 December 2011	**325,862**	**976,921**	**45,773**	**1,348,556**	**3,020**	**1,351,576**	**463,660**	**1,390,033**	**65,129**	**1,918,822**	**4,297**	**1,923,119**
PPE revaluation reserve	-	23,327	522	**23,849**	-	**23,849**	-	33,191	743	**33,934**	-	**33,934**
Profit for the period	-	-	18,397	**18,397**	590	**18,987**	-	-	26,177	**26,177**	839	**27,016**
Other comprehensive income/(loss) for the period	-	212	(1,912)	**(1,700)**	-	**(1,700)**	-	302	(2,721)	**(2,419)**	-	**(2,419)**
Total comprehensive income for the period	**-**	**212**	**16,485**	**16,697**	**590**	**17,287**	**-**	**302**	**23,456**	**23,758**	**839**	**24,597**
As at 31 March 2012	**325,862**	**1,000,460**	**62,780**	**1,389,102**	**3,610**	**1,392,712**	**463,660**	**1,423,526**	**89,328**	**1,976,514**	**5,136**	**1,981,650**
As at 31 December 2012	**904,605**	**452,685**	**49,761**	**1,407,051**	**3,459**	**1,410,510**	**1,287,137**	**644,113**	**70,803**	**2,002,053**	**4,922**	**2,006,975**
Profit for the period	-	-	4,475	**4,475**	525	**5,000**	-	-	6,367	**6,367**	747	**7,114**
Other comprehensive income/(loss) for the period	-	1,811	(1)	**1,810**	-	**1,810**	-	2,577	(1)	**2,576**	-	**2,576**
Total comprehensive income for the period	**-**	**1,811**	**4,474**	**6,285**	**525**	**6,810**	**-**	**2,577**	**6,366**	**8,943**	**747**	**9,690**
As at 31 March 2013	**904,605**	**454,496**	**54,235**	**1,413,336**	**3,984**	**1,417,320**	**1,287,137**	**646,690**	**77,169**	**2,010,996**	**5,669**	**2,016,665**

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

for the 3 months ended 31 March 2013

1 EUR = 0.702804 LVL

	Notes	01.01.-31.03.2013	01.01.-31.03.2012	01.01.-31.03.2013	01.01.-31.03.2012
		LVL'000	LVL'000	EUR'000	EUR'000
Cash flows from operating activities					
Profit before tax		7,904	23,946	11,246	34,072
Adjustments for:					
- Amortisation, depreciation, impairment loss of non-current assets		32,551	29,044	46,316	41,326
- Net financial adjustments		(1,737)	2,675	(2,472)	3,806
- Other adjustments		162	(256)	231	(364)
Increase in current assets		(5,405)	(7,659)	(7,691)	(10,898)
(Decrease) / increase in payables, accrued expense, deferred income and other liabilities		(19,018)	12,587	(27,060)	17,910
Cash generated from operations		**14,457**	**60,337**	**20,570**	**85,852**
Net interest paid		(322)	(2,418)	(458)	(3,441)
Income tax paid		(3,830)	(3,428)	(5,450)	(4,878)
Net cash generated from operating activities		**10,305**	**54,491**	**14,662**	**77,533**
Cash flows from investing activities					
Purchase of intangible assets and PPE		(34,322)	(61,751)	(48,836)	(87,864)
Net investments in held-to-maturity assets		10	14,135	14	20,112
Net cash used in investing activities		**(34,312)**	**(47,616)**	**(48,822)**	**(67,752)**
Cash flows from financing activities					
Proceeds on issued debt securities (bonds)		35,424	-	50,404	-
Repayment of borrowings	12	(12,622)	(7,169)	(17,959)	(10,201)
Net cash generated/(used in) financing activities		**22,802**	**(7,169)**	**32,445**	**(10,201)**
Net decrease in cash and cash equivalents		**(1,205)**	**(294)**	**(1,715)**	**(420)**
Cash and cash equivalents at the beginning of the period	11	170,425	108,877	242,493	154,918
Cash and cash equivalents at the end of the period	**11**	**169,220**	**108,583**	**240,778**	**154,498**

1. CORPORATE INFORMATION

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

Latvenergo AS is engaged in the generation and supply of electricity and thermal energy in the territory of Latvia and in the EU. The Parent Company is one of the largest corporate entities in Latvia.

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

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

The Parent Company's associates:

- Nordic Energy Link AS carries out the functions of the operator of an interconnection power cable between Estonia and Finland;
- Pirmais Slēgtais Pensiju Fonds AS manages a defined-contribution corporate pension plan in Latvia.

The Unaudited Interim Condensed Consolidated Financial Statements for the 3 month period ending 31 March 2013 include the financial information in respect of the Parent Company and its all subsidiaries for the 3 month period ending 31 March 2013 and comparative information for 3 month period ending 31 March 2012. Comparative information for financial position includes information as at 31 December 2012. Latvenergo AS Shareholder has approved the 2012 Audited Consolidated Financial Statements on 15 May 2013.

The Unaudited Interim Condensed Consolidated Financial Statements for the 3 month period ending 31 March 2013 are presented in thousands of Latvian Lats (LVL) and were authorised by the Management Board on 28 May 2013.

2. ACCOUNTING POLICIES

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

The Unaudited Interim Condensed Consolidated Financial Statements are prepared under the historical cost convention, as modified by the revaluation of land and buildings, 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 2012.

Latvenergo Consolidated Annual Report 2012 has been approved on 15 May 2013 by Latvenergo AS Shareholder's meeting (respond to www.latvenergo.lv section "Investors").

All amounts shown in these Interim Condensed Consolidated Financial Statements are presented in thousands of Latvian Lats (LVL), and are translated into Euros (EUR) using official currency rate of the Bank of Latvia 1EUR = 0.702804 LVL.

3. FINANCIAL RISK MANAGEMENT

3.1. Financial risk factors

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

Risk management is carried out by the Parent Company's Treasury function (the Group Treasury) according to Financial Risk Management Policy approved by the Parent Company's Management Board. The Group Treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units/subsidiaries. The Parent

Company's Management Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, and credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

a) Market risk

I) Foreign exchange risk

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

However, the peg of Lats to Euro at the beginning of the year 2005 resulted in limited EUR/LVL currency risk, as the Group had no substantial liabilities in any other foreign currency except Euro. At 31 March 2013 the Group had none of their borrowings denominated in other currencies than the 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 limit the Group's foreign currencies exchange risk arising from future transactions and recognised assets and liabilities, the Group uses forward contracts, transacted by the Group Treasury. Foreign currencies exchange risk arises when future transactions or recognised assets or liabilities are denominated in a currency other than the Group's functional currency or Euro.

II) Cash flow and fair value interest rate risk

As the Group has no significant floating interest-bearing assets, the Group's financial income and operating cash flows are not substantially dependent on changes in market interest rates.

The Group's cash flow interest rate risk mainly arises from long-term borrowings at variable rates. They expose the Group to a risk that finance costs might increase significantly when interest rates rise up. The Group's policy is to maintain at least 35% of its borrowings as fixed interest rates borrowings (taking into account the effect of interest rate swaps) with duration between 2-4 years.

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

III) Price risk

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

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

b) Credit risk

Credit risk is managed at the Group level. Credit risk arises from cash and cash equivalents, derivative financial instruments and 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 in banks is managed by balancing the placement of financial assets in order to maintain the possibility to choose the best offers and to reduce probability to incur losses.

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

c) Liquidity risk

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

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

3.2. Capital risk management

The Group's objectives when managing capital risk are to ensure the sustainability of the Group's operations as well as to ensure necessary financing for investment program and to avoid breaches of covenants, which are linked to capital structure and are stipulated in the majority of loan agreements.

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

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

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

3.3. Fair value estimation of financial instruments

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

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

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

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

The fair value of CO2 emission allowances for greenhouse gases forward contracts is calculated as difference between actual market and settlement prices for CO2 emission allowances multiplied by the volume of the forward contract.

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

4. OPERATING SEGMENT INFORMATION

Operating segments

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

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

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

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

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

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

LVL	Generation and supply	Distribution	Management of transmission system assets	Corporate functions	TOTAL segments	Adjustments and eliminations	Consolidated
Period 01.01.-31.03.2013	LVL'000	LVL'000	LVL'000	LVL'000	**LVL'000**	LVL'000	**LVL'000**
Revenue							
External customers	153,966	55,467	9,823	999	**220,255**	24	**220,279**
Inter-segment	6,112	361	439	7,778	**14,690**	(14,690)	**-**
Total revenue	**160,078**	**55,828**	**10,262**	**8,777**	**234,945**	**(14,666)**	**220,279**
Results							
Segment operating profit	**1,720**	**5,354**	**2,479**	**432**	**9,985**	**(2,081)**	**7,904**
Capital expenditure	10,492	9,138	4,328	1,413	**25,371**	-	**25,371**
Period 01.01.-31.03.2012							
Revenue							
External customers	153,881	55,316	9,246	1,322	**219,765**	17	**219,782**
Inter-segment	7,581	353	372	8,594	**16,900**	(16,900)	**-**
Total revenue	**161,462**	**55,669**	**9,618**	**9,916**	**236,665**	**(16,883)**	**219,782**
Results							
Segment operating profit	**18,167**	**4,189**	**2,215**	**1,295**	**25,866**	**(1,920)**	**23,946**
Capital expenditure	53,910	8,056	1,717	1,039	**64,722**	-	**64,722**

EUR	Generation and supply	Distribution	Management of transmission system assets	Corporate functions	TOTAL segments	Adjustments and eliminations	Consolidated
Period 01.01.-31.03.2013	EUR'000	EUR'000	EUR'000	EUR'000	**EUR'000**	EUR'000	**EUR'000**
Revenue							
External customers	219,074	78,922	13,977	1,422	**313,395**	34	**313,429**
Inter-segment	8,697	513	625	11,067	**20,902**	(20,902)	**-**
Total revenue	**227,771**	**79,435**	**14,602**	**12,489**	**334,297**	**(20,868)**	**313,429**
Results							
Segment operating 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**
Period 01.01.-31.03.2012							
Revenue							
External customers	218,953	78,708	13,156	1,881	**312,698**	24	**312,722**
Inter-segment	10,787	502	529	12,228	**24,046**	(24,046)	**-**
Total revenue	**229,740**	**79,210**	**13,685**	**14,109**	**336,744**	**(24,022)**	**312,722**
Results							
Segment operating profit	**25,849**	**5,960**	**3,152**	**1,843**	**36,804**	**(2,732)**	**34,072**
Capital expenditure	76,707	11,463	2,443	1,478	**92,091**	**-**	**92,091**

Segment assets

	Generation and supply	Distribution	Management of transmission system assets	Corporate functions	TOTAL segments	Adjustments and eliminations	Consolidated
At 31 March 2013 LVL'000	1,059,416	864,050	279,349	59,313	2,262,128	205,236	2,467,364
At 31 December 2012 LVL'000	1,067,218	872,491	269,691	59,192	2,268,592	203,698	2,472,290
At 31 March 2013 EUR'000	1,507,413	1,229,432	397,478	84,395	3,218,718	292,025	3,510,743
At 31 December 2012 EUR'000	1,518,514	1,241,443	383,736	84,223	3,227,916	289,836	3,517,752

Adjustments and eliminations

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

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

Inter-segment revenue is eliminated on consolidation.

Reconciliation of profit

	01.01.-31.03.2013	01.01.-31.03.2012	01.01.-31.03.2013	01.01.-31.03.2012
	LVL'000	LVL'000	EUR'000	EUR'000
Segment operating profit	**9,985**	**25,866**	**14,207**	**36,804**
Gain on held-to-maturity assets	(9)	407	(13)	579
Finance income	768	651	1,093	926
Finance costs	(2,939)	(3,036)	(4,182)	(4,320)
Share of profit of associates	99	58	141	83
Group profit before income tax	**7,904**	**23,946**	**11,246**	**34,072**

Reconciliation of assets

	31.03.2013	31.12.2012	31.03.2013	31.12.2012
	LVL'000	LVL'000	EUR'000	EUR'000
Segment operating assets	**2,262,128**	**2,268,592**	**3,218,718**	**3,227,916**
Investments in associates	5,046	4,948	7,180	7,040
Investments in held-to-maturity financial assets	20,124	20,134	28,634	28,649
Current financial assets	-	42	-	59
Other assets and assets held for sale	10,846	8,149	15,433	11,595
Cash and cash equivalents	169,220	170,425	240,778	242,493
Group operating assets	**2,467,364**	**2,472,290**	**3,510,743**	**3,517,752**

5. REVENUE

	01.01.-31.03.2013	01.01.-31.03.2012	01.01.-31.03.2013	01.01.-31.03.2012
	LVL'000	LVL'000	EUR'000	EUR'000
Electricity and electricity services	165,344	165,009	235,263	234,787
Heat sales	39,990	40,029	56,901	56,956
Lease and management of transmission system assets	9,706	9,067	13,810	12,901
Other revenue	5,239	5,677	7,455	8,078
Total revenue	**220,279**	**219,782**	**313,429**	**312,722**

6. MATERIALS, CONSUMABLES AND SUPPLIES

	01.01.-31.03.2013	01.01.-31.03.2012	01.01.-31.03.2013	01.01.-31.03.2012
	LVL'000	LVL'000	EUR'000	EUR'000
Electricity purchases				
Purchased electricity	73,822	61,522	105,039	87,538
Fair value income on electricity swaps	(2,701)	(1,370)	(3,843)	(1,949)
Electricity transmission services	13,944	12,587	19,841	17,910
	85,065	**72,739**	**121,037**	**103,499**
Fuel expense	61,432	61,903	87,410	88,080
Fair value loss on CO_2 emission allowances forward contracts	-	15	-	21
Raw materials, spare parts and maintenance costs	5,485	6,683	7,804	9,509
Total materials, consumables and supplies	**151,982**	**141,340**	**216,251**	**201,109**

7. INCOME TAX

	01.01.-31.03.2013	01.01.-31.03.2012	01.01.-31.03.2013	01.01.-31.03.2012
	LVL'000	LVL'000	EUR'000	EUR'000
Current tax	2,929	4,942	4,168	7,032
Deferred tax	(25)	17	(36)	24
Total income tax	**2,904**	**4,959**	**4,132**	**7,056**

8. INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

	Intangible assets	Land, buildings and facilities	Technology equipment and machinery	Other fixed assets	Assets under construct ion	TOTAL	Intangible assets	Land, buildings and facilities	Technology equipment and machinery	Other fixed assets	Assets under construct ion	TOTAL
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	**LVL'000**	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	**EUR'000**
At 31 March 2013												
Cost or valuation	22,484	2,945,606	1,225,269	101,287	311,197	**4,605,843**	31,992	4,191,220	1,743,401	144,118	442,793	**6,553,524**
Accumulated amortisation, depreciation and impairment	(16,966)	(1,642,123)	(719,043)	(76,734)	(4,882)	**(2,459,748)**	(24,140)	(2,336,531)	(1,023,106)	(109,183)	(6,946)	**(3,499,906)**
Net book amount	**5,518**	**1,303,483**	**506,226**	**24,553**	**306,315**	**2,146,095**	**7,852**	**1,854,689**	**720,295**	**34,935**	**435,847**	**3,053,618**
At 31 December 2012												
Cost or valuation	23,499	2,944,041	1,224,864	99,713	296,705	**4,588,822**	33,436	4,188,993	1,742,824	141,880	422,173	**6,529,306**
Accumulated amortisation, depreciation and impairment	(17,695)	(1,629,214)	(708,346)	(74,815)	(4,871)	**(2,434,941)**	(25,178)	(2,318,163)	(1,007,885)	(106,452)	(6,931)	**(3,464,609)**
Net book amount	**5,804**	**1,314,827**	**516,518**	**24,898**	**291,834**	**2,153,881**	**8,258**	**1,870,830**	**734,939**	**35,428**	**415,242**	**3,064,697**

9. INVENTORIES

	31.03.2013	31.12.2012	31.03.2013	31.03.2012
	LVL'000	LVL'000	EUR'000	EUR'000
Raw materials and spare parts	13,327	14,196	18,963	20,199
Other inventories	4,794	4,192	6,821	5,965
Allowance for raw materials, spare parts, technological fuel	(2,818)	(2,784)	(4,010)	(3,961)
Total inventories	**15,303**	**15,604**	**21,774**	**22,203**

10. TRADE RECEIVABLES AND OTHER CURRENT RECEIVABLES

Trade receivables:

	31.03.2013	31.12.2012	31.03.2013	31.12.2012
	LVL'000	LVL'000	EUR'000	EUR'000
Receivables:				
- Electricity customers	68,579	64,637	97,579	91,971
- Heating customers	17,121	19,140	24,361	27,234
- Other trade receivables	18,171	14,450	25,855	20,560
	103,871	**98,227**	**147,795**	**139,765**
Provision for impairment of receivables:				
- Electricity customers	(22,183)	(18,894)	(31,564)	(26,884)
- Heating customers	(291)	(295)	(414)	(420)
- Other trade receivables	(1,340)	(1,217)	(1,907)	(1,732)
	(23,814)	**(20,406)**	**(33,885)**	**(29,036)**
Receivables, net:				
- Electricity customers	46,396	45,743	66,015	65,087
- Heating customers	16,830	18,845	23,947	26,814
- Other trade receivables	16,831	13,233	23,948	18,828
	80,057	**77,821**	**113,910**	**110,729**
Other current receivables	28,211	24,092	40,142	34,279
Total trade receivables and other receivables	**108,268**	**101,913**	**154,052**	**145,008**

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

	01.01.-31.03.2013	01.01.-31.03.2012	2012	01.01.-31.03.2013	01.01.-31.03.2012	2012
	LVL'000	LVL'000	LVL'000	EUR'000	EUR'000	EUR'000
At the beginning of the period	**20,406**	**9,717**	**9,717**	**29,036**	**13,825**	**13,825**
Receivables written off during the period as uncollectible	(268)	(15)	(203)	(381)	(21)	(289)
Allowance for impaired receivables	3,676	550	10,892	5,230	783	15,500
At the end of the period	**23,814**	**10,252**	**20,406**	**33,885**	**14,587**	**29,036**

11. CASH AND CASH EQUIVALENTS

	31.03.2013	31.12.2012	31.03.2013	31.12.2012
	LVL'000	LVL'000	EUR'000	EUR'000
Cash at bank	30,795	25,316	43,817	36,021
Short-term bank deposits	138,425	145,109	196,961	206,472
Total cash and cash equivalents	**169,220**	**170,425**	**240,778**	**242,493**

12. BORROWINGS

	31.03.2013	31.12.2012	31.03.2013	31.12.2012
	LVL'000	LVL'000	EUR'000	EUR'000
Non-current borrowings (excl. current portion)	489,101	506,797	695,928	721,107
Issued debt securities (bonds)	49,457	14,033	70,371	19,967
Total non-current borrowings	**538,558**	**520,830**	**766,299**	**741,074**
Current portion of non-current borrowings	78,281	73,208	111,384	104,165
Accrued interest on non-current borrowings	2,715	1,197	3,863	1,704
Total current borrowings	**80,996**	**74,405**	**115,247**	**105,869**
Total borrowings	**619,554**	**595,235**	**881,546**	**846,943**

Movement in borrowings:

	01.01.-31.03.2013	2012	01.01.-31.03.2013	2012
	LVL'000	LVL'000	EUR'000	EUR'000
At the beginning of the period	**595,235**	**513,334**	**846,943**	**730,408**
Borrowings received	-	116,947	-	166,401
Borrowing repaid	(12,622)	(48,056)	(17,959)	(68,378)
Accrued interest on borrowings	1,518	(1,023)	2,160	(1,455)
Debt securities (bonds) issued	35,423	14,033	50,402	19,967
At the end of the period	**619,554**	**595,235**	**881,546**	**846,943**

13. PROVISIONS

Provisions for post-employment benefits

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

	01.01.-31.03.2013	01.01.-31.03.2012	2012	01.01.-31.03.2013	01.01.-31.03.2012	2012
	LVL'000	LVL'000	LVL'000	EUR'000	EUR'000	EUR'000
At the beginning of the period	**7,760**	**7,734**	**7,734**	**11,042**	**11,004**	**11,004**
Charged to the Consolidated Income Statement	137	(28)	26	195	(40)	38
At the end of the period	**7,897**	**7,706**	**7,760**	**11,237**	**10,964**	**11,042**

Environmental provisions

	01.01.-31.03.2013	01.01.-31.03.2012	2012	01.01.-31.03.2013	01.01.-31.03.2012	2012
	LVL'000	LVL'000	LVL'000	EUR'000	EUR'000	EUR'000
At the beginning of the period	**2,748**	**1,783**	**1,783**	**3,910**	**2,537**	**2,537**
Charged to the Consolidated Income Statement	(4)	-	965	(6)	-	1,373
At the end of the period	**2,744**	**1,783**	**2,748**	**3,904**	**2,537**	**3,910**

14. 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, key management personnel of the Group and Supervisory body – Audit committee, as well as companies over which the Group entities has significant influence.

The following transactions were carried out with related parties:

	01.01.-31.03.2013	01.01.-31.03.2012	01.01.-31.03.2013	01.01.-31.03.2012
	LVL'000	LVL'000	EUR'000	EUR'000
Sales of goods and services	49,112	51,551	69,880	73,351
Purchases of goods and services	20,687	17,733	29,435	25,232

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

	31.03.2013	31.12.2012	31.03.2013	31.12.2012
	LVL'000	LVL'000	EUR'000	EUR'000
Trade receivables from related parties	27,065	21,354	38,510	30,384
Trade payables to related parties	1,439	8,871	2,047	12,622

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

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

In the 3 month period ending 31 March 2013 remuneration to the key management personnel, Supervisory body, including salary, social insurance payments and payments to pension plan is amounted to LVL 240.8 thousand or EUR 342.7 thousand (01.01.-31.03.2012: LVL 220.2 thousand or EUR 313.3 thousand) and are included in the Consolidated Income Statement position ‘Personnel expenses’.

15. EVENTS AFTER THE REPORTING PERIOD

On 19 April 2013 the Shareholders Meeting of Latvenergo AS decided to increase the aggregate principal amount of the bonds to be issued under the Programme from 50 million lats (or its equivalent in Euro) to 85 million lats (or its equivalent in Euro) with book-entry within the Latvian Central Depository and listing on AS NASDAQ OMX Riga. Accordingly, Latvenergo AS supplemented the Base Prospectus of the Programme for the issuance of notes that was originally approved by the Management Board on 23 November 2012 and registered with the Latvian Financial and Capital Market Commission on 28 November 2012.

There have been no 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 month period ending 31 March 2013.

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