Latvenergo

UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE 9 MONTH PERIOD ENDING
30 SEPTEMBER 2013

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 reaches EUR 3.5 billion. Latvenergo Group is the largest electricity supplier in the Baltics with 33% 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

21. 02. 2014.

Latvenergo Group 2013 Annual Unaudited Condensed Consolidated Financial Statements

16. 04. 2014.

Latvenergo Consolidated Annual Report 2013

30. 05. 2014.

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

29. 08. 2014.

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

28. 11. 2014.

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

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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.

On 9 July 2013, the EU ECOFIN on its meeting passed a decision allowing Latvia to adopt the euro as its currency as of 1 January 2014 and set a permanent conversion rate for the Latvian lats against the euro: **1 EUR = 0.702804 LVL**

Summary

- Increase of electricity spot prices in the Nordic and Baltic countries still continues due to a lower water level in Nordic hydropower plant reservoirs and transmission system capacity limitations in the Baltics.
- Nord Pool Spot Latvia bidding area was opened on 3 June 2013, thus all three Baltic states have joined the Nord Pool Spot power exchange bringing the Baltics into a common Nordic-Baltic power market structure and providing a transparent electricity price formation process.
- Shortage of available transmission capacity determines higher electricity price in Nord Pool Spot Latvia and Lithuania bidding areas compared to the Nordic countries.
- Macroeconomic indicators in the Baltics show positive trends. In 9 months of 2013, Latvia has the fastest GDP growth rate in the Baltics. GDP growth is mainly determined by increase in household consumption and exports. Latvia will join the European Economic and Monetary Union on 1 January 2014.
- Amendments to the Electricity Market Law provide that electricity market in Latvia will be opened also for households as of 1 April 2014.
- In 9 months of 2013, Latvenergo Group revenue and EBITDA have grown by 6% reaching LVL 576.7 million and LVL 142.6 million respectivelty. Revenue and EBITDA have increased in all operating segments of the Group.
- Financial results of the Group are positively impacted by increase of revenues due to a change of mandatory procurement public service obligation fee (on 1 April 2013) and mandatory procurement revenue recognition. While results are negatively affected by such factors as 1) increase of electricity purchase price for electricity supply to retail customers due to a lower water level in Nordic hydropower plant reservoirs and transmission capacity limitations; 2) lower generation at Daugava HPPs 3) decline in industrial sector electricity consumption in Latvia.
- Latvenergo Group market share in the Baltics is 33%. As a result of focused electricity supply activities and strengthening its position in the Baltic market, in 9 months of 2013 Latvenergo Group has increased the amount of electricity supplied in Lithuania and Estonia by 35% compared to the respective period of 2012. We have increased the amount of retail customers in neighbouring countries by more than 10 times.
- LVL 112.9 million were invested during 9 months of 2013. Riga TEC-2 second power unit was commissioned replacing more than 30-year serviced power units thus increasing the safety of power supply, improving power generation efficiency indicators and meeting the environmental requirements.
- We have increased investments in networks by 41%, comprising 68% of total investments.
- We have diversified the borrowing sources by issuing bonds - the total amount of bonds issued exceeds 10% of total borrowings.

Latvenergo Group in Brief

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

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

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

Latvenergo Group divides its operations into three operating segments- *generation and supply*, *distribution* and *management of transmission system assets*. 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.

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

		9M 2013	9M 2012
Retail electricity supply	GWh	6,026	6,147
Electricity generation	GWh	3,775	3,662
Heat supply	GWh	1,772	1,765
Number of employees		4,518	4,455
Moody's credit rating		Baa3 (stable)	Baa3 (stable)

FINANCIAL FIGURES

		9M 2013	9M 2012
Revenue	MLVL	576.7	546.7
EBITDA 1)	MLVL	142.6	134.8
Net profit	MLVL	23.1	36.7
Assets	MLVL	2,442.3	2,408.1
Equity	MLVL	1,410.2	1,421.1
Net debt 2)	MLVL	473.5	413.1
Investments	MLVL	112.9	142.8

FINANCIAL RATIOS

	9M 2013	9M 2012
Net debt/EBITDA ratio 3)	2.6	2.4
EBITDA margin 4)	23%	23%
Capital ratio 5)	58%	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) Net debt / EBITDA – net debt to EBITDA (12 month rolling)
4) EBITDA margin - EBITDA / revenue (12 month rolling)
5) Capital ratio – total equity / total assets

Operating Environment

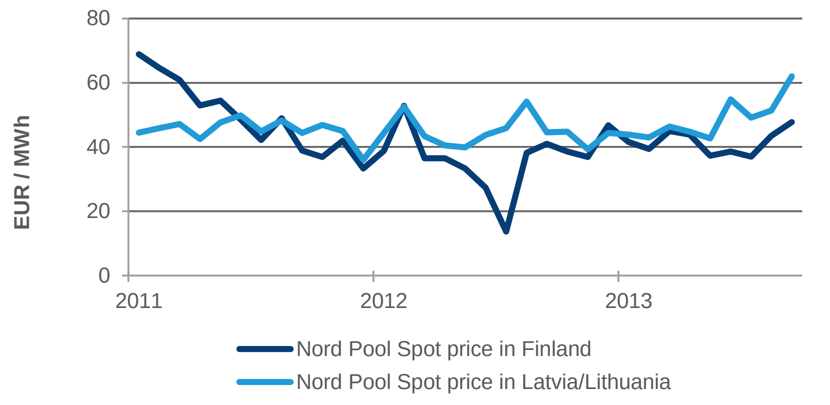
HIGHER NORD POOL SPOT ELECTRICITY PRICE IN THE BALTIC AND NORDIC COUNTRIES

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

In 9 months 2013, electricity spot price both in the Nordic and Batic countries has been higher than in the respective period of 2012. The Nord Pool Spot electricity price in Finland bidding area has increased by 18% to 41.6 EUR/MWh, while in Latvia/Lithuania bidding areas – by 7% reaching 48.7 EUR/MWh.

The increase of electricity price in Finland and in the Baltics was mainly due to a lower water level in Nordic hydropower plant reservoirs. In the first 9 months of 2013, the average fill of the reservoirs was 55%, which is approximately 10% lower than in the respective period last year and 5% below the long-term average.

Taking into account the fact, that from the energy balance position Latvia and Lithuania are deficit region countries, the availability of transmission capacity is a significant price-determining factor. The transmission system capacity deficit has the most significant impact on electricity price outside the period of heating and flooding season, when electricity deficit in Lithuania and Latvia reaches the peak, while the rest of the time prices are relatively equal. In 2013, during the period from June to September the average electricity price in Latvia/Lithuania bidding areas was 12.6 EUR/MWh higher than in Finland bidding area.



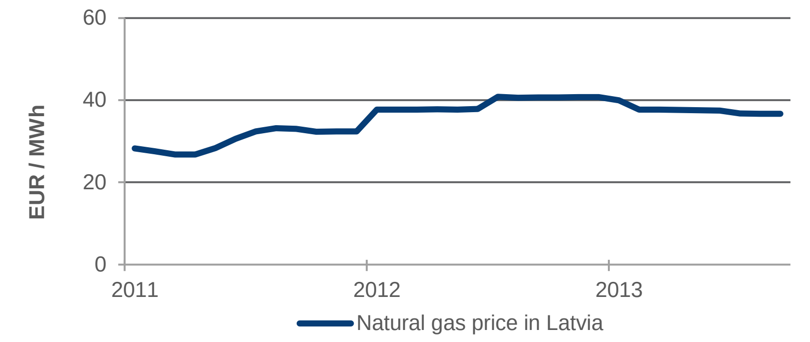
During the first 9 months of 2013, the total amount of electricity generated in the Baltics reached 15,976 GWh which is 12% higher than in the respective period of 2012 (14,248 GWh). Thus, power plants in the Baltics provide 86% of the Baltic electricity consumption (2012: 78%). The largest increase of generation volume was observed in Estonian oil shale-fired power plants due to a higher electricity price and lower European Union Allowance (EUA) price. Besides, the coal price has also declined compared to the respective period last year.

Operating Environment

NATURAL GAS PRICE IN LATVIA REMAINS AT THE LEVEL OF PREVIOUS YEAR

The natural gas price in Latvia is linked to the crude oil product price (to the 9 month average heavy fuel oil and diesel quotations index), which compared to 9 months of 2012 remained nearly unchanged, thus the natural gas price in Latvia has not substantially changed. In 9 months of 2013, the natural gas price (incl. excise tax) for the user group with consumption above 100,000 thousand nm^3 was 37.6 EUR/MWh and it has decreased by 3% compared to the respective period of 2012 (38.7 EUR/MWh).

Despite a downward trend in crude oil product prices in the beginning of 2013 (in June 2013, the average Brent crude oil price was 102.9 $/bbl, which is 9% less than in the beginning of 2013 – 113.0 $/bbl), an increase in the Brent crude oil price was observed during 3Q 2013, thus the average price in September (111.6 $/bbl) has approached to the level of price at the beginning of the year. This may indicate that in the following months the natural gas price will not change significantly.



ECONOMIC GROWTH IN THE BALTICS CONTINUES

According to the data provided by the Statistical Office of the European Union (*Eurostat*), during the first three quarters of 2013, the Baltic countries show a steady GDP growth compared to the respective period last year. In 3Q 2013, the GDP growth in Latvia was 3.9%, Lithuania – 2.2% and Estonia – 0.6% compared to 3Q 2012. The GDP growth in Latvia is mainly promoted by increased household consumption and exports.

The European Commission GDP growth forecast for 2013 is set at 4.0% for Latvia, 3.4% – Lithuania and 1.3% – Estonia. It is expected that in a mid-term the economic growth in the Baltics will continue and, although the growth rate has decreased, it will remain higher than in most of the European Union (EU) economies. Hence, a growth in purchase power and electricity consumption is expected.

In 2013, metallurgical company Liepajas Metalurgs AS, which is one of the largest electricity consumers in Latvia, has closed most of its operations thus causing a 3% decrease of electricity consumption in Latvia. Excluding the electricity consumption of Liepajas Metalurgs AS, in 9 months of 2013 electricity consumption in Latvia increased by 2%. Whereas electricity consumption in Lithuania and Estonia promoted a 2% increase of electricity consumption in the Baltics reaching 18,500 GWh.

According to the *Eurostat*, in September 2013, the annual average inflation rate in Latvia is 0.5%, which is one of the lowest rates among the EU countries. The inflation rate in Lithuania is 1.8%, in Estonia – 3.7%. Considering the positive trends, the European Commission has set the euro zone 2013 average inflation rate forecast at 1.5%, EU – 1.7%, while the forecast of inflation rate in Latvia is 0.3%, Lithuania – 1.4% and Estonia – 3.4%.

On 9 July 2013, the EU Economic and Financial Affairs Council (ECOFIN) passed the final decision on the euro adaption in Latvia as of 1 January 2014. Estonia has already joined the European Economic and Monetary Union (EMU) on 1 January 2011.

During the summer 2013, international credit rating agencies Standard & Poor's and Fitch have raised the credit rating of Latvia to BBB+ with a stable future outlook, while in March 2013, Moody's upgraded the credit rating of Latvia by one notch to Baa2 with a positive outlook.

Operating Environment

FUTURE EVENTS

- On 6 November 2013, in a final reading the *Saeima* (Parliament of Latvia) passed amendments to the Electricity Market Law, providing opening of the electricity market also for households in Latvia as of 1 April 2014. The full opening of the Baltic electricity market is expected in 2015, when it is planned to open the electricity market for households in Lithuania.

- According to the amendments to the Regulation No 221 approved by the Cabinet of Ministers of the Republic of Latvia on 30 July 2013, the support scheme for electricity generation in cogeneration plants with installed capacity above 4 MW has been changed. Further on, the compensation for cogeneration plant variable costs above the market price will be removed and fixed capacity payments will be retained at adjusted amount.

  Due to the amendments to the support scheme Latvenergo AS plans to adjust operating mode 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 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 (SET) will be introduced for a four-year period as of 1 January 2014. For gas-fired cogeneration plants it will be applied as 15% of the received support amount. In the following years this will imply a decline in revenues of Latvenergo Group. In 9 months of 2013, a one-off impairment of assets has been made.

- Amendments to the Electricity Market Law provide that on 1 April 2014 a newly established subsidiary of Latvenergo AS will take-over the public trader functions from Latvenergo AS and it will be obliged to compensate the difference between the received mandatory procurement revenues and mandatory procurement costs above the market price incurred to the former public trader between 1 January 2013 and 31 March 2014. The amendments allow to neutralize the mandatory procurement impact on results of Latvenergo Group.

- On 30 January 2013, the Council of the Public Utility Commission (PUC) passed a decision on Certification of the Transmission System Operator (TSO), which was a prerequisite of establishment of Nord Pool Spot Latvia bidding area. In addition, the PUC decision on TSO certification provides that until 30 January 2015 Augstsprieguma tīkls AS has to take over the transmission system asset construction and maintenance functions from Latvijas elektriskie tīkli AS as well comprising a transfer of employees, while Latvijas elektriskie tīkli AS will continue to conduct transmission system asset management functions – financing and lease of the transmission system assets to Augstsprieguma tīkls AS. These changes will not have an adverse impact on financial results.

- Complying with the requirements of the Regulation 2009/72/EK passed by the European Parliament and Council on 13 July 2009, the assets of Nordic Energy Link AS will be sold to transmission system operators in Estonia and Finland until 31 December 2013. The shareholding of Latvenergo AS in the company will be discontinued after the sale of the assets. 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 a transmission cable of 350 MW between Estonia and Finland. These changes will not have an adverse impact on financial results.

Financial Results

In 9 months of 2013, Latvenergo Group revenue and EBITDA grew by 6% reaching LVL 576.7 million and LVL 142.6 million respectively. Revenue and EBITDA have increased in all operating segments of the Group.

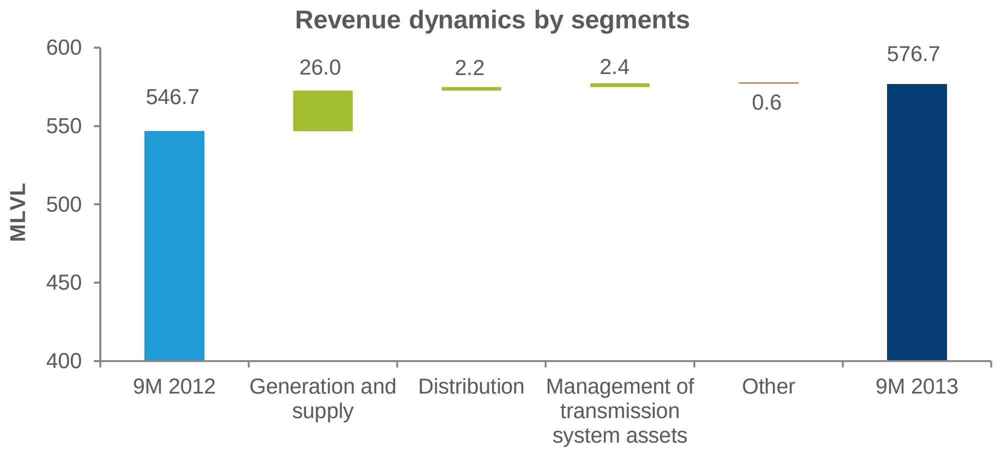
Both Latvenergo Group revenue and EBITDA grew by 6%

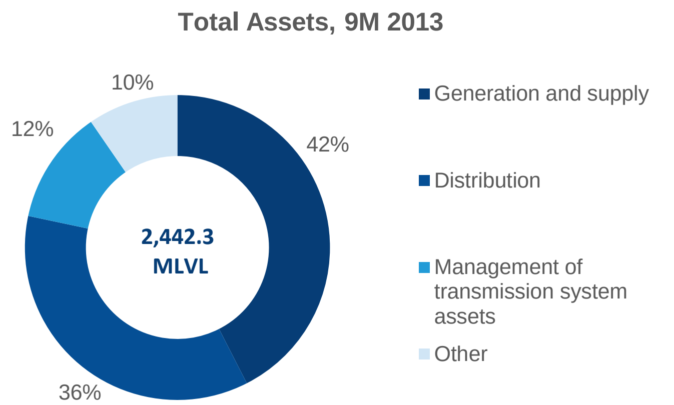
Results were positively impacted by increase of mandatory procurement revenues due to a change of the mandatory procurement public service obligation fee (on 1 April 2013) and mandatory procurement revenue recognition.

While results were negatively affected by such factors as 1) electricity purchase price increase for electricity supply to retail customers due to a lower water level in Nordic hydropower plant reservoirs and transmission capacity limitations; 2) lower by 7% generation at Daugava hydropower plants (HPPs); 3) decline in industrial sector electricity consumption in Latvia.

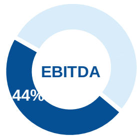
Compared to 9 months of 2012, in 9 months of 2013, the net profit of Latvenergo group has decreased to LVL 23.1 million. Net profit was negatively affected due to a LVL 21.7 million one-off impairment of assets of Riga combined heat and power plant (Riga TEC) assets. The necessity of impairment was determined by application of the Subsidised Energy Tax as of 1 January 2014. The tax provides a 15% reduction of the receivable amount of guaranteed payments for installed capacity at Riga TEC.

Financial figures		9M 2013	9M 2012	Δ	Δ, %
Revenue	MLVL	576.7	546.7	30.0	6%
EBITDA	MLVL	142.6	134.8	7.8	6%
Net profit	MLVL	23.1	36.7	(13.6)	(37%)
Assets	MLVL	2,442.3	2,408.1	34.2	1%





Generation and Supply



Segment weight in Latvenergo Group

Revenue **65%**

EBITDA **44%**

Assets **42%**

Employees **22%**

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

Latvenergo Group – the largest electricity supplier in the Baltics with a 33% market share

In addition to the factors mentioned above, results of the segment were negatively affected by losses due to electricity supply at regulated tariff, which are estimated at LVL 22.5 million in 9 months of 2013.

Operational figures		**9M 2013**	**9M 2012**	**Δ**	**Δ, %**
Retail electricity supply	GWh	6,026	6,147	(121)	(2%)
Electricity generation	GWh	3,775	3,662	113	3%
Thermal energy generation	GWh	1,806	1,795	11	1%
Financial figures		**9M 2013**	**9M 2012**	**Δ**	**Δ, %**
Revenue	MLVL	402.0	378.0	24.0	6%
EBITDA	MLVL	63.0	60,0	3,0	5%
Assets	MLVL	1,037.5	1,049.0	(11.4)	(1%)
Investments	MLVL	29.8	83.0	(53.2)	(64%)

In 9 months of 2013, a decrease of investments is due to a lower amount invested in reconstruction of Riga 2nd combined heat and power plant (Riga TEC-2) second power unit. The power unit was commissioned in 3Q 2013.

SUPPLY

Latvenergo Group is the largest electricity supplier in the Baltics holding a 33% market share. In 9 months of 2013, we have supplied 6,026 GWh of electricity. The total electricity volume supplied by Latvenergo Group has decreased by 2% due to a decline in industrial sector electricity consumption in Latvia.

In 9 months of 2013, as a result of focused electricity supply activities, retail electricity supply volume in Lithuania and Estonia increased by 35% compared to the respective period of 2012, while the amount of customers in Lithuania and Estonia has been raised by more than 10 times.

35% higher electricity supply volume in Lithuania and Estonia

The total electricity supply volume in Lithuania and Estonia reached 1,609 GWh, which is approximately 640 GWh higher than the amount provided by competing electricity suppliers in Latvia.

Latvenergo Group electricity supply volume in Latvia is 4,417 GWh (market share - 82%), in Lithuania – 940 GWh (13%) and in Estonia – 669 GWh (11%). The major part or 78% of the total electricity retail supply were supplied in the open electricity market, while 22% – at regulated tariff in Latvia.

Generation and Supply

GENERATION

In 9 months of 2013, the total amount of electricity generated by Latvenergo Group power plants increased by 3% and reached 3,775 GWh.

Increase was ensured by 26% (+279 GWh) higher electricity output at Riga TEC due to testing of Riga TEC-2 second power unit and more favourable electricity market conditions.

The total electricity generation volume comprises 63% of electricity supply volume. While 40% of electricity supply volume is generated from renewable energy resources.

In 9 months 2013, the total amount of thermal energy generated by Latvenergo Group is 1,806 GWh, approximately half of which is generated in cogeneration mode, while the rest – in water boilers.

Operational Figures		**9M 2013**	**9M 2012**	**Δ**	**Δ, %**
Retail electricity supply	GWh	6,026	6,147	(121)	(2%)
Electricity generation	GWh	3,775	3,662	113	3%
Daugava HPPs	GWh	2,384	2,553	(170)	(7%)
Riga TEC	GWh	1,359	1,081	279	26%
Small plants	GWh	32	28	4	15%
Thermal energy generation	GWh	1,806	1,795	11	1%
Riga TEC	GWh	1,621	1,618	3	0%
Liepaja plants and small plants	GWh	185	177	9	5%

MANDATORY PROCUREMENT

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

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

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

		9M 2013	9M 2012	Δ	Δ, %
Mandatory procurement revenues	MLVL	83.2	62.6	20.6	33%
Compensable mandatory procurement revenues	MLVL	21.1	0.0	21.1	-
Mandatory procurement costs above the market price	MLVL	(104.3)	(94.1)	(10.2)	11%
Latvenergo AS	MLVL	(39.5)	(41.2)	1.7	(4%)
other generators	MLVL	(64.8)	(52.9)	(11.9)	23%
Difference	**MLVL**	**0.0**	**(31.5)**	**31.5**	**(100%)**

In 9 months of 2013, for Latvenergo AS as a public trader, revenues from the mandatory procurement have increased due to an increase of the mandatory procurement public service obligation fee from 12.3 LVL/MWh to 18.9 LVL/MWh as of 1 April 2013. Also, taking into account the amendments to administration of mandatory procurement, LVL 21.1 million mandatory procurement revenues were recognised in the results of 9 months of 2013 thus neutralizing the mandatory procurement impact on the results of Latvenergo Group.

Compared to the respective period last year, the volume procured from other generators increased by 194 GWh reaching 913 GWh, thus having an impact on increase of mandatory procurement costs above the market price.The major impact is left by procurement from biogas and biomass-fired power plants and cogeneration plants with installed capacity below 4MW.

Weight of Latvenergo AS power plants in the eligible costs decreased to 38% (9 months of 2012: 44%).

Distribution

36%
EBITDA

Revenue	EBITDA	Assets	Employees
25%	36%	36%	55%

Segment weight in Latvenergo Group

Increased amount of distributed electricity and decreased distribution losses

Distribution operating segment is the second largest segment of Latvenergo Group both by revenue and EBITDA. In 9 months of 2013, the segment revenue is LVL 153.9 million, while segment EBITDA increased by 10% reaching LVL 50.6 million. The distribution system asset value is LVL 875.3 million and has not substantially changed compared to 30 September 2012.

Results of the segment were positively impacted by 1% higher amount of distributed electricity and decreased electricity losses. Growth of distributed electricity was facilitated by economic development in Latvia, while losses continue to decrease due to focused management activities.

Results of the segment were negatively affected by growth of transmission service costs by LVL 1.3 million.

Operational figures		**9M 2013**	**9M 2012**	**Δ**	**Δ, %**
Electricity distributed	GWh	4,802	4,759	43	1%
Distribution losses	GWh	223	264	(41)	(16%)
Financial figures		**9M 2013**	**9M 2012**	**Δ**	**Δ, %**
Revenue	MLVL	153.9	151.6	2.3	2%
EBITDA	MLVL	50.6	46.0	4.6	10%
Assets	MLVL	875.3	865.7	9.6	1%
Investments	MLVL	40.0	39.7	0.3	1%

Management of transmission system assets

Segment weight in Latvenergo Group	
Revenue	5%
EBITDA	14%
Assets	12%
Employees	10%

Transmission segment revenue growth facilitates improvement of profitability ratios

Financial figures		9M 2013	9M 2012	Δ	Δ, %
Revenue	MLVL	31.4	28.9	2.5	9%
EBITDA	MLVL	20.0	18.8	1.2	6%
Assets	MLVL	295.3	267.6	27.7	10%
Investments	MLVL	36.9	14.9	22.0	148%

Revenue of the transmission system asset management segment forms 5% of Latvenergo Group revenue. In 9 months of 2013, the revenue of the segment amounted to LVL 31.4 million, while EBITDA increased by 6% reaching LVL 20.0 million.

The growth of revenue 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.

Compared to 9 months of 2012, the asset value has increased by 10% reaching LVL 295.3 million due to investments. It is expected that the investments in *Kurzeme Ring* project will continuously exceed depreciation thus resulting in a further increase of the segment asset value.

In 9 months of 2013, the return of transmission system assets is 3.1%. It is expected that steady growth of profitability ratios will continue approaching to the industry averages.

Investments

In 9 months of 2013, the total amount of investments is LVL 112.9 million of which LVL 29.8 million are made in generation assets, LVL 40.0 million in distribution assets and LVL 36.9 million in transmission system assets. Compared to 9 months of 2012, a decrease of investments is due to lower amount invested in reconstruction of Riga TEC-2 second power unit.

The second power unit of Riga TEC-2 is commissioned

To improve the quality and technical parameters of network services, we continue to increase investments in network assets. In 9 months of 2013, the amount invested in networks increased by 41%, comprising 68% of total investments.

Investment projects:

Reconstruction of the Riga TEC-2 power unit

Commissioned in 3Q 2013, Riga TEC-2 second power unit replaces more than 30-year serviced power units thus increasing the safety of power supply, improving power generation efficiency indicators and meeting the environmental requirements.

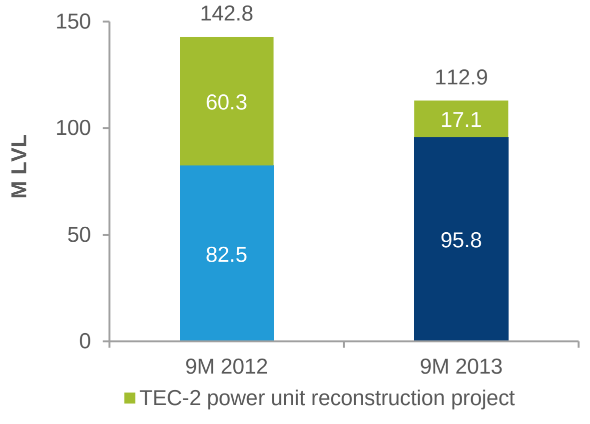
The project was initiated in 2010 and comprised a construction of the second combined-cycle power unit (electrical capacity – 420 MW, thermal capacity – 270 MW in cogeneration). Total costs of the power unit reconstruction project are LVL 225 million.

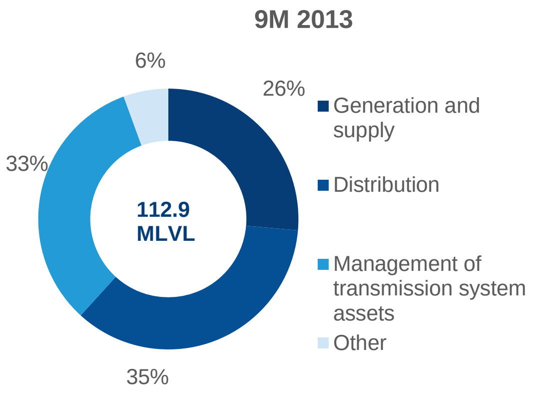
NORDBALT-02-330kV *Kurzeme Ring*

The project *Kurzeme Ring* is part of the international energy infrastructure development project NordBalt. It provides strengthening of the transmission network in the western region of Latvia. The investment is expected to reach LVL 66.2 million until 2014. In 9 months of 2013, the amount invested is LVL 27.4 million. The completed workload is LVL 50.1 million as of 30 September 2013.

Daugava HPPs hydropower unit reconstruction programme

The programme provides reconstruction of 11 hydropower units. The programme is scheduled for completion until 2022 with the total investment exceeding LVL 100 million. The reconstruction programme of unreconstructed hydropower units is in its initial stage – the completed workload is LVL 5.7 million as of 30 September 2013.





Funding and liquidity

We have diversified the borrowing sources by issuing bonds - the total amount of bonds issued exceeds 10% of total borrowings.

In 9 months of 2013, we have issued EUR 50 million bonds with 5-year maturity and EUR 20 million bonds with 7-year maturity.

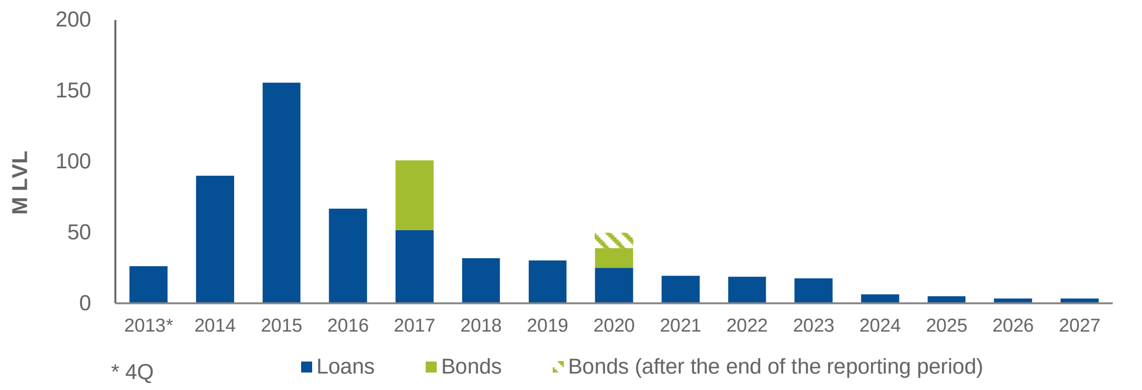
On 2 October 2013, after the end of the reporting period, EUR 15 million bonds with 7-year maturity were issued. Thus, the total amount of bonds issued by Latvenergo AS reached EUR 105 million.

Total amount of bonds issued exceeds 10% of total borrowings

In order to realize the investment programme and fulfil its commitments, Latvenergo Group maintains sufficient liquidity reserves and good liquidity ratios. As at 30 September 2013, the current assets (cash and short term deposits up to 3 months) of Latvenergo Group reached LVL 140.9 million (30 September 2012: LVL 137.8 million), while the current ratio[1] is 1.4 (1.2).

As at 30 September 2013, the Group borrowings are LVL 614.3 million (LVL 551.0 million). The weighted average repayment period remains relatively unchanged – 4.0 years (4.1 years).

1 Current ratio: current assets / current liabilities



As of 1 January 2014, along with the accession of Latvia to the EU Economic and Monetary Union, Latvenergo Group operating activities will no longer be a subject to euro currency risk. So far all borrowings 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, 47% of the borrowings have a fixed interest rate with an average period of 2.0 year as at 30 September 2013.

In 9 months 2013, the weighted average effective interest rate (with interest rate swaps) is 2.6% (2.9%), ensuring sufficient debt service ratios (interest coverage ratio[2] – 4.7).

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

Latvenergo Group net borrowings have increased due to investments in reconstruction of Riga TEC-2 second power unit and reached LVL 473.5 million (LVL 413.1 million) as at 30 September 2013, while Net debt/EBITDA ratio is 2.6 (2.4). In 9 months of 2013, all the binding financial covenants set in Latvenergo Group loan agreements have been met.

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

Statement of Management Responsibility

Based on the information available to the Management Board of Latvenergo AS the *Latvenergo Unaudited Condensed Consolidated Financial Statements for the 9 month period ending 30 September 2013* 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 9 month period ending 30 September 2013 are approved by the Management Board of Latvenergo AS on 25 November 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

Unaudited Interim Condensed Consolidated Financial Statements

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

for the 9 months ended 30 September 2013

1 EUR = 0.702804 LVL

	Notes	01.01.-30.09.2013	01.01.-30.09.2012	01.01.-30.09.2013	01.01.-30.09.2012
		LVL'000	LVL'000	EUR'000	EUR'000
Revenue	5	576,747	546,663	820,637	777,831
Other income		9,320	2,456	13,261	3,495
Materials, consumables and supplies	6	(362,828)	(341,854)	(516,257)	(486,414)
Personnel expenses		(49,584)	(47,786)	(70,552)	(67,993)
Depreciation, amortisation and impairment		(110,199)	(86,911)	(156,799)	(123,663)
Other operating expenses		(31,009)	(24,697)	(44,122)	(35,141)
Operating profit		**32,447**	**47,871**	**46,168**	**68,114**
Finance income		2,439	3,298	3,470	4,693
Finance costs		(8,774)	(8,645)	(12,484)	(12,301)
Share of profit of an associate		248	267	353	380
Profit before income tax		**26,360**	**42,791**	**37,507**	**60,886**
Income tax	7	(3,254)	(6,089)	(4,631)	(8,664)
Profit for the period		**23,106**	**36,702**	**32,876**	**52,222**

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the 9 months ended 30 September 2013

1 EUR = 0.702804 LVL

	01.01.-30.09.2013	01.01.-30.09.2012	01.01.-30.09.2013	01.01.-30.09.2012
	LVL'000	LVL'000	EUR'000	EUR'000
Profit for the period	**23,106**	**36,702**	**32,876**	**52,222**
Other comprehensive income / (loss)				
Gain on revaluation of PPE	9	53,333	13	75,886
Income / (loss) on currency translation differences	1	(40)	2	(57)
Income / (loss) from change in hedge reserve	5,306	(4,403)	7,550	(6,265)
Other comprehensive income for the period	**5,316**	**48,890**	**7,565**	**69,564**
Total comprehensive income for the period	**28,422**	**85,592**	**40,441**	**121,786**

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION as at 30 September 2013 1 EUR = 0.702804 LVL

	Notes	30.09.2013	31.12.2012	30.09.2013	31.12.2012
		LVL'000	LVL'000	EUR'000	EUR'000
ASSETS					
Non-current assets					
Intangible assets and PPE	8	2,154,118	2,153,881	3,065,034	3,064,697
Investment property		1,092	1,116	1,554	1,588
Investments in associates and other financial investments		28	4,948	40	7,040
Held-to-maturity financial assets		20,103	20,134	28,604	28,649
Other non-current assets		38	32	54	45
Total non-current assets		**2,175,379**	**2,180,111**	**3,095,286**	**3,102,019**
Current assets					
Inventories	9	17,601	15,604	25,044	22,203
Trade and other receivables	10	102,922	101,913	146,445	145,008
Current financial investments		5,167	-	7,352	-
Financial assets		360	4,237	512	6,029
Cash and cash equivalents	11	140,879	170,425	200,453	242,493
Total current assets		**266,929**	**292,179**	**379,806**	**415,733**
TOTAL ASSETS		**2,442,308**	**2,472,290**	**3,475,092**	**3,517,752**
EQUITY					
Share capital		904,605	904,605	1,287,137	1,287,137
Non-current assets revaluation reserve		465,685	465,738	662,610	662,685
Hedge reserve		(7,824)	(13,130)	(11,132)	(18,682)
Other reserves		80	77	114	110
Total reserves		**457,941**	**452,685**	**651,592**	**644,113**
Retained earnings		43,628	49,761	62,077	70,803
Non-controlling interest		3,991	3,459	5,678	4,922
Total equity		**1,410,165**	**1,410,510**	**2,006,484**	**2,006,975**
LIABILITIES					
Non-current liabilities					
Borrowings	12	467,910	506,797	665,776	721,107
Issued debt securities (bonds)		63,411	14,033	90,226	19,967
Deferred income tax liabilities		187,243	187,822	266,423	267,246
Provisions	13	10,469	10,508	14,896	14,952
Derivative financial instruments		5,508	12,555	7,837	17,864
Other liabilities and deferred income		108,928	105,425	154,991	150,007
Total non-current liabilities		**843,469**	**837,140**	**1,200,149**	**1,191,143**
Current liabilities					
Borrowings	12	83,011	74,405	118,114	105,869
Derivative financial instruments		6,838	12,144	9,729	17,279
Trade and other current liabilities, deferred income		96,648	135,999	137,518	193,509
Current income tax liabilities		2,047	1,892	2,913	2,692
Issued guarantees		130	200	185	285
Total current liabilities		**188,674**	**224,640**	**268,459**	**319,634**
Total liabilities		**1,032,143**	**1,061,780**	**1,468,608**	**1,510,777**
TOTAL EQUITY AND LIABILITIES		**2,442,308**	**2,472,290**	**3,475,092**	**3,517,752**

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the 9 months ended 30 September 2013

1 EUR = 0.702804 LVL

	Attributable to owners of the Parent Company				Non-controlling interest	TOTAL	Attributable to owners of the Parent Company				Non-controlling interest	TOTAL
	Share capital	Reserves	Retained earnings	Total			Share capital	Reserves	Retained earnings	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**
Increase in share capital	577,990	(577,990)	-	**-**	-	**-**	822,406	(822,406)	-	**-**	-	**-**
Dividends for 2011	-	-	(39,900)	**(39,900)**	-	**(39,900)**	-	-	(56,773)	**(56,773)**	-	**(56,773)**
Transfer to reserves	-	12,992	(12,992)	**-**	-	**-**	-	18,486	(18,486)	**-**	-	**-**
Adjustments of revaluation reserve	-	53,114	219	**53,333**	-	**53,333**	-	75,574	312	**75,886**	-	**75,886**
Profit for the period	-	-	36,372	**36,372**	330	**36,702**	-	-	51,753	**51,753**	469	**52,222**
Other comprehensive loss for the period	-	(4,436)	(7)	**(4,443)**	-	**(4,443)**	-	(6,312)	(10)	**(6,322)**	-	**(6,322)**
Total comprehensive income for the period	**-**	**48,678**	**36,584**	**85,262**	**330**	**85,592**	**-**	**69,262**	**52,055**	**121,317**	**469**	**121,786**
As at 30 September 2012	**903,852**	**460,601**	**29,465**	**1,393,918**	**3,350**	**1,397,268**	**1,286,066**	**655,375**	**41,925**	**1,983,366**	**4,766**	**1,988,132**
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**
Dividends for 2012	-	-	(28,547)	**(28,547)**	(220)	**(28,767)**	-	-	(40,619)	**(40,619)**	(313)	**(40,932)**
Profit for the period	-	-	22,354	**22,354**	752	**23,106**	-	-	31,807	**31,807**	1,069	**32,876**
Other comprehensive income for the period	-	5,256	60	**5,316**	-	**5,316**	-	7,479	86	**7,565**	-	**7,565**
Total comprehensive income for the period	**-**	**5,256**	**22,414**	**27,670**	**752**	**28,422**	**-**	**7,479**	**31,893**	**39,372**	**1,069**	**40,441**
As at 30 September 2013	**904,605**	**457,941**	**43,628**	**1,406,174**	**3,991**	**1,410,165**	**1,287,137**	**651,592**	**62,077**	**2,000,806**	**5,678**	**2,006,484**

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
for the 9 months ended 30 September 2013

1 EUR = 0.702804 LVL

	Notes	01.01.-30.09.2013	01.01.-30.09.2012	01.01.-30.09.2013	01.01.-30.09.2012
		LVL'000	LVL'000	EUR'000	EUR'000
Cash flows from operating activities					
Profit before income tax		26,360	42,791	37,507	60,886
Adjustments for:					
- Amortisation, depreciation, impairment loss of non-current assets		111,922	88,803	159,251	126,355
- Net financial adjustments		6,607	7,413	9,401	10,548
- Other adjustments		(100)	(737)	(143)	(1,048)
(Increase) / decrease in current assets		(2,689)	17,048	(3,826)	24,257
Decrease in payables, accrued expense, deferred income and other liabilities		(43,631)	(28,458)	(62,082)	(40,492)
Cash generated from operations		**98,469**	**126,860**	**140,108**	**180,506**
Interest paid		(12,316)	(7,051)	(17,524)	(10,033)
Interest received		1,716	1,592	2,442	2,265
Income tax paid		(10,562)	(11,916)	(15,029)	(16,955)
Net cash generated from operating activities		**77,307**	**109,485**	**109,997**	**155,783**
Cash flows from investing activities					
Purchase of intangible assets and PPE		(103,419)	(117,556)	(147,152)	(167,267)
Proceeds on financing from EU funds		593	281	844	400
Net investments in held-to-maturity assets		32	40,296	45	57,336
Net cash used in investing activities		**(102,794)**	**(76,979)**	**(146,263)**	**(109,531)**
Cash flows from financing activities					
Proceeds on issued debt securities (bonds)	12	49,378	-	70,259	-
Proceeds on borrowings from credit institutions	12	19,447	66,063	27,671	93,999
Repayment of borrowings	12	(51,127)	(29,731)	(72,747)	(42,303)
Dividends paid to non-controlling interests		(220)	-	(313)	-
Dividends paid*		(21,537)	(39,900)	(30,644)	(56,773)
Net cash used in financing activities		**(4,059)**	**(3,568)**	**(5,774)**	**(5,077)**
Net (decrease) / increase in cash and cash equivalents		**(29,546)**	**28,938**	**(42,040)**	**41,175**
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**	**140,879**	**137,815**	**200,453**	**196,093**

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

Notes to the Interim Condensed Consolidated Financial Statements

1. CORPORATE INFORMATION

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

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

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

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

The Parent Company's associates:

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

The Unaudited Interim Condensed Consolidated Financial Statements for the 9 month period ending 30 September 2013 were authorised by the Latvenergo AS Management Board on 25 November 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 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 2012.

The Unaudited Interim Condensed Consolidated Financial Statements for the 9 month period ending 30 September 2013 include the financial information in respect of the Parent Company and its all subsidiaries for the 9 month period ending 30 September 2013 and comparative information for 9 month period ending 30 September 2012. Comparative information for financial position includes information as at 31 December 2012.

Latvenergo Consolidated Annual Report 2012 has been approved on 15 May 2013 by Latvenergo AS Shareholder'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, that is conforming with the Latvian lats conversion rate to the Euros determined by the European Central Bank in accordance with the ECOFIN decision accepted on 9 July 2013.

3. FINANCIAL RISK MANAGEMENT

3.1. Financial risk factors

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

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

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

a) Market risk

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.

At 30 September 2013 the Group had none of its borrowings and substantial liabilities denominated in any other foreign currency except Euro, therefore, there is no significant foreign currency exchange risk.

The Parent Company's Management has set up a Financial Risk Management policy inter alia to manage the Group's foreign currencies exchange risk against functional currency. To limit the Group's foreign currencies exchange risk arising from future transactions and recognised assets and liabilities, the Group uses forward contracts, transacted by the Group Treasury. Foreign currencies exchange risk arises when future transactions or recognised assets or liabilities are denominated in a currency other than the Group's functional currency or Euro.

II) Cash flow and fair value interest rate risk

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

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

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

III) Price risk

Price risk is the risk that the fair value and cash flows of financial instruments will fluctuate in the future due to reasons other than changes in the market prices resulting from interest rate risk or foreign exchange risk. The purchase and sale of goods produced and the services provided by the Group under the free market conditions, as well as the purchases of resources used in production 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 CO_2 emission allowances for greenhouse gases forward contracts is calculated as difference between actual market and settlement prices for CO_2 emission allowances multiplied by the volume of the forward contract.

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

4. OPERATING SEGMENT INFORMATION

Operating segments

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

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

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

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

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

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

LVL	Generation and supply	Distribution system services	Management of transmission system assets	Corporate functions	TOTAL segments	Adjustments and eliminations	Consolidated
Period 01.01.-30.09.2013	LVL'000	LVL'000	LVL'000	LVL'000	**LVL'000**	LVL'000	**LVL'000**
Revenue							
External customers	390,881	152,952	29,977	2,937	**576,747**	-	**576,747**
Inter-segment	11,115	934	1,377	23,682	**37,108**	(37,108)	**-**
Total revenue	**401,996**	**153,886**	**31,354**	**26,619**	**613,855**	**(37,108)**	**576,747**
Results							
Segment operating profit	**10,818**	**11,725**	**7,336**	**2,568**	**32,447**	**(6,087)**	**26,360**
Capital expenditure	29,789	39,957	36,874	6,297	**112,917**	-	**112,917**
Period 01.01.-30.09.2012							
Revenue							
External customers	364,930	150,704	27,587	3,447	**546,668**	(5)	**546,663**
Inter-segment	13,115	904	1,263	23,776	**39,058**	(39,058)	**-**
Total revenue	**378,045**	**151,608**	**28,850**	**27,223**	**585,726**	**(39,063)**	**546,663**
Results							
Segment operating profit	**33,237**	**4,762**	**6,734**	**3,080**	**47,813**	**(5,022)**	**42,791**
Capital expenditure	82,970	39,656	14,864	5,333	**142,823**	-	**142,823**

EUR	Generation and supply	Distribution system services	Management of transmission system assets	Corporate functions	TOTAL segments	Adjustments and eliminations	Consolidated
Period 01.01.-30.09.2013	EUR'000	EUR'000	EUR'000	EUR'000	**EUR'000**	EUR'000	**EUR'000**
Revenue							
External customers	556,174	217,631	42,653	4,179	**820,637**	-	**820,637**
Inter-segment	15,815	1,329	1,959	33,697	**52,800**	(52,800)	**-**
Total revenue	**571,989**	**218,960**	**44,612**	**37,876**	**873,437**	**(52,800)**	**820,637**
Results							
Segment operating profit	**15,393**	**16,683**	**10,438**	**3,654**	**46,168**	**(8,661)**	**37,507**
Capital expenditure	42,386	56,854	52,467	8,960	**160,667**	**-**	**160,667**
Period 01.01.-30.09.2012							
Revenue							
External customers	519,248	214,432	39,253	4,905	**777,838**	(7)	**777,831**
Inter-segment	18,661	1,286	1,797	33,830	**55,574**	(55,574)	**-**
Total revenue	**537,909**	**215,718**	**41,050**	**38,735**	**833,412**	**(55,581)**	**777,831**
Results							
Segment operating profit	**47,292**	**6,776**	**9,582**	**4,382**	**68,032**	**(7,146)**	**60,886**
Capital expenditure	118,056	56,425	21,150	7,588	**203,219**	-	**203,219**

Segment assets

	Generation and supply	Distribution	Management of transmission system assets	Corporate functions	TOTAL segments	Adjustments and eliminations	Consolidated
At 30 September 2013 LVL'000	1,037,545	875,295	295,301	59,452	**2,267,593**	174,715	**2,442,308**
At 31 December 2012 LVL'000	1,067,218	872,491	269,691	59,192	**2,268,592**	203,698	**2,472,290**
At 30 September 2013 EUR'000	1,476,294	1,245,433	420,175	84,593	**3,226,495**	248,597	**3,475,092**
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.-30.09.2013	01.01.-30.09.2012	01.01.-30.09.2013	01.01.-30.09.2012
	LVL'000	LVL'000	EUR'000	EUR'000
Segment operating profit	**32,447**	**47,813**	**46,168**	**68,032**
Gain on disposal of revalued PPE	-	58	-	82
Finance income	2,439	3,298	3,470	4,693
Finance costs	(8,774)	(8,645)	(12,484)	(12,301)
Share of profit of associates	248	267	353	380
Group profit before income tax	**26,360**	**42,791**	**37,507**	**60,886**

Reconciliation of assets

	30.09.2013	31.12.2012	30.09.2013	31.12.2012
	LVL'000	LVL'000	EUR'000	EUR'000
Segment operating assets	**2,267,593**	**2,268,592**	**3,226,495**	**3,227,916**
Investments in associates	28	4,948	40	7,040
Investments in held-to-maturity financial assets	20,103	20,134	28,604	28,649
Current financial assets	360	42	512	59
Other assets and assets held for sale	13,345	8,149	18,988	11,595
Cash and cash equivalents	140,879	170,425	200,453	242,493
Group operating assets	**2,442,308**	**2,472,290**	**3,475,092**	**3,517,752**

5. REVENUE

	01.01.-30.09.2013	01.01.-30.09.2012	01.01.-30.09.2013	01.01.-30.09.2012
	LVL'000	LVL'000	EUR'000	EUR'000
Electricity and electricity services	471,520	442,634	670,913	629,811
Heat sales	59,045	59,329	84,013	84,418
Lease and management of transmission system assets	29,614	27,112	42,137	38,577
Other revenue	16,568	17,588	23,574	25,025
Total revenue	**576,747**	**546,663**	**820,637**	**777,831**

6. MATERIALS, CONSUMABLES AND SUPPLIES

	01.01.-30.09.2013	01.01.-30.09.2012	01.01.-30.09.2013	01.01.-30.09.2012
	LVL'000	LVL'000	EUR'000	EUR'000
Electricity purchases				
Purchased electricity	199,745	188,160	284,212	267,727
Fair value (income) / loss on electricity swaps	(2,092)	28	(2,977)	40
Electricity transmission services	39,046	38,511	55,557	54,796
	236,699	**226,699**	**336,792**	**322,563**
Fuel expense	107,193	92,998	152,522	132,324
Fair value income on CO_2 emission allowances forward contracts	-	(149)	-	(212)
Raw materials, spare parts and maintenance costs	18,936	22,306	26,943	31,739
Total materials, consumables and supplies	**362,828**	**341,854**	**516,257**	**486,414**

7. INCOME TAX

	01.01.-30.09.2013	01.01.-30.09.2012	01.01.-30.09.2013	01.01.-30.09.2012
	LVL'000	LVL'000	EUR'000	EUR'000
Current tax	(3,824)	(9,712)	(5,442)	(13,819)
Deferred tax	570	3,623	811	5,155
Total income tax	**(3,254)**	**(6,089)**	**(4,631)**	**(8,664)**

8. INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

	Intangible assets	Land, buildings and facilities	Technology equipment and machinery	Other fixed assets	Assets under construction	TOTAL	Intangible assets	Land, buildings and facilities	Technology equipment and machinery	Other fixed assets	Assets under construction	TOTAL
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	**LVL'000**	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	**EUR'000**
At 30 September 2013												
Cost or valuation	24,903	3,009,874	1,416,235	104,679	104,617	**4,660,308**	35,434	4,282,665	2,015,121	148,945	148,857	**6,631,022**
Accumulated amortisation, depreciation and impairment	(17,678)	(1,663,035)	(742,682)	(77,981)	(4,814)	**(2,506,190)**	(25,154)	(2,366,286)	(1,056,741)	(110,957)	(6,850)	**(3,565,988)**
Net book amount	**7,225**	**1,346,839**	**673,553**	**26,698**	**99,803**	**2,154,118**	**10,280**	**1,916,379**	**958,380**	**37,988**	**142,007**	**3,065,034**
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

	30.09.2013	31.12.2012	30.09.2013	31.12.2012
	LVL'000	LVL'000	EUR'000	EUR'000
Raw materials and spare parts	16,415	14,196	23,357	20,199
Other inventories	4,165	4,192	5,926	5,965
Allowance for raw materials, spare parts, technological fuel	(2,979)	(2,784)	(4,239)	(3,961)
Total inventories	**17,601**	**15,604**	**25,044**	**22,203**

10. TRADE RECEIVABLES AND OTHER CURRENT RECEIVABLES

Trade receivables:

	30.09.2013	31.12.2012	30.09.2013	31.12.2012
	LVL'000	LVL'000	EUR'000	EUR'000
Receivables:				
- Electricity customers	62,313	64,637	88,663	91,971
- Heating customers	3,680	19,140	5,236	27,234
- Other trade receivables	19,509	14,450	27,759	20,560
	85,502	**98,227**	**121,658**	**139,765**
Provision for impairment of receivables:				
- Electricity customers	(26,431)	(18,894)	(37,608)	(26,884)
- Heating customers	(419)	(295)	(596)	(420)
- Other trade receivables	(1,403)	(1,217)	(1,996)	(1,732)
	(28,253)	**(20,406)**	**(40,200)**	**(29,036)**
Receivables, net:				
- Electricity customers	35,882	45,743	51,055	65,087
- Heating customers	3,261	18,845	4,640	26,814
- Other trade receivables	18,106	13,233	25,763	18,828
	57,249	**77,821**	**81,458**	**110,729**
Other current receivables and accrued income	45,673	24,092	64,987	34,279
Total trade receivables and other current receivables	**102,922**	**101,913**	**146,445**	**145,008**

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

	01.01.-30.09.2013	01.01.-30.09.2012	2012	01.01.-30.09.2013	01.01.-30.09.2012	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**	**29,035**	**13,826**	**13,825**
Receivables written off during the period as uncollectible	(292)	(104)	(203)	(416)	(148)	(289)
Allowance for impaired receivables	8,139	2,088	10,892	11,581	2,971	15,500
At the end of the period	**28,253**	**11,701**	**20,406**	**40,200**	**16,649**	**29,036**

11. CASH AND CASH EQUIVALENTS

	30.09.2013	31.12.2012	30.09.2013	31.12.2012
	LVL'000	LVL'000	EUR'000	EUR'000
Cash at bank	47,511	25,316	67,602	36,021
Short-term bank deposits	93,368	145,109	132,851	206,472
Total cash and cash equivalents	**140,879**	**170,425**	**200,453**	**242,493**

12. BORROWINGS

	30.09.2013	31.12.2012	30.09.2013	31.12.2012
	LVL'000	LVL'000	EUR'000	EUR'000
Non-current borrowings (excl. current portion)	467,910	506,797	665,776	721,107
Issued debt securities (bonds)	63,411	14,033	90,226	19,967
Total non-current borrowings	**531,321**	**520,830**	**756,002**	**741,074**
Current portion of non-current borrowings	80,415	73,208	114,420	104,165
Accrued interest on non-current borrowings	2,596	1,197	3,694	1,704
Total current borrowings	**83,011**	**74,405**	**118,114**	**105,869**
Total borrowings	**614,332**	**595,235**	**874,116**	**846,943**

Movement in borrowings:

	01.01.-30.09.2013	2012	01.01.-30.09.2013	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	19,447	116,947	27,671	166,401
Borrowing repaid	(51,127)	(48,056)	(72,747)	(68,378)
Accrued interest on borrowings	1,399	(1,023)	1,990	(1,455)
Debt securities (bonds) issued	49,378	14,033	70,259	19,967
At the end of the period	**614,332**	**595,235**	**874,116**	**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.-30.09.2013	01.01.-30.09.2012	2012	01.01.-30.09.2013	01.01.-30.09.2012	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	414	211	26	589	300	38
At the end of the period	**8,174**	**7,945**	**7,760**	**11,631**	**11,304**	**11,042**

Environmental provisions

	01.01.-30.09.2013	01.01.-30.09.2012	2012	01.01.-30.09.2013	01.01.-30.09.2012	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	(453)	(15)	965	(645)	(21)	1,373
At the end of the period	**2,295**	**1,768**	**2,748**	**3,265**	**2,516**	**3,910**

14. RELATED PARTY TRANSACTIONS

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

The following transactions were carried out with related parties:

	01.01.-30.09.2013	01.01.-30.09.2012	01.01.-30.09.2013	01.01.-30.09.2012
	LVL'000	LVL'000	EUR'000	EUR'000
Sales of goods and services	102,165	100,324	145,368	142,748
Purchases of goods and services	56,906	52,953	80,970	75,345

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

	30.09.2013	31.12.2012	30.09.2013	31.12.2012
	LVL'000	LVL'000	EUR'000	EUR'000
Trade receivables from related parties	10,988	21,354	15,635	30,384
Trade payables to related parties	6,829	8,871	9,717	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 9 month period ending 30 September 2013 remuneration to the key management personnel, Supervisory body, including salary, social insurance payments and payments to pension plan is amounted to LVL 729.7 thousand or EUR 1,038.2 thousand (01.01.2012 - 30.09.2012: LVL 667.2 thousand or EUR 949.4 thousand) and are included in the Consolidated Income Statement position 'Personnel expenses'.

15. EVENTS AFTER THE REPORTING PERIOD

On 2 October 2013 Latvenergo AS realised an additional issue of the second series of bonds by issuing 15,000 bonds with total nominal value of EUR 15,000,000 and with a maturity date of 22 May 2020.

In October 2013, in accordance with the Decision of the Management Board of Latvenergo AS No. 231/46 dated 24 September 2013 „On increase in the Share Capital of Latvenergo AS, amendments to the Statutes of Latvenergo AS and approval of the new edition of the Statutes", share capital of Latvenergo AS was increased to LVL 905,219 thousand or EUR 1,288,011 thousand by investing the real estate in amount of LVL 614 thousand or EUR 873.7 thousand. Increase in the share capital was approved by Latvenergo AS Shareholders meeting on 26 September 2013 and registered in the Commercial Register of Latvia on 9 October 2013.

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 9 month period ending 30 September 2013.

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