Unaudited Interim Condensed Consolidated Financial Statements

for the 9 months period ended
30 September 2014

Latvenergo

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

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DISCLAIMER

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

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

Summary

- In 9 months of 2014, electricity spot prices in the Nordic countries still continued to decline due to lower electricity consumption fostered by warmer weather conditions and decline in the global market coal price.
- Cross-border capacity shortage between Estonia and Latvia determines higher price in the Latvia/Lithuania bidding areas compared to the Nordic countries: in 9 months of 2014, electricity price was on average 39% higher. Compared to the respective period last year, electricity prices in Latvia and Lithuania increased by 2%.
- In 2014, compared to 9 months of 2013, both electricity consumption in the Baltics and distributed electricity volume in Latvia decreased by 2%. Decrease was fostered mainly by warmer weather conditions in the beginning of the year.
- Latvenergo Group market share exceeds one-third of the Baltic electricity consumption. In 9 months of 2014, Latvenergo Group retail electricity supply has been increased by 7% compared to the respective period last year. Latvenergo Group supplied 80% of its electricity retail supply on the open electricity market. In 9 months of 2014, retail electricity supply outside Latvia comprises more than one-third of retail electricity supply.
- Amendments to the Electricity Market Law passed on 20 March 2014 provide that the electricity market opening for households in Latvia, which initially was planned to take place on 1 April 2014, shall be postponed, meanwhile obliging Latvenergo AS to ensure electricity supply for captive users at current tariffs until 1 January 2015. In 9 months of 2014, lost revenues due to electricity supply at the regulated tariff was EUR 37.6 million (2013: EUR 44.2 million).
- The year 2014 is a year with the lowest water inflow recorded in the Daugava River during the last 10 years. As a result, generation at Daugava HPPs decreased by 1,597 GWh and was 33% lower than in the respective period last year.
- Support mechanism for electricity generation in cogeneration plants with installed capacity above 4 MW has been revised in 2013. According to the change in support scheme, there is no compensation for costs of natural gas and other variable costs at Riga CHPPs. Cogeneration plants receive only capacity payments thus operating modes at these plants have to be adjusted to the market conditions. Likewise, the support has been decreased by introduction of Subsidised Energy Tax (SET) in 2014.
- Since mid-2014 Latvenergo Group trades all of its generated electricity on Nord Pool Spot exchange, thus multiple times increasing electricity supply in the Latvian bidding area and ensuring greater liquidity.
- In 9 months of 2014, Latvenergo Group revenue decreased by 9% compared to the respective period last year and reached EUR 748.9 million. Decrease was mainly determined by change in mandatory procurement accounting principles as of 1 April 2014 as well as by decline in thermal energy consumption and volume of distributed electricity due to warmer weather conditions.
- In 9 months of 2014, profitability and EBITDA of Latvenergo Group were negatively affected due to lower water inflow in the Daugava River and electricity supply at the regulated tariff to households in Latvia. Compared to the respective period last year, EBITDA of the Group decreased by 12% and reached EUR 178.6 million.
- In August 2014, new 330 kV electricity transmission line connection *Grobiņa-Ventspils* of the *Kurzeme Ring* project was commissioned thus significantly increasing power supply safety in Kurzeme region and in Latvia as whole, enabling future opportunity to use the Lithuania-Sweden marine cable *NordBalt* and access to the Nordic electricity market.
- The total amount of investments was EUR 114.6 million in 9 months of 2014. The amount invested in the networks represents 75% of the total investments.
- Enerģijas publiskais tirgotājs AS, a newly established subsidiary of Latvenergo AS, has taken-over the mandatory procurement administration functions from Latvenergo AS as of 1 April 2014.

Latvenergo Group in Brief

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

Latvenergo Group comprises the parent company Latvenergo AS and seven subsidiaries. In order to improve the transparency of administration of mandatory electricity procurement process, new subsidiary Enerģijas publiskais tirgotājs AS was established on 25 February 2014. The subsidiary has taken over the mandatory procurement administration functions from Latvenergo AS as of 1 April 2014. All shares of Latvenergo AS are owned by the State and they are held by the Ministry of Economics of the Republic of Latvia.

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

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

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

	Country of operations	Type of operation	Participation share
Latvenergo AS	Latvia	Generation and supply of electricity and thermal energy	
Sadales tīkls AS	Latvia	Electricity distribution	100%
Latvijas elektriskie tīkli AS	Latvia	Transmission system asset management	100%
Enerģijas publiskais tirgotājs AS	Latvia	Administration of electricity mandatory procurement process	100%
Elektrum Eesti OÜ	Estonia	Electricity supply	100%
Elektrum Latvija SIA	Latvia	Electricity supply	100%
Elektrum Lietuva UAB	Lithuania	Electricity supply	100%
Liepājas enerģija SIA	Latvia	Thermal energy generation and supply in Liepaja, electricity generation	51%

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

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

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

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

Key Performance Indicators

Operational Figures

		9M 2014	9M 2013
Retail electricity supply	GWh	6,477	6,026
Electricity generation	GWh	2,688	3,775
Thermal energy supply	GWh	1,575	1,772
Number of employees		4,560	4,518
Moody's credit rating		Baa3 (stable)	Baa3 (stable)

Financial Figures

		9M 2014	9M 2013
Revenue	MEUR	748.9	819.1
EBITDA [1)]	MEUR	178.6	203.0
Net profit	MEUR	30.0	32.9
Assets	MEUR	3,522.3	3,475.7
Equity	MEUR	2,020.2	2,006.5
Net debt [2)]	MEUR	713.7	675.4
Investments	MEUR	114.6	159.9

Financial Ratios

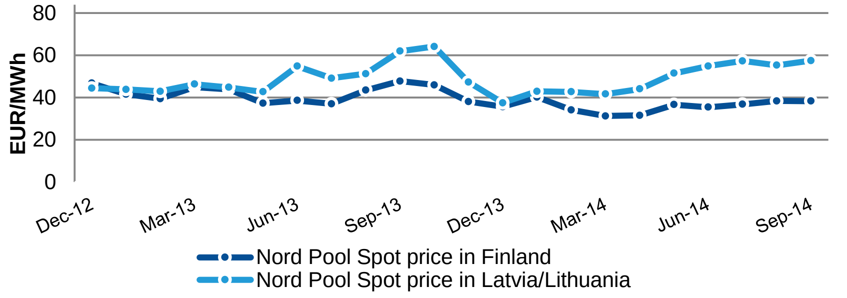
	9M 2014	9M 2013
Net debt / EBITDA [3)]	3.2	2.6
EBITDA margin [4)]	22%	23%
Capital ratio [5)]	57%	58%

1) EBITDA: earnings before interest, corporate income tax, share of profit or loss of associates, depreciation and amortisation, and impairment of intangible and fixed assets
2) Net debt: borrowings at the end of the period minus cash and cash equivalents at the end of the period
3) Net debt / EBITDA: net debt to EBITDA ratio (12-month rolling)
4) EBITDA margin: EBITDA / revenue (12-month rolling)
5) Capital ratio: total equity / total assets

Operating Environment

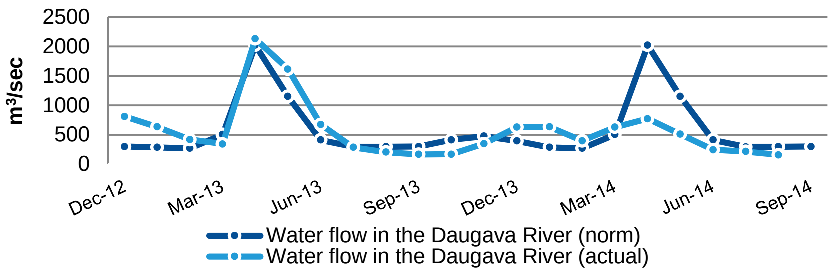
Due to transmission capacity constraints, decrease of Nord Pool Spot prices in the Nordic countries does not foster price decrease in Latvia

In 9 months of 2014, electricity price in the Nord Pool Spot Finland bidding area was 35.9 EUR/MWh – 14% lower than a year before. While spot price in the Latvia/Lithuania bidding areas[1] during the same period increased by 2% reaching 49.8 EUR/MWh.



Compared to the respective period last year, in 9 months of 2014, a decline in electricity price in the Nordic countries was mainly determined by a 2% lower electricity consumption due to warmer weather conditions and a decline in the global market coal price by 7% to 76.1 USD/t on average (9 months of 2013: 81.5 USD/t on average).

In early 2014, power transmission interconnection *EstLink-2* was launched thus increasing cross-border capacity between Estonia and Finland by 650 MW to 1,000 MW and allaying price differences between the Finland and the Estonia bidding areas. As a result, in 9 months of 2014, electricity price in Estonia was 37.5 EUR/MWh – by 14% lower than in the respective period last year. While due to the fact that from the energy balance position Latvia and Lithuania are deficit region countries, the interconnection capacity shortage between power systems determines higher price in these areas compared to the Nordic countries. In 9 months of 2014, the average electricity price in the Latvia/Lithuania bidding areas was 39% higher than in the Finland bidding area. Likewise, since the price differences have diminished between Estonia and Finland, in 9 months of 2014, the price differences between the Latvian/Lithuanian band the Estonia bidding areas increased reaching 12.2 EUR/MWh (9 months 2013: 5.1 EUR/MWh).



Lower electricity prices in the Nordic market, warmer weather conditions in the beginning of the year and lower water inflow in the Daugava River caused reduction of electricity generation in the Baltics. In 9 months of 2014, the total amount of electricity generated in the Baltics reached 13,640 GWh, which is 15% lower than in the respective period last year (9 months of 2013: 15,976 GWh). Decrease of electricity generation in the Baltics was also fostered by commissioning of *EstLink-2*, which provides an opportunity to import higher volume of cheap electricity from the Nordic countries. Due to persistent differences between electricity price in the Nordic countries and in the Baltics, in 9 months of 2014, electricity import from the Nordic countries to the Baltics increased by more than 70% compared to the respective period in 2013 and reached 4,341 GWh.

Since mid-2014 Latvenergo Group trades all of its generated electricity on *Nord Pool Spot* exchange, thus multiple times increasing electricity supply and in the Latvian bidding area and ensuring greater liquidity.

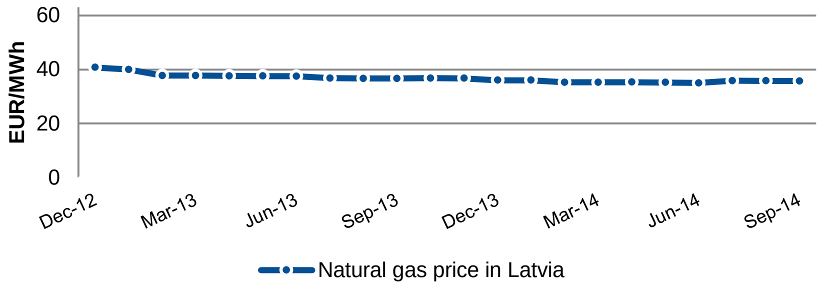
[1] Nord Pool Spot Latvia bidding area was opened on 3 June 2013. In 9 months 2014, electricity prices in the Latvia and Lithuania bidding areas were equal 99.9% hours

Operating Environment

Still high natural gas price in Latvia

The natural gas price in Latvia is linked to the crude oil product price (to the 9-month average heavy fuel oil and diesel quotations index). Due to its change, in 9 months of 2014, the average natural gas price (incl. the excise tax) in Latvia for the user group with consumption above 100,000 thousand nm^3 was 35.5 EUR/MWh, which is 6% lower than in the respective period last year (37.6 EUR/MWh). The average price of *Brent* oil has not significantly changed compared to the respective period last year: in 9 months of 2014, it was 106.6 $/bbl while in 2013 – 108.4 $/bbl.

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



Changes in the regulatory environment applicable to the support of cogeneration plants

Since 16 August 2013 the support scheme for electricity generation in cogeneration plants with installed capacity above 4 MW has been changed. The compensation for natural gas and other variable electricity generation costs above the market price has been removed, while fixed capacity payments are retained at adjusted amount.

Operating modes of Riga CHPPs are adjusted in such way to avoid an adverse impact on Latvenergo Group results due to changes in the support mechanism.

In order to limit the increase of the mandatory procurement public service obligation fee for electricity consumers in Latvia, a Subsidised Energy Tax (SET) has been introduced for a four-year period as of 1 January 2014, which applies to state support for generators of subsidised electricity. The SET applies both to income from electricity supplied under the mandatory procurement process as well as to mandatory procurement capacity payments for installed capacity at cogeneration plants. The tax is differentiated according to the type of energy sources used. For gas-fired cogeneration plants, a 15% applies to the received support amount. In the following years this will imply a decline in revenues of Latvenergo Group.

Operating Environment

Economic growth in the Baltics decelerates

During the first three quarters of 2014, the overall economic growth in the Baltics was mainly driven by increase in household consumption expenditure. According to the Statistical Office of the European Union (*Eurostat*), compared to the respective period last year, in Q3 2014, the GDP growth rate in Latvia was 2.2% (2013: 4.1%), in Lithuania – 2.6% (3.3%) and in Estonia – 2.3% (0.8%). Slowdown of GDP growth rates in the Baltics was mainly determined by slower than expected growth in the EU and weakening economic situation in Russia. Further economic growth might be adversely affected by uncertainty in relation to geopolitical developments and the respective impact on the economy from the economic sanctions. According to the European Commission (EC) forecasts, in 2014, GDP growth in Latvia will reach 2.6%, Lithuania – 2.7% and Estonia – 1.9%.

According to the *Eurostat*, in September 2014, the average annual inflation rate in Latvia was 0.5%, in Lithuania – 0.3%, in Estonia – 1.0%, meanwhile in the Euro zone it was 0.6% and in the EU – 0.7%. The EC forecasts that the average annual inflation rate will be 0.8% in Latvia, 0.3% in Lithuania and 0.7% in Estonia.

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

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

Operating Environment

Future events

- In 2009, the European Commission and Heads of the Baltic Sea Region countries have passed the Baltic Energy Market Interconnection Plan (BEMIP) aimed at integrating the Baltics into the European Union energy market. According to the BEMIP, a gradual opening of the electricity market is carried out in the Baltics along with their accession to the Nordic electricity market, including the establishment of the Nord Pool bidding areas in the Baltics and construction of interconnections. In 2014, the interconnection *Estlink-2* was launched connecting Estonia and Finland. Interconnection between Lithuania and Sweden is scheduled for completion in 2016. As a result, electricity prices in Latvian/Lithuania bidding areas will be determined by supply and demand of electricity in the Nordic countries. In addition, a prerequisite for effective operation of the above-mentioned interconnections is development of the internal Baltic energy infrastructure that will ensure greater power transmission capacity within the Baltic transmission network. Therefore, the *Kurzeme Ring* project is implemented in order to strengthen the safety of electricity transmission in Kurzeme region.

- Amendments to the Electricity Market Law passed on 20 March 2014 provide that the electricity market opening for households in Latvia, which initially was planned to take place on 1 April 2014, shall be postponed, meanwhile obliging Latvenergo AS to ensure electricity supply for captive users at current tariffs until 1 January 2015. If the electricity market for households had been opened on 1 April 2014, it would have had a positive impact on Latvenergo Group results in 2014. In 9 months of 2014, lost revenues due to electricity supply at the regulated tariff was EUR 37.6 million (2013: EUR 44.2 million).

- Complying with the requirements of Directive 2009/72/EC of the European Parliament and of the Council of 13 July 2009, at the end of 2013, the assets of Nordic Energy Link AS were sold to transmission system operators in Estonia and Finland. In 2014, Latvenergo AS participation in the company will be discontinued. Thus, Latvenergo AS, as an electricity generator and supplier, will no longer be a shareholder in Nordic Energy Link AS, which is the owner of the 350 MW transmission cable between Estonia and Finland. These changes will not have an adverse impact on financial results.

- On 30 January 2013, the Council of Public Utilities Commission (PUC) passed a decision on Certification of the Transmission System Operator. In addition, the decision provides that until 30 January 2015 Augstsprieguma tīkls AS has to take over transmission system asset construction and maintenance functions from Latvijas elektriskie tīkli AS (also implying a transfer of employees), while Latvijas elektriskie tīkli AS will continue to conduct transmission system asset management functions – financing and lease of the transmission system assets to Augstsprieguma tīkls AS. These changes will not have an adverse impact on financial results.

Financial Results

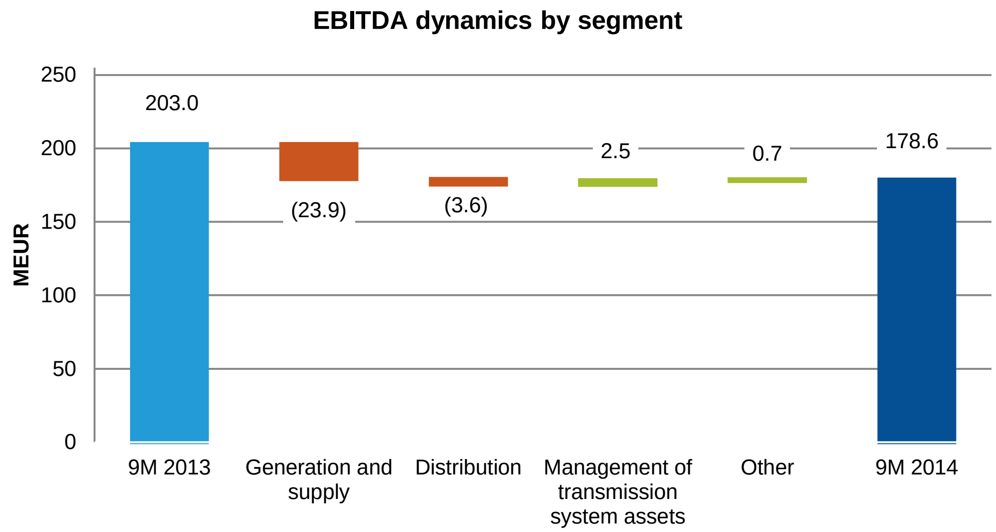
In 9 months of 2014, Latvenergo Group revenue decreased by 9% to EUR 748.9 million. Revenue declined mainly due to change in mandatory procurement accounting principles as of 1 April 2014 (see Section "Mandatory procurement"). Besides, due to warmer weather conditions, demand of thermal energy and distributed electricity volume have decreased compared to the respective period in 2013.

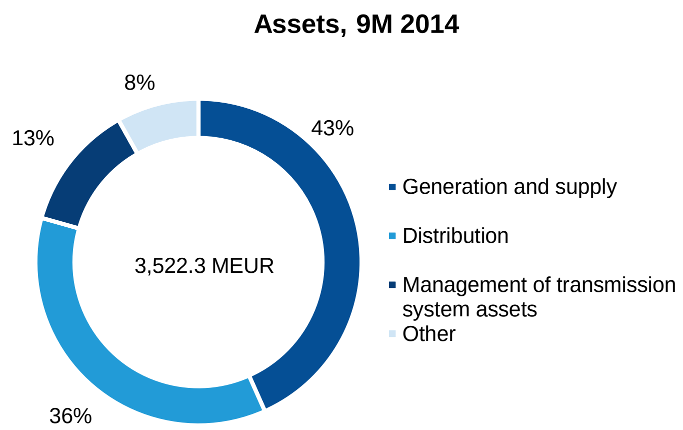
Latvenergo Group EBITDA decreased by 12% compared to the respective period last year and reached EUR 178.6 million. In 9 months of 2014, Latvenergo Group net profit was EUR 30.0 million.

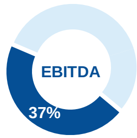
Financial figures		9M 2014	9M 2013	Δ	Δ, %
Revenue	MEUR	748.9	819.1	(70.2)	(9%)
EBITDA	MEUR	178.6	203.0	(24.3)	(12%)
Assets	MEUR	30.0	32.9	(2.9)	(9%)
Investments	MEUR	3,522.3	3,475.7	46.6	1%

The year 2014 is a year with the lowest water inflow recorded in the Daugava River during the last 10 years. As a result, generation at Daugava HPPs decreased by 1,597 GWh and was 33% lower than in the respective period last year.

Likewise, results of the Group were negatively affected by lost revenues due to electricity supply at the regulated tariff in Latvia comprising EUR 37.6 million in 9 months of 2014.







Generation and Supply

Revenue
63%
EBITDA
37%
Assets
43%
Employees
22%

Segment weight in Latvenergo Group

The generation and supply is the largest operating segment of Latvenergo Group both by revenue and by EBITDA. 86% of the segment revenue consists of revenues from electricity and related services, 14% – from thermal energy supply.

> Latvenergo Group – the largest electricity supplier in the Baltics

Along with the completion of the Riga 2nd combined heat and power plant (Riga TEC-2) second power unit reconstruction project in late 2013, in 9 months of 2014, investments in generation and supply segment assets have decreased.

Operational figures		9M 2014	9M 2013	Δ	Δ, %
Electricity supply	GWh	6,477	6,026	451	7%
Electricity generation	GWh	2,688	3,775	(1 088)	(29%)
Thermal energy generation	GWh	1,610	1,806	(196)	(11%)

Financial figures		9M 2014	9M 2013	Δ	Δ, %
Revenue	MEUR	502.2	571.9	(69.7)	(12%)
EBITDA	MEUR	65.7	89.6	(23.9)	(27%)
Assets	MEUR	1,526.0	1,476.9	49.1	3%
Investments	MEUR	22.3	42.4	(20.1)	(47%)

Supply

Latvenergo Group is the largest electricity supplier in the Baltics. In 9 months of 2014, we have supplied 6,477 GWh of electricity to retail customers in the Baltics, representing more than one-third of the Baltic market.

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

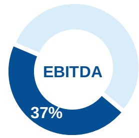
In 9 months of 2014, as a result of focused electricity trade activities, retail electricity supply in the Baltics has been increased by 7% despite a decline in the Baltic electricity consumption by approximately 2% due to warmer weather conditions.

Most significantly electricity supply increased outside Latvia – in 9 months of 2014, the electricity supply volume in Lithuania and Estonia has been increased by 47% and comprises more than one-third of retail electricity supply, while the number of customers in neighbouring countries reached nearly 34 thousands.

The total electricity supply volume in Lithuania and Estonia reached 2,368 GWh, which is 1,399 GWh higher than the amount provided by competing electricity suppliers in Latvia.

Latvenergo Group electricity supply volume in Latvia was 4,109 GWh, in Lithuania – 1,393 GWh (market share – 20%) and in Estonia – 975 GWh (17%).

80% of Latvenergo Group retail electricity were supplied on the open electricity market in the Baltics, while 20% – at the regulated tariff in Latvia.



Generation and Supply

Generation

In 9 months of 2014, the total amount of electricity generated by the power plants of Latvenergo Group was 2,688 GWh, which is by 29% lower than last year. The decrease of electricity generation was mainly determined by lower water inflow and the resultant lower electricity output at Daugava HPPs. Compared to 9 months of 2013, generation at Daugava HPPs decreased by 33% or 787 GWh.

Electricity generation at Riga combined heat and power plants (Riga CHPPs) also decreased by 23% or 307 GWh. Reduction of electricity output at Riga CHPPs was mainly determined by lower thermal energy demand due to warmer weather conditions and by adjustment works performed at Riga TEC-2 second power unit during 2013 .

Amendments to the support mechanism provide that cogeneration plants with installed capacity above 4 MW will no longer receive a compensation of natural gas used and other variable electricity generation costs above the marketprice at.

Latvenergo AS adjusts the operating modes of cogeneration plants according to the market conditions thus reducing the adverse impact on the financial results of Latvenergo Group. Cogeneration plants operate efficiently and flexibly, i.e. reducing the generation scale in cogeneration plants under adverse electricity and natural gas market conditions and using the opportunity to import cheaper electricity from the Nordic countries. Besides, Riga CHPPs ensure price stabilization in the region and allow limiting the risk of electricity price increase.

Operational figures		**9M 2014**	**9M 2013**	**Δ**	**Δ, %**
Retail electricity supply	GWh	6,477	6,026	451	7%
Electricity generation	GWh	2,688	3,775	(1 088)	(29%)
Daugava HPPs	GWh	1,597	2,384	(787)	(33%)
Riga CHPPs	GWh	1,052	1,359	(307)	(23%)
Liepaja plants and small plants	GWh	38	32	6	18%
Thermal energy generation	GWh	1,610	1,806	(196)	(11%)
Riga CHPPs	GWh	1,442	1,621	(179)	(11%)
Liepaja plants and small plants	GWh	169	185	(17)	(9%)

In 9 months of 2014, electricity generation volume comprises 41% of total retail electricity supply.

In 9 months of 2014, the total amount of thermal energy generated by Latvenergo Group was 1,610 GWh, which is 11% lower than in the respective period last year. The decrease was determined by a higher average ambient air temperature during the heating season: according to the data of the Central Statistical Bureau of the Republic of Latvia, the average temperature in Riga from January to April 2014 was 2.3 °C (2013: - 1.3 °C).

In order to limit the increase of the mandatory procurement public service obligation fee for electricity consumers in Latvia, a Subsidised Energy Tax (SET) has been introduced for a four-year period as of 1 January 2014. For gas-fired cogeneration plants, a 15% applies to the received support amount. In 9 months 2014, Latvenergo AS has paid EUR 11.3 million in SET (Latvenergo Group – EUR 11.5 million).

Reconstruction of Riga TEC-2 was finished in late 2013, thus the installed electrical capacity at Riga CHPPs increased by 199 MW or 26%. Although capacity payments received by Latvenergo AS have increased by EUR 11.2 million along with increase of installed capacity, the weighted payments on installed capacity unit actually have decreased by one-tenth.

In 9 months of 2014, the weight of Latvenergo AS power plants in the eligible costs of mandatory procurement (see Section “Mandatory procurement”), excluding SET costs, was 40%.

Generation and Supply

Mandatory procurement

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

Mandatory procurement expenditures[2] are covered through a mandatory procurement public service obligation fee (PSO) charged to the end users in Latvia. The mandatory procurement public service obligation fee is determined on the basis of the actual costs in the preceding year and approved by the Public Utilities Commission (PUC). Changes enter into force on 1 April of the following year.

> Mandatory procurement does not affect the results of Latvenergo Group

		9M 2014	9M 2013	Δ	Δ, %
Mandatory procurement PSO fee income	MEUR	131.8	118.4	13.3	11%
Change in liabilities of accrued compensable mandatory procurement PSO	MEUR	(12.5)	30.0	(42.5)	(142%)
Mandatory procurement expenditures[2]:	MEUR	(180.5)	(148.5)	(32.1)	22%
Cogeneration after SET	MEUR	(100.2)	(96.8)	(3.5)	4%
Renewable energy resources SET	MEUR	(57.9)	(51.7)	(6.2)	12%
SET	MEUR	(22.4)	0.0	(22.4)	–
Unsettled revenue on mandatory procurement PSO fee recognised as assets	MEUR	**61.3**	**0.0**	**61.3**	–

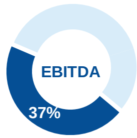
In 9 months of 2014, income from the mandatory procurement public service obligation fee has increased by 11% due to increase of the mandatory procurement public service obligation fee from 17.5 EUR/MWh to 26.9 EUR/MWh as of 1 April 2013. While the mandatory procurement public service obligation fee has not changed significantly since 1 April 2014 and is 26.8 EUR/MWh.

The Electricity Market Law provide that, as of 1 April 2014, Enerģijas publiskais tirgotājs AS has to compensate the difference between mandatory procurement costs above the market price and mandatory procurement income received for the period from 1 January 2013 to 1 April 2014 to the former public trader (Latvenergo AS).

In 9 months of 2014, the amount of mandatory procurement public service obligation fee income received from customers does not cover the actual supportable electricity procurement expenditures. In accordance with regulations set by the PUC, this income shortfall will be covered by mandatory procurement public service obligation fee income in the following years. In 9 months of 2014, the recoverable amount comprised EUR 61.3 and it was included in Latvenergo Group balance sheet under receivables. Along with change in mandatory procurement accounting principles, as of 1 April 2014, mandatory procurement does not affect the results of Latvenergo Group.

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

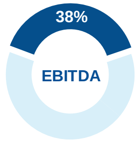
[2] Mandatory procurement expenditures – costs of electricity purchased within the mandatory procurement and guaranteed fee for electrical capacity installed at power plants minus revenues from sale of purchased electricity on the Nord Pool Spot exchange



Generation and Supply

Along with introduction of SET, in 9 months of 2014, EUR 22.4 million were withheld from mandatory procurement support payments to generators and transferred into the State Budget. SET transferred to the State Budget will be used as a source of funding for the State Budget programme “Electricity user support” under which a grant of EUR 29.3 million has been approved in 2014 to limit the increase of the mandatory procurement public service obligation fee.

In 9 months of 2014, mandatory procurement expenditures increased by EUR 32.1 million compared to the previous year and reached EUR 180.5 million. Major part or EUR 6.2 million of expenditure increase comprises payments to generators using renewable energy sources for electricity generation, mostly to biomass and biogas-fired power plants.



Distribution

Segment weight in Latvenergo Group

Revenue **27%**

EBITDA **38%**

Assets **36%**

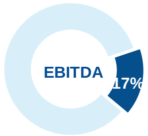
Employees **56%**

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

The distribution segment is the second largest segment of Latvenergo Group by revenue. In 9 months of 2014, along with a lower distributed electricity volume, revenue of the segment decreased by 2% and was EUR 216.4 million, while EBITDA decreased by 6% compared to the respective period last year and reached EUR 68.4 million.

In 9 months of 2014, results of the segment were positively impacted by 13 GWh lower distribution losses. Results were negatively affected by 2% decrease in distributed electricity volume in Latvia due to lower electricity consumption than in the respective period last year. Decrease in electricity consumption in Latvia was determined by warmer weather conditions during the heating season and lower industrial sector electricity consumption.

Operational figures		**9M 2014**	**9M 2013**	**Δ**	**Δ, %**
Electricity distributed	GWh	4,729	4,802	(73)	(2%)
Distribution losses	GWh	210	223	(13)	(6%)
Financial figures		**9M 2014**	**9M 2013**	**Δ**	**Δ, %**
Revenue	MEUR	216.4	217.5	(1.0)	0%
EBITDA	MEUR	68.4	72.1	(3.6)	(5%)
Assets	MEUR	1,269.5	1,245.5	24.0	2%
Investments	MEUR	60.1	56.9	3.3	6%



Management of transmission system assets

Segment weight in Latvenergo Group

Revenue	6%
EBITDA	17%
Assets	13%
Employees	10%

Transmission segment revenue growth facilitates improvement of profitability ratios

Revenue of the transmission system asset management segment represents 6% of Latvenergo Group revenue. In 9 months of 2014, revenue of the segment increased by 3% reaching EUR 45.6 million, while EBITDA increased by 9% reaching EUR 30.9 million.

In 9 months of 2014, the return on transmission system assets[3] was 3.8% (9 months of 2013: 3.1%). It is expected that improvement of profitability ratios will continue gradually approaching the industry averages.

Financial figures		9M 2014	9M 2013	Δ	Δ, %
Revenue	MEUR	45.6	44.5	1.2	3%
EBITDA	MEUR	30.9	28.5	2.5	9%
Assets	MEUR	439.1	420.2	18.9	5%
Investments	MEUR	25.4	51.7	(26.3)	(51%)

The increase in revenue was determined by a gradual inclusion of the value of regulatory asset revaluation reserve into the lease. Likewise, compared to the respective period last year, the asset value has increased by 5% reaching EUR 439.1 million. It is expected that investments in the *Kurzeme Ring* project will continuously exceed depreciation, thus resulting in a further increase of the segment asset value.

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

Investments

In 9 months of 2014, the total amount of investments was EUR 114.6 million, of which EUR 22.3 million were invested in generation assets, EUR 60.1 million – in distribution assets, EUR 25.4 million – in transmission system assets. Compared to 9 months of 2013, a 28% decrease of investments was mainly due to completion of the Riga TEC-2 second power unit reconstruction project in late 2013 and lower investments in the final stage of project *Kurzeme Ring* transmission line connection *Grobiņa-Ventspils* construction.

> Construction of transmission line connection *Grobiņa-Ventspils* is completed

To improve the quality of network services and technical parameters, we continuously invest in network assets. In 9 months of 2014, the amount invested in the network represents 75% of the total investments. Significant amount of investment comprises investments in environmentally friendly and environmental development projects – in 9 months of 2014, almost EUR 10 million were invested in Daugava HPPs hydropower unit reconstruction.

Investment projects:

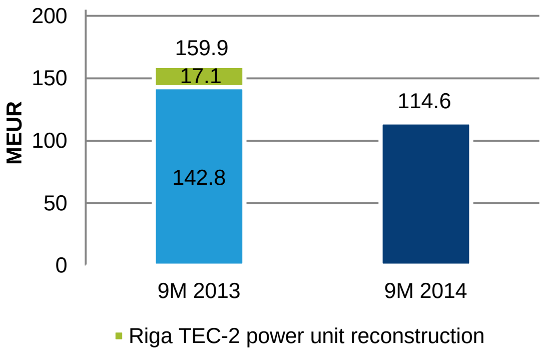
<u>NORDBALT-02-330kV *Kurzeme Ring*</u>

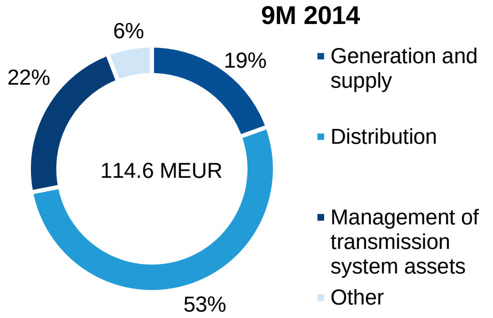
In August 2014, 330 kV electricity transmission line connection *Grobiņa-Ventspils* of the *Kurzeme Ring* project was commissioned thus significantly increasing power supply safety in Kurzeme region and in Latvia as whole, enabling future opportunity to use the Lithuania-Sweden marine cable *NordBalt* and access to the Nordic electricity market.

The *Kurzeme Ring* project is part of the international energy infrastructure development project *NordBalt*. It provides for strengthening of the transmission network in the western region of Latvia. The total construction costs of the *Kurzeme Ring* project are estimated at EUR 220 million and it is scheduled for completion in 2019. In 9 months of 2014, EUR 11.4 million were invested in construction of the project, while total investments reached EUR 94.8 million as at 30 September 2014. Environmental impact assessment has been performed for the final stage of the project *Ventspils-Tume-Rīga* and planning preparation works are carried out for further implementation of the project. Transmission line connection *Ventspils-Tume-Rīga* of the *Kurzeme Ring* project has been included in the indicative funding allocation list of the European Commission.

<u>Daugava HPPs hydropower unit reconstruction programme</u>

Taking care for the environmentally safe business practices and effective use of water resources, the Daugava HPPs hydropower unit reconstruction programme provides for the reconstruction of 11 hydropower units. The programme is scheduled for completion until 2022, with the estimated total reconstruction costs exceeding EUR 200 million. The reconstruction programme is in its initial stage – the completed workload within the contract reached EUR 18.3 million as at 30 September 2014. In late 2013, within the framework of reconstruction, a contract for replacement of Plavinas HPP hydropower units N1 and N3 has been concluded, the total costs of which are estimated up to EUR 28.1 million. In the beginning of 2014, a contract for reconstruction of three hydropower units at Kegums second hydropower plant (Kegums HES-2) has been concluded with total costs estimated at EUR 49.9 million. The reconstruction will provide for further 40-year operation of hydropower units.





Funding and liquidity

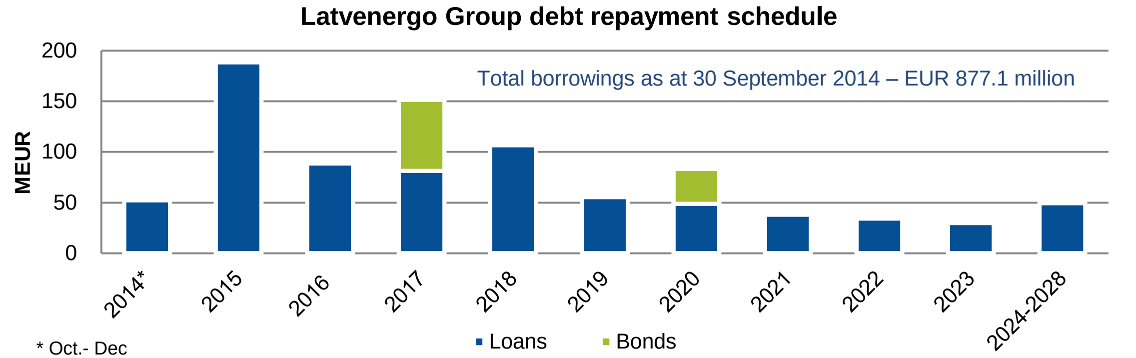
Latvenergo Group regularly sources borrowed capital to ensure the required funding for investment programme of following years in a timely manner. Timely attracted funding is also cruical in order to manage loan refinancing risk management and ensure debt repayments due in 2015.

After the end of the reporting period, procurement of bank loans was finalised attracting borrowed funds in the amount of EUR 150 million with maturity of 5 and 7 years.

> We plan and source funding in a timely manner

As at 30 September 2014, the Group borrowings were EUR 877.1 million (30 September 2013: EUR 875.9 million). We have diversified the borrowing sources by issuing bonds in 2012 and 2013 – the total amount of bonds issued reaches EUR 105 million.

All borrowings are denominated in the Euro currency. As at 30 September 2014, the weighted average repayment period is 4.2 years (4.0 years). Nearly all borrowings from financial institutions have a variable interest rate, comprising 3 to 6 month EURIBOR and margin rate. Taking into account the effect of interest rate swaps, 44% of the borrowings have a fixed interest rate with an average period of 1.8 years.



* Oct.- Dec

In 9 months of 2014, the effective weighted average interest rate (with interest rate swaps) was 2.5% (2.6%), ensuring sufficient debt service ratios (interest coverage ratio [4] – 7.9).

The net borrowings of Latvenergo Group have increased due to investments in the reconstruction of network assets and reached EUR 713.7 million (EUR 675.4 million) as at 30 September 2014, while the net debt/EBITDA ratio was 3.2 (2.6).

Latvenergo Group maintains sufficient liquidity reserves and good liquidity ratios in order to implement the investment programme and fulfil its commitments according to the debt repayment schedule. As at 30 September 2014, the liquid assets (cash and short term deposits up to 3 months) of Latvenergo Group reached EUR 163.5 million (EUR 200.5 million), while the current ratio [5] was 1.3 (1.4).

In 9 months of 2014, all the binding financial covenants set in Latvenergo Group loan agreements have been met.

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

[4] Interest coverage ratio: (net cash flow from operating activities (12-month rolling) – changes in working capital + interest expense (12-month rolling)) / interest expense (12-month rolling)
[5] Current ratio: current assets / current liabilities

Statement of Management Responsibility

Based on the information available to the Management Board of Latvenergo AS the *Latvenergo Unaudited Condensed Consolidated Financial Statements for the 9 months period ended 30 September 2014*, including the Management Report, have been prepared in accordance with applicable laws and regulations and in all material aspects give a true and fair view of assets, liabilities, financial position and profit and loss of Latvenergo Group.

Latvenergo Unaudited Condensed Consolidated Financial Statements for the 9 months period ended 30 September 2014 are approved by the Management Board of Latvenergo AS on 25 November 2014.

The Management Board of Latvenergo AS:

Āris Žīgurs
Chairman of the Board

Zane Kotāne
Member of the Board

Uldis Bariss
Member of the Board

Māris Kuņickis
Member of the Board

Arnis Kurgs
Member of the Board

Unaudited Interim Condensed Consolidated Financial Statements

Consolidated Income Statement
for the 9 months ended 30 September 2014

	Notes	01/01–30/09/2014	01/01–30/09/2013
		EUR'000	EUR'000
Revenue	5	748,885	819,101
Other income		2,155	1,454
Raw materials and consumables used	6	(454,364)	(505,121)
Personnel expenses		(73,323)	(70,347)
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment		(131,843)	(156,799)
Other operating expenses		(44,712)	(42,120)
Operating profit		**46,798**	**46,168**
Finance income		2,227	3,470
Finance costs		(15,206)	(12,484)
Share of profit / (loss) of associates		(493)	353
Profit before taxes		**33,326**	**37,507**
Income tax	7	(3,308)	(4,631)
Profit for the period		**30,018**	**32,876**

Consolidated Statement of Comprehensive Income
for the 9 months ended 30 September 2014

	01/01–30/09/2014	01/01–30/09/2013
	EUR'000	EUR'000
Profit for the period	**30,018**	**32,876**
Other comprehensive (loss) / income to be reclassified to profit or loss in subsequent periods:		
- (loss) / income from change in hedge reserve	(6,740)	7,550
- (loss) / income on currency translation differences	(14)	2
Net other comprehensive (loss) / income to be reclassified to profit or loss in subsequent periods	**(6,754)**	**7,552**
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:		
- gains on revaluation of property, plant and equipment	-	13
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods	**-**	**13**
TOTAL other comprehensive (loss) / income for the period	**(6,754)**	**7,565**
TOTAL comprehensive income for the period	**23,264**	**40,441**

Consolidated Statement of Financial Position

	Notes	30/09/2014	31/12/2013
		EUR'000	EUR'000
ASSETS			
Non–current assets			
Intangible assets and property, plant and equipment	8	3,078,202	3,097,905
Investment property		1,430	1,473
Investments in associates and other financial investments		41	41
Investments in held–to–maturity financial assets		28,543	28,588
Other non–current receivables		21	57
TOTAL non–current assets		**3,108,237**	**3,128,064**
Current assets			
Inventories	9	25,665	21,634
Trade receivables and other current receivables	10	219,647	161,560
Current financial investments		5,094	8,060
Derivative financial instruments		211	617
Cash and cash equivalents	11	163,459	255,423
TOTAL current assets		**414,076**	**447,294**
TOTAL ASSETS		**3,522,313**	**3,575,358**
EQUITY			
Share capital		1,288,011	1,288,011
Reserves		645,664	652,418
Retained earnings		80,571	74,832
Equity attributable to equity holders of the Parent Company		**2,014,246**	**2,015,261**
Non–controlling interests		5,929	6,453
TOTAL equity		**2,020,175**	**2,021,714**
LIABILITIES			
Non–current liabilities			
Borrowings	12	719,008	805,192
Deferred income tax liabilities		268,998	269,116
Provisions		16,298	15,597
Derivative financial instruments		11,823	6,238
Other liabilities and deferred income		173,882	170,152
TOTAL non–current liabilities		**1,190,009**	**1,266,295**
Current liabilities			
Trade and other payables		145,476	130,670
Borrowings	12	158,120	139,483
Derivative financial instruments		8,533	17,196
TOTAL current liabilities		**312,129**	**287,349**
TOTAL liabilities		**1,502,138**	**1,553,644**
TOTAL EQUITY AND LIABILITIES		**3,522,313**	**3,575,358**

Consolidated Statement of Changes in Equity
for the 9 months ended 30 September 2014

	Attributable to equity holders of the Parent Company				Non–controlling interests	TOTAL
	Share capital	Reserves	Retained earnings	Total		
	EUR'000	EUR'000	EUR'000	**EUR'000**	EUR'000	**EUR'000**
As at 31 December 2012	**1,287,137**	**644,113**	**70,803**	**2,002,053**	**4,922**	**2,006,975**
Increase in share capital	874	–	–	**874**	–	**874**
Dividends for 2012	–	–	(40,619)	**(40,619)**	(313)	**(40,932)**
TOTAL contributions by and distributions to equity holders of the Parent Company, recognised directly in equity	**874**	**–**	**(40,619)**	**(39,745)**	**(313)**	**(40,058)**
Profit for the year	–	–	44,305	**44,305**	1,844	**46,149**
Other comprehensive income	–	8,305	343	**8,648**	–	**8,648**
TOTAL comprehensive income	**–**	**8,305**	**44,648**	**52,953**	**1,844**	**54,797**
As at 31 December 2013	**1,288,011**	**652,418**	**74,832**	**2,015,261**	**6,453**	**2,021,714**
As at 31 December 2012	**1,287,137**	**644,113**	**70,803**	**2,002,053**	**4,922**	**2,006,975**
Dividends for 2012	-	-	(40,619)	**(40,619)**	(313)	**(40,932)**
TOTAL contributions by and distributions to equity holders of the Parent Company, recognised directly in equity	**-**	**-**	**(40,619)**	**(40,619)**	**(313)**	**(40,932)**
Profit for the period	-	-	31,807	**31,807**	1,069	**32,876**
Other comprehensive income	-	7,479	86	**7,565**	-	**7,565**
TOTAL comprehensive income	**-**	**7,479**	**31,893**	**39,372**	**1,069**	**40,441**
As at 30 September 2013	**1,287,137**	**651,592**	**62,077**	**2,000,806**	**5,678**	**2,006,484**
As at 31 December 2013	**1,288,011**	**652,418**	**74,832**	**2,015,261**	**6,453**	**2,021,714**
Dividends for 2013	**-**	**-**	(23,605)	**(23,605)**	(1,198)	**(24,803)**
TOTAL contributions by and distributions to equity holders of the Parent Company, recognised directly in equity	**-**	**-**	**(23,605)**	**(23,605)**	**(1,198)**	**(24,803)**
Profit for the period	-	-	29,344	**29,344**	674	**30,018**
Other comprehensive loss	-	(6,754)	-	**(6,754)**	-	**(6,754)**
TOTAL comprehensive (loss) / income	**-**	**(6,754)**	**29,344**	**22,590**	**674**	**23,264**
As at 30 September 2014	**1,288,011**	**645,664**	**80,571**	**2,014,246**	**5,929**	**2,020,175**

Consolidated Statement of Cash Flows
for the 9 months ended 30 September 2014

	Notes	01/01–30/09/2014	01/01–30/09/2013
		EUR'000	EUR'000
Cash flows from operating activities			
Profit before tax		33,326	37,507
Adjustments:			
- Amortisation, depreciation and impairment of non–current assets		133,946	159,251
- Net financial adjustments		4,649	9,401
- Other adjustments		732	(143)
Operating profit before working capital adjustments		**172,653**	**206,016**
Increase in current assets		(73,748)	(3,826)
Increase / (decrease) in trade and other payables		20,588	(62,082)
Cash generated from operating activities		**119,493**	**140,108**
Interest paid		(10,310)	(17,524)
Interest received		1,860	2,442
Income tax paid		(4,604)	(15,029)
Net cash flows from operating activities		**106,439**	**109,997**
Cash flows from investing activities			
Purchase of intangible assets and property, plant and equipment		(117,868)	(147,152)
Proceeds on financing from EU funds and other financing		2,073	844
Proceeds from redemption of held–to–maturity assets		45	45
Net cash flows used in investing activities		**(115,750)**	**(146,263)**
Cash flows from financing activities			
Proceeds from issued debt securities (bonds)	12	-	70,259
Proceeds from borrowings from financial institutions	12	22,600	27,671
Repayment of borrowings	12	(93,880)	(72,747)
Dividends paid to non–controlling interests		(1,198)	(313)
Dividends paid*		(12,649)	(30,644)
Dividends received from associates	13	2,474	-
Net cash flows used in financing activities		**(82,653)**	**(5,774)**
Net decrease in cash and cash equivalents		**(91,964)**	**(42,040)**
Cash and cash equivalents at the beginning of the period	11	255,423	242,493
Cash and cash equivalents at the end of the period	**11**	**163,459**	**200,453**

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

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

1. Corporate information

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

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

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

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

Latvenergo AS is a shareholder in two associated companies:

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

On 26 September Shareholder's Meeting of Latvenergo AS decided to terminate Latvenergo AS participation in Nordic Energy Link AS. According to the Directive 2009/72/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in electricity and repealing Directive 2003/54/EC, Latvenergo AS, as electricity generator and supplier, needs to perform activities so that after 31 December 2013 it would not be owner of the electricity transmission infrastructure. In the Consolidated Statement of Financial Position as at 30 September 2014 and as at 31 December 2013 investment in Nordic Energy Link AS is presented as the current financial investment held for sale. On 12 February 2014 the Cabinet of Ministers of the Republic of Latvia adopted decision No. 67 „On Latvenergo AS termination of partnership in Nordic Energy Link AS" and on 19 March 2014 at the Nordic Energy Link AS Shareholders' meeting was approved decision to liquidate Nordic Energy Link AS.

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

The Unaudited Interim Condensed Consolidated Financial Statements for the 9 month period ending 30 September 2014 include the financial information in respect of the Parent Company and its all subsidiaries for the 9 month period ending 30 September 2014 and comparative information for 9 month period ending 30 September 2013. Comparative information for financial position includes information as at 31 December 2013.

The Unaudited Interim Condensed Consolidated Financial Statements for the 9 month period ending 30 September 2014 were authorised by the Latvenergo AS Management Board on 25 November 2014.

2. Summary of most significant accounting policies

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

New or revised IFRS adopted and amendments to International Financial Reporting Interpretations Committee interpretations (IFRIC) that became mandatory for the Group from 1 January 2014 did not have any impact to the Group's accounting policies and Consolidated Financial Statements.

The Unaudited Interim Condensed Consolidated Financial Statements are prepared under the historical cost convention, as modified by the revaluation of non-current assets, financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss disclosed in accounting policies presented in the Latvenergo Group Consolidated Financial Statements of 2013.

Accounting policies are supplemented, and since 1 April 2014 and as as at 30 September 2014 mandatory procurement public service obligation revenue and costs have been recognised as unsettled difference or uncollected revenue on mandatory procurement public service obligation as assets in the Consolidated Statement of Financial position by applying principal/agent accounting principle (see Note 10).

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

3. Financial risk management

3.1. Financial risk factors

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

Risk management is carried out by the Parent Company (the Group Treasury) according to the Group's Financial Risk Management Policy. The Group Treasury identifies, evaluates and hedges financial risks in close co–operation with the Group's operating units / subsidiaries. The Parent Company's Management Board by approving the Group's Financial Risk Management Policy provides written principles for the Group's overall risk management, as well as written policies covering specific areas, such as interest rate risk, foreign exchange risk, liquidity risk and credit risk, and defines use of financial instruments and investment of excess liquidity.

a) Market risk

I) Foreign exchange risk

The introduction of Euro in Latvia at 1 January 2014 prevented the Euro currency risk. As at 30 September 2014 the Group had none of its borrowings and substantial liabilities denominated in any other foreign currency except Euro, therefore, there is no significant foreign currency exchange risk.

The Parent Company has certain investment in subsidiary, which are exposed to foreign currency risks. Currency exposure arising from the net assets of the Group's foreign operations in Lithuania is limited as subsidiary have insignificant amount of assets and Lithuania has fixed currency peg to Euro.

The Group's Financial Risk Management policy approved by the Parent Company's Management has set up principles how to manage the Group's foreign currencies exchange risk against functional currency. To manage the Group's foreign currencies exchange risk arising from the Group's future transactions and recognised assets and liabilities, the Group Treasury uses forward contracts. Foreign currencies exchange risk arises when future transactions or recognised assets or liabilities are denominated in a currency that is not the Group's functional currency (Euro).

II) Cash flow and fair value interest rate risk

As the Group has significant floating interest-bearing assets and liabilities exposed to interest rate risk, the Group's financial income and operating cash flows are substantially dependent on changes in market interest rates.

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

The Group analyses its interest rate risk exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and hedging. Based on these scenarios, the Group calculates the impact on profit and loss as well as on cash flows of a defined interest rate shift. The Group's borrowings with floating rates do not impose fair value interest rate risk. Derivatives such as interest rate swaps are the only source of fair value interest rate risk.

III) Price risk

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

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

b) Credit risk

Credit risk is managed at the Group level. Credit risk arises from cash and cash equivalents, derivative financial instruments and short-term deposits with banks, outstanding receivables. Credit risk exposure in connection with trade receivables is limited due to broad range of the Group's customers. The Group has no significant concentration of credit risk with any single counterparty or group of counterparties having similar characteristics. Impairment loss has been deducted from gross accounts receivable.

Credit risk related to cash and short-term deposits with banks is managed by balancing the placement of financial assets in order to maintain the possibility to choose the best offers and to reduce probability to incur losses.

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

c) Liquidity risk

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

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

3.2. Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern as well as to ensure necessary financing for investment program and to avoid breaches of covenants, which are linked to capital structure and are stipulated in the majority of loan agreements.

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

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

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

4. Operating segment information

Operating segments

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

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

The generation and supply operating segment comprises the Group's electricity and heat generation operations, which are organised into the legal entities: Latvenergo AS and Liepājas enerģija SIA; electricity sales operations, including wholesale, which are conducted Pan–Baltic by Latvenergo AS, Elektrum Eesti OÜ and Elektrum Lietuva UAB, as well as management of the mandatory procurement process provided by Enerģijas publiskais tirgotājs AS.

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

The operations of the management of transmission system assets operating segment is managed both by Latvijas elektriskie tīkli AS – the owner of transmission system assets (330 kV and 110 kV transmission lines, substations and distribution points), which provides construction and maintenance as well as the lease of assets to the transmission system operator Augstsprieguma tīkls AS, and Latvenergo AS – the owner of the transmission system real estate assets. The Republic of Latvia has applied the second unbundling model under EU Directive 2009/72/EC, which provides that the electricity transmission system assets shall remain with a vertically integrated utility, while the activities of the transmission system operator are independently managed.

The following table presents revenue, profit information and segment assets and liabilities of the Group's operating segments. Inter-segment revenue is eliminated on consolidation.

	Generation and supply	Distribution system services	Management of transmission system assets	Corporate functions	TOTAL segments	Adjustments and eliminations	Consolidated
Period 01/01–30/09/2014	EUR'000	EUR'000	EUR'000	EUR'000	**EUR'000**	EUR'000	**EUR'000**
Revenue							
External customers	486,610	215,091	43,477	3,707	**748,885**	-	**748,885**
Inter–segment	15,588	1,325	2,149	34,812	**53,874**	(53,874)	**-**
TOTAL revenue	**502,198**	**216,416**	**45,626**	**38,519**	**802,759**	**(53,874)**	**748,885**
Results							
Segment profit	**7,564**	**21,866**	**12,877**	**4,491**	**46,798**	**-**	**46,798**
Capital expenditure	22,299	60,135	25,423	6,725	**114,582**	**-**	**114,582**
Period 01/01–30/09/2013							
Revenue							
External customers	556,174	216,143	42,641	4,143	**819,101**	-	**819,101**
Inter–segment	15,728	1,319	1,810	33,685	**52,542**	-	**-**
TOTAL revenue	**571,902**	**217,462**	**44,451**	**37,828**	**871,643**	**-**	**871,643**
Results							
Segment profit	**15,393**	**16,683**	**10,438**	**3,654**	**46,168**	**-**	**46,168**
Capital expenditure	42,386	56,854	51,714	8,960	**159,914**	**-**	**159,914**

Segment assets

	Generation and supply	Distribution system services	Management of transmission system assets	Corporate functions	TOTAL segments	Adjustments and eliminations	Consolidated
	EUR'000	EUR'000	EUR'000	EUR'000	**EUR'000**	EUR'000	**EUR'000**
As at 30 September 2014	1,526,036	1,269,480	439,126	85,574	**3,320,216**	202,097	**3,522,313**
As at 31 December 2013	1,497,066	1,252,016	431,224	86,458	**3,266,764**	308,594	**3,575,358**

Adjustments and eliminations

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

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

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

Reconciliation of profit

	01/01–30/09/2014	01/01–30/09/2013
	EUR'000	EUR'000
Segment profit	**46,798**	**46,168**
Finance income	2,227	3,470
Finance costs	(15,206)	(12,484)
Share of profit / (loss) of associates	(493)	353
Profit before income tax	**33,326**	**37,507**

Reconciliation of assets

	30/09/2014	31/12/2013
	EUR'000	EUR'000
Segment operating assets	**3,320,216**	**3,266,764**
Investments in associates and other financial investments	41	41
Investments in held–to–maturity financial assets	28,543	28,588
Current financial assets	211	617
Other assets and assets held for sale	9,843	23,925
Cash and cash equivalents	163,459	255,423
TOTAL assets	**3,522,313**	**3,575,358**

5. Revenue

	01/01–30/09/2014	01/01–30/09/2013
	EUR'000	EUR'000
Electricity and electricity services*	617,193	670,913
Heat sales	70,518	84,013
Lease and management of transmission system assets	43,013	42,137
Other revenue	18,161	22,038
TOTAL revenue	**748,885**	**819,101**

* – in period from 1st April 2014 through 30th September 2014 revenue from customers' payments for mandatory procurement public service obligation fee is recognised in the Consolidated Statement of Financial Position by applying principal/agent accounting principle

6. Raw materials and consumables used

	01/01–30/09/2014	01/01–30/09/2013
	EUR'000	EUR'000
Electricity:		
Purchased electricity*	266,664	284,211
Fair value income on electricity swaps	(8,786)	(2,976)
Electricity transmission services costs	54,830	55,557
	312,708	**336,792**
Fuel expense	115,742	152,522
Raw materials, spare parts and maintenance costs	25,914	25,380
Capitalised costs of raw materials and consumables used (fuel)	–	(9,573)
TOTAL raw materials and consumables used	**454,364**	**505,121**

* – in period from 1st April 2014 through 30th September 2014 costs of purchased electricity under the mandatory procurement from electricity generators who generate electricity in efficient cogeneration process or using renewable energy sources, as well as guaranteed fees for installed electrical capacity in cogeneration plants (over 4 MW) are recognised in the Consolidated Statement of Financial Position by applying principal/agent accounting principle

7. Income tax

	01/01–30/09/2014	01/01–30/09/2013
	EUR'000	EUR'000
Current tax	3,426	5,442
Deferred tax	(118)	(811)
TOTAL income tax	**3,308**	**4,631**

8. Intangible assets and property, plant and equipment

	Intangible assets	Land, buildings and facilities	Technology equipment and machinery	Other property, plant and equipment	Assets under construction	TOTAL
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	**EUR'000**
As at 30 September 2014						
Cost or valuation	39,854	4,421,240	2,067,477	155,697	81,728	**6,765,996**
Accumulated amortisation, depreciation and impairment	(27,982)	(2,432,325)	(1,103,165)	(117,630)	(6,692)	**(3,687,794)**
Net book amount	**11,872**	**1,988,915**	**964,312**	**38,067**	**75,036**	**3,078,202**
As at 31 December 2013						
Cost or valuation	33,144	4,331,639	2,046,253	153,752	118,868	**6,683,656**
Accumulated amortisation, depreciation and impairment	(25,819)	(2,383,239)	(1,057,602)	(112,443)	(6,648)	**(3,585,751)**
Net book amount	**7,325**	**1,948,400**	**988,651**	**41,309**	**112,220**	**3,097,905**

9. Inventories

	30/09/2014	31/12/2013
	EUR'000	EUR'000
Raw materials and spare parts	19,797	21,160
Other inventories (fuel)	10,468	4,733
Allowance for raw materials, spare parts, technological fuel	(4,600)	(4,259)
TOTAL inventories	**25,665**	**21,634**

10. Trade receivables and other current receivables

Trade receivables, net:

	30/09/2014	31/12/2013
	EUR'000	EUR'000
Receivables:		
– Electricity customers	101,958	91,925
– Heating customers	4,619	17,580
– Other trade receivables	26,668	23,597
	133,245	**133,102**
Allowances for impairment of receivables:		
– Electricity customers	(41,828)	(40,643)
– Heating customers	(429)	(369)
– Other trade receivables	(2,636)	(2,482)
	(44,893)	**(43,494)**
Receivables, net:		
– Electricity customers	60,130	51,282
– Heating customers	4,190	17,211
– Other trade receivables	24,032	21,115
	88,352	**89,608**
Compensated accrued revenue on mandatory procurement public service obligation*	32,411	44,953
Unsettled revenue on mandatory procurement public service obligation fee recognised as assets	61,303	–
Other current receivables and accrued income	37,581	26,999
TOTAL trade receivables and other current receivables	**219,647**	**161,560**

* Accrued revenue on mandatory procurement public service obligation is calculated as difference between procurement expenditure above electricity market price and collected payments from electricity end users for mandatory procurement public service obligation fees for period from 1st January 2013 through 31st March 2014. According to the conditions included in the article No. 37 of transition terms of the Electricity Market Law of the Republic of Latvia, newly established subsidiary Enerģijas publiskais tirgotājs AS compensates uncollected difference for the period from 1st January 2013 until 31st March 2014 in the amount of EUR 64,823 thousand in 12 months period starting from overtake of public trader obligations as at 1st April 2014 (as at 30th September 2014 are compensated uncollected difference in the amount of EUR 32,412 thousand).

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

	01/01–30/09/2014	01/01–30/09/2013	2013
	EUR'000	EUR'000	EUR'000
At the beginning of the period	**43,494**	**29,036**	**29,036**
Receivables written off during the period as uncollectible	(592)	(416)	(1,409)
Allowance for impaired receivables	1,991	11,580	15,867
At the end of the period	**44,893**	**40,200**	**43,494**

11. Cash and cash equivalents

	30/09/2014	31/12/2013
	EUR'000	EUR'000
Cash at bank	67,259	88,823
Short–term bank deposits	96,200	166,600
TOTAL cash and cash equivalents	**163,459**	**255,423**

12. Borrowings

	30/09/2014	31/12/2013
	EUR'000	EUR'000
Non–current borrowings from financial institutions	614,206	700,390
Issued debt securities (bonds)	104,802	104,802
TOTAL non-current borrowings	**719,008**	**805,192**
Current portion of non–current borrowings from financial institutions	151,912	137,008
Accrued interest on non–current borrowings	4,278	1,780
Accrued coupon interest on issued debt securities (bonds)	1,930	695
TOTAL current borrowings	**158,120**	**139,483**
TOTAL borrowings	**877,128**	**944,675**

Movement in borrowings:

	01/01–30/09/2014	01/01–30/09/2013	2013
	EUR'000	EUR'000	EUR'000
At the beginning of the period	**944,675**	**846,961**	**846,961**
Borrowings received	22,600	27,671	117,300
Borrowings repaid	(93,880)	(72,747)	(105,174)
Change in accrued interest on borrowings	3,733	3,726	753
Issued debt securities (bonds)	-	70,259	84,835
At the end of the period	**877,128**	**875,870**	**944,675**

13. Related party transactions

The Parent Company and, indirectly, the other Group entities are controlled by the Latvian state. Related parties of the Group are associates, Shareholder of the Parent Company who could control or who has significant influence over the Group's entities in accepting operating business decisions, key management personnel of the Group's entities including members of Supervisory body – Audit committee and close family members of any above–mentioned persons, as well as entities over which those persons have control or significant influence.

The following transactions were carried out with related parties:

	01/01–30/09/2014	01/01–30/09/2013
	EUR'000	EUR'000
a) Sales of goods and services:		
– Sales of goods to associates (electricity)	-	1,071
– Sales of services to associates	-	-
TOTAL sales	**-**	**1,071**
b) Purchases of goods and services:		
– Purchases of goods from associates (electricity)	-	942
– Purchases of services from associates	-	1,753
TOTAL purchases	**-**	**2,695**
c) Finance income:		
– Dividends received from associates	2,474	-
TOTAL finance income	**2,474**	**-**

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

	30/09/2014	31/12/2013
	EUR'000	EUR'000
a) Trade receivables from related parties:		
– Associates	-	130
TOTAL receivables	**-**	**130**
b) Trade payables to related parties:		
– Associates	298	161
TOTAL payables	**298**	**161**

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

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

In the 9 month period ending 30 September 2014 remuneration to the management includes remuneration to the members of the Management Boards and Supervisory body of the Group entities, including salary, social insurance payments and payments to pension plan and is amounted to EUR 1,317.9 thousand (01/01 – 30/09/2013: EUR 1,189.2 thousand) and is included in the Consolidated Income Statement position 'Personnel expenses'.

14. Events after the reporting period

In October 2014, in accordance with the Order of the Cabinet of Ministers of the Republic of Latvia No. 496 dated 16 September 2014 „On Investment of State Owned Real Estate into the Share Capital of Latvenergo AS", the regulations for increasing the share capital of Latvenergo AS and approval of the new edition of the Articles of Association, share capital of Latvenergo AS was increased to EUR 1,288,446 thousand by investing the state real estate in amount of EUR 435.8 thousand. Increase in the share capital was approved by Latvenergo AS Shareholders meeting on 25 September 2014 and registered with the Commercial Register of the Register of Enterprises of the Republic of Latvia on 30 October 2014.

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 9 month period ending 30 September 2014.

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