

# UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE 6 MONTH PERIOD ENDING  
30 JUNE 2013



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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 reaches EUR 1 billion and its asset value reaches EUR 3.5 billion. Latvenergo Group is the largest electricity supplier in the Baltics with 34% market share.

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## CONTENT

### MANAGEMENT REPORT

- 3 Summary
- 4 Latvenergo Group in Brief
- 5 Key Performance Indicators
- 6 Operating Environment
- 10 Financial Results
- 18 Statement of Management Responsibility

### UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

- 19 Interim Condensed Consolidated Income Statement
- 19 Interim Condensed Consolidated Statement of Comprehensive Income
- 20 Interim Condensed Consolidated Statement of Financial Position
- 21 Interim Condensed Consolidated Statement of Changes in Equity
- 22 Interim Condensed Consolidated Statement of Cash Flows
- 23 Notes to the Interim Condensed Consolidated Financial Statements

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

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## FINANCIAL CALENDAR

**29. 11. 2013**

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

## CONTACTS FOR INVESTOR RELATIONS

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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

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- In 1H 2013, restrictions on the Baltic transmission system network and lower water level in Nordic hydropower plant reservoirs promoted an increase in electricity spot prices in the Baltics. Natural gas price in Latvia still remains relatively high.
- The decline in EUA prices and coal prices promoted a decrease of electricity forward prices in Finland bidding area, decreasing since May 2011. Forward price decrease had a diminishing impact on electricity retail prices.
- Macroeconomic indicators (GDP, inflation, unemployment rate) in the Baltics show positive trends. In 1H 2013, Latvia had the fastest GDP growth rate in the European Union. GDP growth is mainly determined by increased exports and household consumption. On 1 January 2014, Latvia will join the European Economic and Monetary Union.
- Nord Pool Spot Latvia bidding area was opened on 3 June 2013, bringing the Baltics into a common Nordic-Baltic power bourse structure and providing a transparent electricity price formation process.
- The revenue of Latvenergo Group increases by 4% reaching LVL 401.8 million. Revenue increased in all operating segments of the Group.
- In 1H 2013, Latvenergo Group EBITDA decreased to LVL 89.1 million. Results were negatively affected by such factors as 1) electricity purchase price increase for electricity supply to retail customers due to transmission system capacity limitations and lower water level in Nordic hydropower plant reservoirs; 2) 9% decrease of industrial sector electricity consumption in Latvia; 3) increase of electricity volume (+44%) purchased from generators under the mandatory procurement process; 4) losses due to electricity supply at regulated tariff in Latvia.
- Along with the opening of the Baltic electricity market, we continue purposeful trade activities, strengthening our position in the Baltic electricity market. In 1H 2013, we have increased the amount of customers in Lithuania and Estonia more than 10 times compared to the beginning of the year. Latvenergo Group market share in the Baltic electricity market is 34%.
- In 1H 2013, we have invested LVL 64.2 million. The reconstruction project of Riga TEC-2 approaching completion – in 1H 2013, an overall adjustment of the power unit has been initiated. Completion of a biomass-fired boiler house in Liepaja is scheduled in late 2013. We have increased investments in the transmission system and distribution assets by 27% forming 64% share of the total investments.
- In 1H 2013, EUR 50 million bonds with 5-year maturity, as well as EUR 20 million bonds with 7-year maturity (in Q2) were issued. 7-year bonds ensured a 2.89% yield, which is close to the yield of 5-year bonds. The total amount of bonds issued by Latvenergo AS reaches EUR 90 million.

## Latvenergo Group in Brief

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

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

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

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

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

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

		1H 2013	1H 2012
Retail electricity supply	GWh	4,371	4,307
Electricity generation	GWh	2,974	3,001
Aggregate heat supply	GWh	1,581	1,570
Number of employees		4,518	4,442
Moody's credit rating		Baa3 (stable)	Baa3 (stable)

## FINANCIAL FIGURES

		1H 2013	1H 2012
Revenue	MLVL	401.8	387.8
EBITDA <sup>1)</sup>	MLVL	89.1	111.6
Net profit	MLVL	20.2	42.4
Total assets	MLVL	2,440.9	2,363.2
Equity	MLVL	1,406.5	1,374.1
Net debt <sup>2)</sup>	MLVL	446.3	400.5
Capital expenditure	MLVL	64.2	109.1

## FINANCIAL RATIOS

	1H 2013	1H 2012
Net debt/EBITDA ratio <sup>3)</sup>	3.0	2.4
EBITDA margin <sup>4)</sup>	20%	24%
Capital ratio <sup>5)</sup>	58%	58%

1) EBITDA - earnings before interest, income tax, share of result of associates, depreciation and amortisation, and impairment of intangible and fixed assets

2) Net debt - borrowings from financial institutions at the end of the period minus cash and cash equivalents at the end of the period

3) 12 month rolling EBITDA

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

5) Capital ratio - total equity / total assets

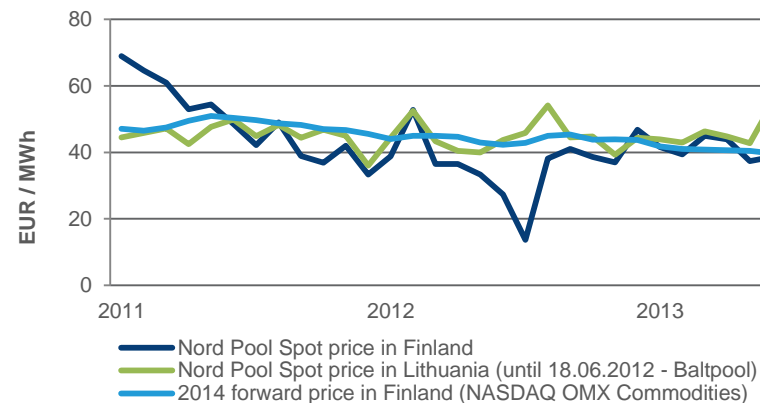
## Operating Environment

### HIGHER ELECTRICITY SPOT PRICE, FORWARD PRICE CONTINUES TO FALL

Electricity spot price during 1H 2013 was higher than in 1H 2012. Nord Pool Spot price in Finland bidding area increased by 9% (41.0 EUR/MWh), while in Lithuania bidding area – by 4% (45.9 EUR/MWh). Increase of electricity price in the Nordic and Baltic countries was mainly determined by transmission capacity limitations and lower water level in Nordic hydropower plant reservoirs – the average fill of the reservoirs was 44.3% (below the long term average – 47.9%) while it was 54% in 1H 2012.

As Latvia and Lithuania from the energy balance position is located in a deficit region, the availability of interstate trade capacity for electricity import is a significant factor that influences market prices, particularly during the summer. For example, in June 2013, electricity price in Lithuania and Latvia bidding areas (54.8 EUR/MWh) was 42% higher than in Finland bidding area. These differences were mainly due to transmission system limitations both on Estonian-Latvian border and Finnish-Estonian border. Also, in June 2013, transmission system capacity was limited on Belarus-Lithuanian border. Transmission system limitations promote higher electricity retail prices in Latvia and Lithuania compared to Finland.

During the first 6 months of 2013, 11,145 GWh were generated in the Baltics, increasing by 12% over the same period in 2012 (9,956 GWh). Thus, in 1H 2013, power plants of the Baltics generated 87% of the consumed electricity (1H 2012: 79%). The largest increase in generation among the Baltics was in Estonia, where the increased amount of electricity generated in oil shale-fired power plants was due to higher electricity market price and lower EU emission allowance (EUA) prices.



In 1H 2013, the EUA price was 4.4 EUR/t, which is 40% lower than in 1H 2012 (7.4 EUR/t). The price decrease was determined by a lower demand due to oversupply in the market and slowdown of China economy.

The decline in EUA prices along with lower coal prices promoted a decrease of electricity forward prices, decreasing in Finland since May 2011, when 2014 forward price was 50.9 EUR/MWh as opposed to 39.6 EUR/MWh on 30 June 2013. During the period electricity price has decreased by 22%. Forward price decrease has a diminishing impact on electricity retail prices.



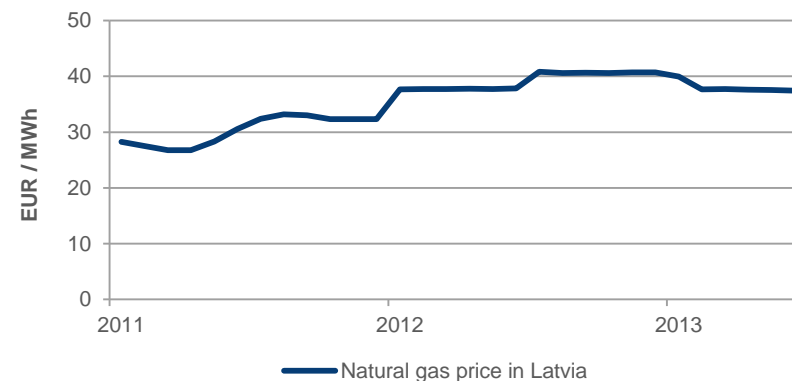
## Operating Environment

### NATURAL GAS PRICE IN LATVIA STILL REMAINS HIGH

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 1H 2012 remained without significant changes, thus the natural gas price in Latvia has not substantially changed. Compared to 2H 2012, in 1H 2013 the natural gas price (incl. excise tax) for the user group with consumption above 100,000 thousand nm<sup>3</sup> has decreased by 7% to 38.0 EUR/MWh (2H 2012 – 40.8 EUR/MWh), but it was 1% higher than in 1H 2012 (37.7 EUR/MWh).

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

Given the recent downward trend in crude oil product prices (in June 2013, the average Brent crude oil price was 103 \$/bbl, which is 9% less than in the beginning of 2013), it could promote a natural gas price decrease in following months.



## Operating Environment

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### ECONOMIC GROWTH IN THE BALTICS CONTINUES

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According to the data provided by the Statistical Office of the European Union (Eurostat), in Q1 and Q2 2013, the Baltic countries show a steady GDP growth compared to the respective period last year. In both quarters the fastest GDP growth in the European Union (EU) was observed in Latvia – 5.6% and 4.3% respectively. The second fastest growth was in Lithuania increasing by 4.2% and 4.1%, while GDP in Estonia grew by 1.3% and 1.4%. Considering the positive trends, the Bank of Latvia raised the 2013 GDP growth forecast for Latvia to 4.1%. GDP growth was mainly determined by increased exports and household consumption.

It is expected that the economic growth in the Baltics will continue and the growth rate will be higher than in most of the EU economies. Hence, a growth in purchase power and electricity consumption is expected.

In 1H 2013, a 1% decrease of electricity consumption in Latvia was mainly associated with lower electricity consumption by Latvian metallurgical company Liepājas Metalurģis AS resulting in a 9% decrease of industrial sector electricity consumption in Latvia. Meanwhile, higher electricity consumption in Lithuania and Estonia promoted a 2.4% increase of electricity consumption in the Baltics reaching 12,870 GWh.

According to the Eurostat, in June 2013, the annual average inflation rate in Latvia was 0.9%, which is one of the lowest among EU countries. Inflation rate in Estonia was 3.9%, in Lithuania – 2.5%.

The Baltics showed the fastest decrease of unemployment rate in the EU. As at March 2013, the unemployment rate in Latvia was 12.5%, in Lithuania 12.3% and in Estonia 8.7%. As at June 2013, the average EU unemployment rate in the euro zone was 12.1%, while in the EU – 10.9%.

On 9 July 2013, the EU Economic and Financial Affairs Council (ECOFIN) passed the final decision on the euro adaption in Latvia on 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.

### THE LIBERALISATION OF THE BALTIC ELECTRICITY MARKET

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According to the Baltic Energy Market Interconnection Plan (BEMIP) the Baltic electricity market opening continues in 2013. As of 1 January 2013, the electricity market in Estonia is unregulated for all customers, while in Latvia and Lithuania – for all commercial customers.

As at the end of 1H 2013, the unregulated part of the Baltic electricity market reached approximately 90% of the total electricity consumption. Electricity at a regulated tariff in Latvia and Lithuania is sold only to households. In the following years it is expected that the market share of the Baltic regulated market will continue to decrease.



## Operating Environment

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### ESTABLISHMENT OF THE NORD POOL SPOT LATVIA BIDDING AREA

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On 3 June 2013, Nord Pool Spot Latvia bidding area starts to operate bringing the Baltics into a common Nordic-Baltic power bourse structure and providing a transparent electricity price formation process. Since the establishment of a common power bourse, electricity price in Latvia and Lithuania bidding areas was equal in June 2013, while price in Latvia bidding area was slightly higher than in Estonia bidding area. Price differences were due to the transmission system limitations on the Estonian-Latvian border.

A prerequisite for establishment of the Nord Pool Spot Latvia bidding area was the certification of the transmission system operator (TSO), which was conducted on 30 January 2013 by the Public Utilities Commission (PUC).

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 related 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 have an adverse impact neither on Latvenergo Group, nor on transmission system asset management segment profitability ratios.

### AMENDMENTS TO REGULATIONS ON THE MANDATORY PROCUREMENT PROCESS

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According to 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, at the same time determining a lower minimum requirement of electrical capacity full-load hours at 1200. Until now, the maximum support amount was set for full-load electrical capacity at 3000 hours.

Latvenergo AS plans to adjust operating mode of cogeneration plants so as to avoid a significant adverse impact on financial results of Latvenergo Group. Under adverse market conditions this would imply a reduction of the generation scale in cogeneration plants, without affecting the receivable amount of capacity payment for installed electrical capacity.

The Ministry of Economics has initiated discussion on necessity to implement a subsidised energy tax (SET) in Latvia. The tax would apply to all electricity generators which have a granted right to generate electricity under the mandatory procurement process. The possibility of introducing the tax and its amount are unclear. It is planned that the revenue from SET would be used to limit the growth of mandatory procurement fee and compensate the electricity price increase to low-income households after the electricity market opening in Latvia. Although the implementation of the SET may diminish the net profit and cash flow of Latvenergo Group, its impact is not assessed as significant.

## Financial Results

In 1H 2013, Latvenergo Group revenue is LVL 401.8 million, which compared to the corresponding period in 2012, has increased by 4%. Revenue has increased in all operating segments of the Group.

**Latvenergo Group revenue grew by 4%. Revenue increased in all operating segments**

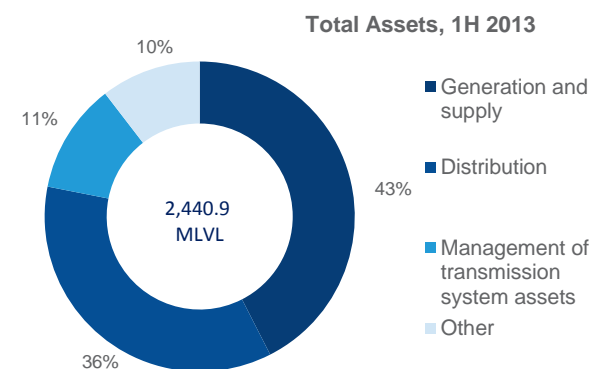
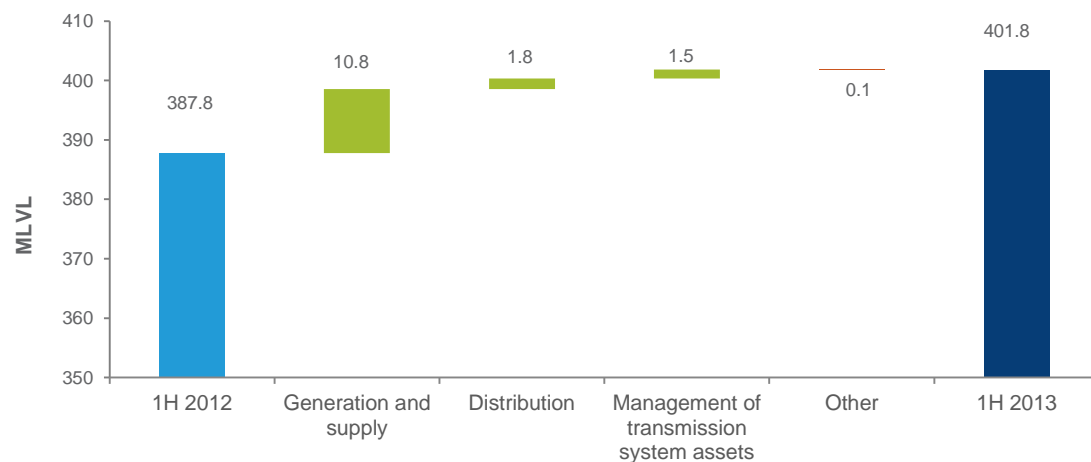
38% of the total revenue consists of unregulated service revenues (1H 2012: 34%), which weight has increased along with a gradual opening of the electricity market in the Baltics. The major part of unregulated revenues implies Pan-Baltic electricity supply to open market customers.

		1H 2013	1H 2012	Δ	Δ, %
Revenue	MLVL	401.8	387.8	14.0	4%
EBITDA	MLVL	89.1	111.6	(22.5)	(20%)
Net profit	MLVL	20.2	42.4	(22.2)	(52%)
Total assets	MLVL	2,440.9	2,363.2	77.7	3%

In 1H 2013, EBITDA and net profit of Latvenergo Group have decreased compared to the respective period last year and is LVL 89.1 million and LVL 20.2 million accordingly.

volume (+44%) purchased from generators under the mandatory procurement process; 4) losses due to electricity supply at regulated tariff in Latvia.

Results were negatively affected by such factors as 1) electricity purchase price increase for electricity supply to retail customers due to transmission capacity limitations and lower water level in Nordic hydropower plants reservoirs; 2) 9% decrease of industrial sector electricity consumption in Latvia; 3) increase of electricity



## Generation and Supply



Revenue	66%
EBITDA	41%
Assets	42%
Employees	22%

Segment weight in Latvenergo Group

The generation and supply is the largest Latvenergo Group operating segment by revenue and by EBITDA. In 1H 2013, the revenue of the generation and supply segment (incl. inter-segment revenues) is LVL 283.2 and EBITDA – LVL 36.5 million. 82% of the segment revenue consists of revenues from electricity and related services, 18% of thermal energy.

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

EBITDA of the segment was affected by similar factors as the financial results of the Group – 1) electricity purchase price increase for electricity supply to retail customers due to transmission capacity limitations and lower water level in the Nordic hydropower plant reservoirs; 2) 9% decrease of industrial sector electricity

Operational figures		1H 2013	1H 2012	Δ	Δ, %
Electricity supply	GWh	4,371	4,307	64	1%
Electricity generation	GWh	2,974	3,001	(27)	(1%)
Thermal energy generation	GWh	1,608	1,594	14	1%
Financial figures		1H 2013	1H 2012	Δ	Δ, %
Revenue	MLVL	283.2	274.5	8.7	3%
EBITDA	MLVL	36.5	61.5	(25.0)	(41%)
Total assets	MLVL	1,037.0	992.0	45.0	5%
Investments	MLVL	19.6	74.6	(55.0)	(74%)

consumption in Latvia; 3) increase of electricity volume (+44%) purchased from generators under the mandatory procurement process; 4) losses due to electricity supply at regulated tariff.

The total amount of losses due to electricity supply at regulated tariff is estimated at LVL 11.5 million.

Due to investments made in the reconstruction of Riga 2<sup>nd</sup> combined heat and power plant (Riga TEC-2) power unit, the total value of the operating segment assets has increased by 5% reaching LVL 1,037.0 million.

## SUPPLY

In 1H 2013, Latvenergo Group supplied 4,371 GWh of electricity to retail customers ensuring a 34% market share in the Baltics. Approximately 73% of retailed electricity was supplied to customers in Latvia, but 27% to retail customers in Lithuania and Estonia.

Retail electricity supply volume increased by 64 GWh or 1% compared to 1H 2012. This was due to an increased volume of electricity supplied in Lithuania and Estonia. In line with the

liberalization of the Baltic electricity market, Latvenergo Group continues targeted electricity saleactivities in promoting trade brand *Elektrum* awareness and strengthening its position in the Baltic electricity market. Since the beginning of the year the amount of retail customers in Lithuania and Estonia increased more than ten times.

Latvenergo Group electricity supply volume in Latvia is 3,185 GWh (market share - 85%), in

Lithuania – 686 GWh (14%) and in Estonia – 500 GWh (12%).

**We have increased the amount of customers in Lithuania and Estonia more than 10 times**

## Generation and Supply



The total electricity supply volume in Lithuania and Estonia is 1,186 GWh, which is more than twice as much as the supplied volume by

competing electricity suppliers in Latvia (570 GWh). In 1H 2013, 3,462 GWh or 79% of the total electricity retail supply of Latvenergo Group

were supplied in the open electricity market, while 909 GWh or 21% were supplied at regulated tariff in Latvia.

### GENERATION

In 1H 2013, the total amount of electricity generated by Latvenergo Group power plants was 2,974 GWh. The total generated volume remains at the level of the respective period last year.

In 1H 2013, electricity output at Riga combined heat and power plants (Riga TEC) decreased to 842 GWh, which is 1% less than in 1H 2012. Higher electricity generation was limited by a relatively high natural gas price and low electricity market price.

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

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

The major part or 2,118 GWh of electricity generated by Latvenergo Group (or 48% of electricity supplied in retail) was generated from renewable energy resources. The weight of electricity generated at Latvenergo Group power

		1H 2013	1H 2012	Δ	Δ, %
Electricity supply to retail customers	GWh	4,371	4,307	64	1%
Electricity generation	GWh	2,974	3,001	(27)	(1%)
<i>Daugava HPPs</i>	GWh	2,109	2,133	(24)	(1%)
<i>Riga TEC</i>	GWh	842	849	(7)	(1%)
<i>Small plants</i>	GWh	23	19	4	21%

plants forms 68% of the total electricity retail supply and has not changed substantially compared to the corresponding period in 2012 (70%). In 1H 2013, the Group purchased 2,653 GWh (1H 2012: 2,467 GWh) of electricity.

In 1H 2013, the total amount of thermal energy generated by Latvenergo Group was 1,608 GWh (1H 2012: 1,594 GWh), approximately half of which is generated in cogeneration mode, while the rest— in water boilers.

Thermal energy generation		1H 2013	1H 2012	Δ	Δ, %
Riga TEC	GWh	1,442	1,435	7	1%
Liepaja plants and small plants	GWh	166	159	7	4%
<b>Total</b>	<b>GWh</b>	<b>1,608</b>	<b>1,594</b>	<b>14</b>	<b>1%</b>

## MANDATORY PROCUREMENT

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

### Latvenergo weight in the eligible costs of mandatory procurement decreased to 36%

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

In 1H 2013, Latvenergo Group as a public supplier has received LVL 54.0 million of revenues from the mandatory procurement public service obligation fee (1H 2012: LVL 42.5 million). The increase of revenues was due to an increase of the mandatory procurement public service obligation fee from 12.3 LVL/MWh to 18.9 LVL/MWh on 1 April 2013.

		1H 2013	1H 2012	Δ	Δ, %
Mandatory procurement revenue	MLVL	54.0	42.5	11.5	27%
Mandatory procurement costs	MLVL	(73.8)	(62.2)	(11.6)	19%
<i>Latvenergo AS</i>	MLVL	(26.9)	(27.7)	0.8	(3%)
<i>other generators</i>	MLVL	(46.9)	(34.5)	(12.4)	36%
<b>Difference</b>	<b>MLVL</b>	<b>(19.8)</b>	<b>(19.7)</b>	<b>(0.1)</b>	<b>0%</b>

In 1H 2013, the total volume purchased under the mandatory procurement process is 1,443 GWh (1H 2012: 1,248 GWh).

Mandatory procurement costs above the market price comprise LVL 73.8 million (1H 2012: LVL 62.2 million).

The increase of mandatory procurement costs above the market price was mainly determined by 44% or 204 GWh higher volume of electricity procured, the major impact of which comprises procurement both from biogas and biomass-fired power plants and cogeneration plants. The volume procured from local generators within the mandatory procurement process reaches 670 GWh.

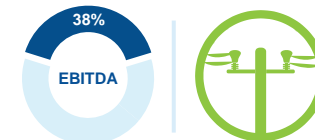
Mandatory procurement costs of 2013 above the market price of Latvenergo AS as a public supplier shall be included in the mandatory procurement public service obligation fee, which will be determined on 1 April 2014.

Weight of Latvenergo AS generation plants in the eligible costs continues to decline and forms 36% as at 1H 2013 (1H 2012: 45%). Acting responsibly and adjusting operation of Riga TEC power plants according to the market conditions allowed scaling down the generation operatively when it was cheaper to import the electricity.

This cogeneration plant operating mode corresponds to amendments made on 30 July 2013 by the Cabinet of Ministers. The amendments come into force on 16 August 2013 and apply to cogeneration plants with installed capacity above 4 MW, providing a removal of compensation for the difference of the variable costs of the plant above the electricity market price, while fixed capacity payments will be retained at adjusted amount, at the same time determining a lower minimum requirement of electrical capacity full-load hours at 1200.

Thus, the amendments in the support scheme will not have a material adverse effect on the financial results of Latvenergo Group.

# Distribution



Revenue	25%
EBITDA	38%
Assets	36%
Employees	55%

Segment weight in Latvenergo Group

## The amount of distributed electricity continues to grow while distribution losses decrease

Distribution operating segment is the second largest segment of Latvenergo Group by revenue and EBITDA. In 1H 2013, the segment revenue is LVL 105.6 million (1H 2012: LVL 103.8 million), while segment EBITDA increased by 11% reaching LVL 33.8 million (1H 2012: 30.3 million). The distribution system asset value is LVL 869.2 million and has not changed substantially compared to the respective period last year.

Results of the segment were positively impacted by 2% higher amount of distributed electricity, decreased electricity losses as well as 4% lower electricity purchase price, while they were negatively affected by growth of transmission service costs by LVL 1.4 million.

Operational figures		1H 2013	1H 2012	Δ	Δ, %
Electricity distributed	GWh	3,319	3,262	57	2%
Distribution losses	GWh	170	208	(38)	(18%)
Financial figures		1H 2013	1H 2012	Δ	Δ, %
Revenue	MLVL	105.6	103.8	1.8	2%
EBITDA	MLVL	33.8	30.3	3.5	11%
Total assets	MLVL	869.2	863.4	5.8	1%
Investments	MLVL	23.1	22.9	0.2	1%

In 1H 2013, the volume of distributed electricity increased by 2% to 3,319 GWh (1H 2012: 3,262 GWh). In 1H 2013, the average distribution service tariff in Latvia was 30.04 LVL/MWh (-0.2%).

Due to focused management activities, distribution network losses continue to decline in 1H 2013 decreasing to 170 GWh, which is 38 GWh less than a year before.



## Management of transmission system assets

Revenue	5%
EBITDA	15%
Assets	11%
Employees	10%

Segment weight in Latvenergo Group

### Transmission segment revenue growth facilitates improvement of profitability ratios.

Revenue of the transmission system asset management segment forms 5% of Latvenergo Group revenue. In 1H 2013, the revenue of the segment amounted to LVL 20.6 million, while EBITDA increased to LVL 13.2 million.

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

Financial figures		1H 2013	1H 2012	Δ	Δ, %
Revenue	MLVL	20.6	19.0	1.6	8%
EBITDA	MLVL	13.2	12.5	0.7	6%
Total assets	MLVL	280.0	266.5	13.5	5%
Investments	MLVL	17.8	9.2	8.6	93%

Compared to 1H 2012, the asset value has increased by 5% reaching LVL 280.0 million due to investments. It is expected that the investment amount of Kurzeme Ring project will continuously exceed depreciation thus resulting in a significant increase of the segment asset value.

In 1H 2013, the return of transmission system assets is 2.8%. It is expected that steady growth of profitability ratios will continue approaching to the industry averages.

## Investments

In H1 2013, the total amount of investments is LVL 64.2 million (1H 2012: LVL 109.1 million) of which LVL 19.6 million is made in generation assets, LVL 23.1 million in distribution assets and LVL 17.8 million in transmission system assets.

Compared to 1H 2012, the decline in the amount of investments was mainly due to a smaller amount invested in the reconstruction of Riga TEC-2: LVL 11.0 million were invested in 1H 2013 (1H 2012: LVL 62.8 million). In turn, the amount invested in transmission system and distribution networks increased by 27% compared to 1H 2012, comprising 64% of the total investments. Investments in transmission and distribution network development are made with the aim to improve the service quality and technical parameters.

### Reconstruction of the Riga TEC-2 power unit approaching completion

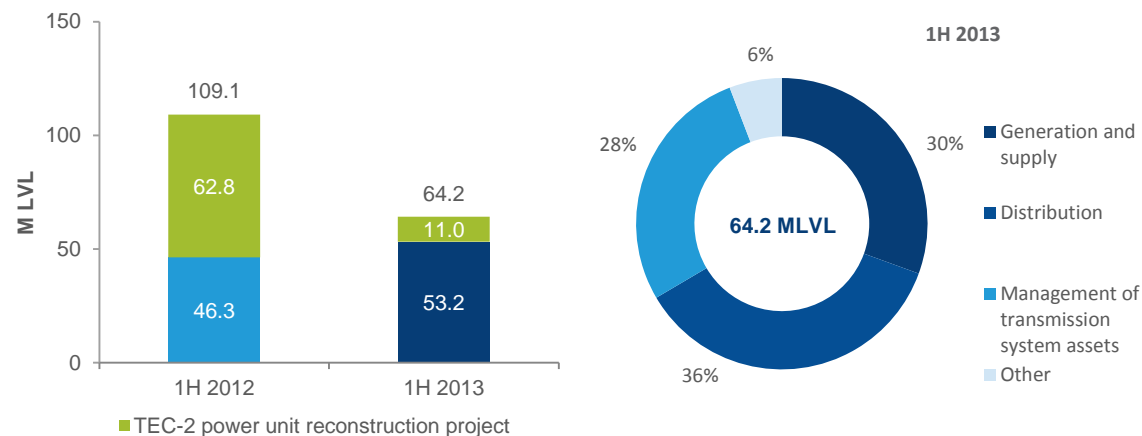
#### Major investment projects in 2013:

- Reconstruction of the Riga TEC-2: the project provides the construction of the second combined-cycle power unit (with electrical capacity of 420 MW, thermal capacity – 270 MW). The project that was initiated in 2010 is expected to be completed in the Q3 2013. The total amount of power plant construction agreement is LVL 226 million, of which the completed workload reaches LVL 223.6 million as of 30 June 2013.

In 1H 2013, the installation of auxiliary equipment was completed, continuing the work on equipment adjustments and tests and commencing overall adjustment of the power unit. Along with the commissioning of the power plant the contractor will perform overall adjustments, guaranteed performance tests and continuous performance tests.

- NORDBALT-02-330kV „Kurzeme Ring“: the project is a part of the international energy infrastructure development project NordBalt. It provides strengthening of the transmission network in the western region of Latvia. The total investment is expected to reach LVL 66 million until 2014. In 1H 2013, the amount invested is LVL 12.9 million. The completed workload is LVL 35.7 as of 30 June 2013.

- Biomass-fired boiler house construction in Liepāja: the Project provides construction of two modern wood-chip fired heating boilers with the total capacity of 30 MW thus diversifying fuel sources. The project is conducted with co-financing of the EU Cohesion Fund and it is scheduled for completion in October 2013. The total costs of the project are estimated at LVL 9.0 million. The completed workload is LVL 7.6 as of 30 June 2013.
- Daugava HPPs hydropower unit reconstruction programme: it provides reconstruction of 11 hydropower units. The program is expected to be completed until 2022 with the total investment estimated to exceed LVL 100 million. In 1H 2013, the completed workload is LVL 4.8 million.



## Funding and liquidity

Following the bond emission programme initiated in 2012 and considering the high interest from investors, in 1H 2013 we have increased the amount of the bond offer programme by LVL 35 million totalling LVL 85 million.

In 1H 2013, EUR 50 million bonds with 5-year maturity, as well as EUR 20 million bonds with 7-year maturity (in Q2) were issued. Despite a relatively long bond maturity term, investor demand for bonds issued by Latvenergo AS exceeded the supply more than twice thus ensuring 2.89% yield, which is close to the yield of 5-year bonds.

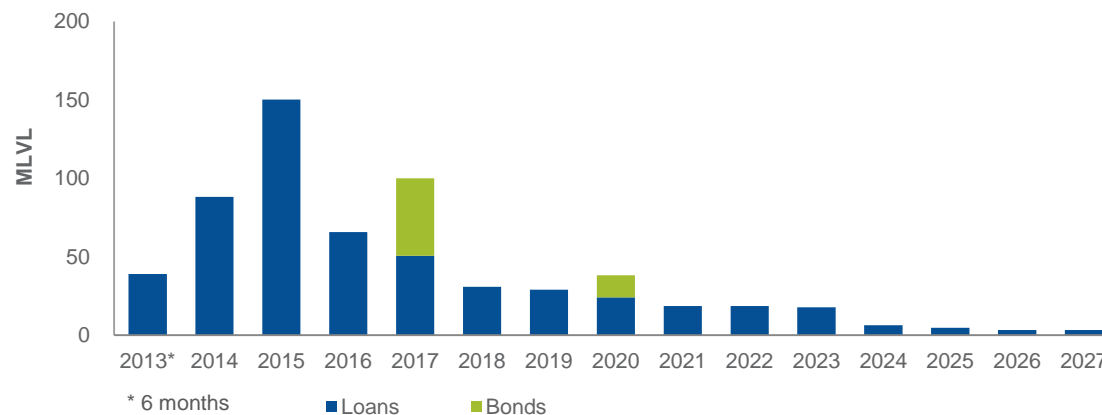
The total value of bonds issued by Latvenergo AS reaches EUR 90 million.

### Latvenergo Group successfully issues its first 7-year bonds

In order to realize the investment programme and fulfil its commitments, Latvenergo Group maintains sufficient liquidity reserves and good liquidity ratios. As at 30 June 2013, the current assets (cash and short term deposits up to 3 months) of Latvenergo Group reached LVL 167.3 million (30 June 2012: LVL 150.3 million), while the current ratio<sup>1</sup> was 1.4 (1.3).

<sup>1</sup> Current ratio: current assets / current liabilities

Latvenergo Group debt repayment schedule



As at the end of 1H 2013, Latvenergo Group borrowings are LVL 613.6 million (1H 2012: LVL 550.8 million). The weighted average repayment period is 4.3 years (3.8 years).

As of 1 January 2014, along with the expected accession of Latvia to the EU Economic and Monetary Union, Latvenergo Group operating activities will no longer be a subject to euro currency risk. 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 2.1 year as at 30 June 2013.

In 1H 2013, the weighted average effective interest rate (with interest rate swaps) is 2.6% (3.0%), ensuring good debt service ratios (interest coverage ratio<sup>2</sup> – 8.5). Latvenergo Group net borrowings are LVL 446.3 million (LVL 400.5 million) as at 30 June 2013, while Net debt/EBITDA ratio is 3.0 (2.4). 2013. In 1H 2013, all the binding financial covenants set in Latvenergo Group loan agreements have been met.

In 1H 2013, the international rating agency *Moody's Investors Service* has reconfirmed Latvenergo AS credit rating Baa3 with a stable outlook.

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

## Statement of Management Responsibility

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Based on the information available to the Management Board of Latvenergo AS in all material aspects Latvenergo Unaudited Condensed Consolidated Financial Statements including the Management Report for the 6 month period ending 30 June 2013 have been prepared in accordance with applicable laws and regulations and give in all material aspects a true and fair view of assets, liabilities, financial position and profit and loss of Latvenergo Group.

Latvenergo Unaudited Condensed Consolidated Financial Statements for the 6 month period ending 30 June 2013 are approved by the Management Board of Latvenergo AS on 27 August 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 6 months ended 30 June 2013

1 EUR = 0.702804 LVL

	Notes	01.01.-30.06.2013.	01.01.-30.06.2012.	01.01.-30.06.2013.	01.01.-30.06.2012.
		LVL'000	LVL'000	EUR'000	EUR'000
Revenue	5	401,794	387,762	571,702	551,735
Other income		5,019	1,547	7,142	2,201
Materials, consumables and supplies	6	(261,880)	(228,258)	(372,622)	(324,782)
Personnel expenses		(32,930)	(31,685)	(46,855)	(45,084)
Depreciation, amortisation and impairment		(60,932)	(57,977)	(86,699)	(82,494)
Other operating expenses		(22,904)	(17,767)	(32,589)	(25,280)
<b>Operating profit</b>		<b>28,167</b>	<b>53,621</b>	<b>40,079</b>	<b>76,296</b>
Finance income		1,766	2,160	2,513	3,073
Finance costs		(5,843)	(5,716)	(8,313)	(8,134)
Share of profit of an associate		132	114	188	163
<b>Profit before income tax</b>		<b>24,223</b>	<b>50,179</b>	<b>34,467</b>	<b>71,398</b>
Income tax	7	(4,065)	(7,825)	(5,784)	(11,134)
<b>Profit for the period</b>		<b>20,158</b>	<b>42,354</b>	<b>28,683</b>	<b>60,264</b>

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the 6 months ended 30 June 2013

1 EUR = 0.702804 LVL

	01.01.-30.06.2013.	01.01.-30.06.2012.	01.01.-30.06.2013.	01.01.-30.06.2012.
	LVL'000	LVL'000	EUR'000	EUR'000
<b>Profit for the period</b>	<b>20,158</b>	<b>42,354</b>	<b>28,683</b>	<b>60,264</b>
<b>Other comprehensive income / (loss)</b>				
Gain on revaluation of PPE	-	367	-	522
Income / (loss) on currency translation differences	1	(43)	1	(61)
Income / (loss) from change in hedge reserve	4,619	(2,201)	6,573	(3,131)
<b>Other comprehensive income / (loss)</b>	<b>4,620</b>	<b>(1,877)</b>	<b>6,574</b>	<b>(2,671)</b>
<b>Total comprehensive income for the period</b>	<b>24,778</b>	<b>40,477</b>	<b>35,257</b>	<b>57,593</b>

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION as at 30 June 2013**

1 EUR = 0.702804 LVL

	Notes	30.06.2013.	31.12.2012.	30.06.2013.	31.12.2012.
		LVL'000	LVL'000	EUR'000	EUR'000
<b>ASSETS</b>					
<b>Non-current assets</b>					
Intangible assets and PPE	8	2,155,231	2,153,881	3,066,617	3,064,697
Investment property		1,112	1,116	1,582	1,588
Investments in associates and other financial investments		5,079	4,948	7,227	7,040
Held-to-maturity financial assets		20,113	20,134	28,619	28,649
Other non-current assets		47	32	67	45
<b>Total non-current assets</b>		<b>2,181,582</b>	<b>2,180,111</b>	<b>3,104,112</b>	<b>3,102,019</b>
<b>Current assets</b>					
Inventories	9	15,713	15,604	22,358	22,203
Trade and other receivables	10	76,267	101,913	108,518	145,008
Financial assets		46	4,237	66	6,029
Cash and cash equivalents	11	167,268	170,425	238,001	242,493
<b>Total current assets</b>		<b>259,295</b>	<b>292,179</b>	<b>368,943</b>	<b>415,733</b>
<b>TOTAL ASSETS</b>		<b>2,440,877</b>	<b>2,472,290</b>	<b>3,473,055</b>	<b>3,517,752</b>
<b>EQUITY</b>					
Share capital		904,605	904,605	1,287,137	1,287,137
Non-current assets revaluation reserve		465,738	465,738	662,685	662,685
Hedge reserve		(8,511)	(13,130)	(12,110)	(18,682)
Other reserves		79	77	113	110
<b>Total reserves</b>		<b>457,306</b>	<b>452,685</b>	<b>650,688</b>	<b>644,113</b>
Retained earnings		40,840	49,761	58,111	70,803
Non-controlling interest		3,770	3,459	5,364	4,922
<b>Total equity</b>		<b>1,406,521</b>	<b>1,410,510</b>	<b>2,001,300</b>	<b>2,006,975</b>
<b>LIABILITIES</b>					
<b>Non-current liabilities</b>					
Borrowings	12	471,081	506,797	670,288	721,107
Issued debt securities (bonds)		63,423	14,033	90,242	19,967
Deferred income tax liabilities		184,275	187,822	262,200	267,246
Provisions	13	10,779	10,508	15,338	14,952
Derivative financial instruments		7,161	12,555	10,189	17,864
Other liabilities and deferred income		107,261	105,425	152,618	150,007
<b>Total non-current liabilities</b>		<b>843,980</b>	<b>837,140</b>	<b>1,200,875</b>	<b>1,191,143</b>
<b>Current liabilities</b>					
Borrowings	12	79,046	74,405	112,472	105,869
Derivative financial instruments		13,671	12,144	19,452	17,279
Trade and other current liabilities, deferred income		95,513	135,999	135,903	193,509
Current income tax liabilities		2,016	1,892	2,868	2,692
Issued guarantees		130	200	185	285
<b>Total current liabilities</b>		<b>190,376</b>	<b>224,640</b>	<b>270,880</b>	<b>319,634</b>
<b>Total liabilities</b>		<b>1,034,356</b>	<b>1,061,780</b>	<b>1,471,755</b>	<b>1,510,777</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>2,440,877</b>	<b>2,472,290</b>	<b>3,473,055</b>	<b>3,517,752</b>



**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
for the 6 months ended 30 June 2013

1 EUR = 0.702804 LVL

	Attributable to owners of the Parent Company						Attributable to owners of the Parent Company					
	Share capital	Reserves	Retained earnings	Total	Non-controlling interest	TOTAL	Share capital	Reserves	Retained earnings	Total	Non-controlling interest	TOTAL
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
<b>As at 31 December 2011</b>	<b>325,862</b>	<b>976,921</b>	<b>45,773</b>	<b>1,348,556</b>	<b>3,020</b>	<b>1,351,576</b>	<b>463,660</b>	<b>1,390,033</b>	<b>65,129</b>	<b>1,918,822</b>	<b>4,297</b>	<b>1,923,119</b>
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
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>64,011</b>	<b>33,631</b>	<b>97,642</b>	<b>439</b>	<b>98,081</b>	<b>-</b>	<b>91,080</b>	<b>47,853</b>	<b>138,933</b>	<b>625</b>	<b>139,558</b>
<b>As at 31 December 2012</b>	<b>904,605</b>	<b>452,685</b>	<b>49,761</b>	<b>1,407,051</b>	<b>3,459</b>	<b>1,410,510</b>	<b>1,287,137</b>	<b>644,113</b>	<b>70,803</b>	<b>2,002,053</b>	<b>4,922</b>	<b>2,006,975</b>
<b>As at 31 December 2011</b>	<b>325,862</b>	<b>976,921</b>	<b>45,773</b>	<b>1,348,556</b>	<b>3,020</b>	<b>1,351,576</b>	<b>463,660</b>	<b>1,390,033</b>	<b>65,129</b>	<b>1,918,822</b>	<b>4,297</b>	<b>1,923,119</b>
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	-	(1,619)	(286)	(1,905)	-	(1,905)	-	(2,303)	(407)	(2,710)	-	(2,710)
Profit for the period	-	-	41,957	41,957	397	42,354	-	-	59,699	59,699	565	60,264
Other comprehensive loss for the period	-	(1,871)	(6)	(1,877)	-	(1,877)	-	(2,662)	(9)	(2,671)	-	(2,671)
<b>Total comprehensive income / (loss) for the period</b>	<b>-</b>	<b>(1,871)</b>	<b>41,951</b>	<b>40,080</b>	<b>397</b>	<b>40,477</b>	<b>-</b>	<b>(2,662)</b>	<b>59,690</b>	<b>57,028</b>	<b>565</b>	<b>57,593</b>
<b>As at 30 June 2012</b>	<b>325,862</b>	<b>986,423</b>	<b>34,546</b>	<b>1,346,831</b>	<b>3,417</b>	<b>1,350,248</b>	<b>463,660</b>	<b>1,403,554</b>	<b>49,153</b>	<b>1,916,367</b>	<b>4,862</b>	<b>1,921,229</b>
<b>As at 31 December 2012</b>	<b>904,605</b>	<b>452,685</b>	<b>49,761</b>	<b>1,407,051</b>	<b>3,459</b>	<b>1,410,510</b>	<b>1,287,137</b>	<b>644,113</b>	<b>70,803</b>	<b>2,002,053</b>	<b>4,922</b>	<b>2,006,975</b>
Dividends for 2012	-	-	(28,547)	(28,547)	(220)	(28,767)	-	-	(40,619)	(40,619)	(313)	(40,932)
Profit for the period	-	-	19,627	19,627	531	20,158	-	-	27,928	27,928	755	28,683
Other comprehensive income / (loss) for the period	-	4,621	(1)	4,620	-	4,620	-	6,575	(1)	6,574	-	6,574
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>4,621</b>	<b>19,626</b>	<b>24,247</b>	<b>531</b>	<b>24,778</b>	<b>-</b>	<b>6,575</b>	<b>27,927</b>	<b>34,502</b>	<b>755</b>	<b>35,257</b>
<b>As at 30 June 2013</b>	<b>904,605</b>	<b>457,306</b>	<b>40,840</b>	<b>1,402,751</b>	<b>3,770</b>	<b>1,406,521</b>	<b>1,287,137</b>	<b>650,688</b>	<b>58,111</b>	<b>1,995,936</b>	<b>5,364</b>	<b>2,001,300</b>

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**  
for the 6 months ended 30 June 2013

1 EUR = 0.702804 LVL

	Notes	01.01.-30.06.2013.	01.01.-30.06.2012.	01.01.-30.06.2013.	01.01.-30.06.2012.
		LVL'000	LVL'000	EUR'000	EUR'000
<b>Cash flows from operating activities</b>					
Profit before income tax		24,223	50,179	34,467	71,398
<b>Adjustments for:</b>					
- Amortisation, depreciation, impairment loss of non-current assets		62,671	59,496	89,173	84,655
- Net financial adjustments		8,825	3,304	12,557	4,701
- Other adjustments		260	441	370	627
Increase in current assets		19,974	15,319	28,420	21,797
(Decrease) / increase in payables, accrued expense, deferred income and other liabilities		(44,476)	4,126	(63,284)	5,871
<b>Cash generated from operations</b>		<b>71,477</b>	<b>132,865</b>	<b>101,703</b>	<b>189,049</b>
Interest paid		(6,987)	(3,497)	(9,942)	(4,976)
Interest received		1,092	2,386	1,554	3,395
Income tax paid		(8,949)	(7,141)	(12,734)	(10,161)
<b>Net cash generated from operating activities</b>		<b>56,633</b>	<b>124,613</b>	<b>80,581</b>	<b>177,307</b>
<b>Cash flows from investing activities</b>					
Purchase of intangible assets and PPE		(57,134)	(110,981)	(81,294)	(157,912)
Proceeds on financing from EU funds		593	198	844	282
Net investments in held-to-maturity assets		21	29,400	30	41,832
<b>Net cash used in investing activities</b>		<b>(56,520)</b>	<b>(81,383)</b>	<b>(80,420)</b>	<b>(115,798)</b>
<b>Cash flows from financing activities</b>					
Proceeds on issued debt securities (bonds)		49,389	-	70,274	-
Proceeds on borrowings from credit institutions		5,391	63,260	7,671	90,011
Repayment of borrowings		(36,293)	(25,212)	(51,641)	(35,873)
Dividends paid to non-controlling interests		(220)	-	(313)	-
Dividends paid*	12	(21,537)	(39,900)	(30,644)	(56,773)
<b>Net cash used in financing activities</b>		<b>(3,270)</b>	<b>(1,852)</b>	<b>(4,653)</b>	<b>(2,635)</b>
<b>Net (decrease) / increase in cash and cash equivalents</b>		<b>(3,157)</b>	<b>41,378</b>	<b>(4,492)</b>	<b>58,874</b>
Cash and cash equivalents at the beginning of the period	11	170,425	108,877	242,493	154,918
<b>Cash and cash equivalents at the end of the period</b>	<b>11</b>	<b>167,268</b>	<b>150,255</b>	<b>238,001</b>	<b>213,792</b>

\* - 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 Latvian Ministry of Economy. The registered address of the Company is 12 Pulkveža Brieža St., Riga, LV-1230, Latvia. Pursuant to the Latvian Energy Law, Latvenergo AS is designated as national economy object of state importance and, therefore, is not subject to privatisation.

Latvenergo AS is engaged in the generation and supply of electricity and thermal energy in the territory of Latvia. 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 6 month period ending 30 June 2013 are presented in thousands of Latvian Lats (LVL) and were authorised by the Management Board on 27 August 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 6 month period ending 30 June 2013 include the financial information in respect of the Parent Company and its all subsidiaries for the 6 month period ending 30 June 2013 and comparative information for 6 month period ending 30 June 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](http://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 European Union Economic and Financial Affairs Council 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**

##### **1) Foreign exchange risk**

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

However, the peg of Lats to Euro at the beginning of the year 2005 resulted in limited EUR/LVL currency risk, as the Group had no substantial liabilities in any other foreign currency except Euro. At 30 June 2013 the Group had none of their borrowings denominated in other currencies than the Euro.

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

##### **II) Cash flow and fair value interest rate risk**

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

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

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

##### **III) Price risk**

Price risk is the risk that the fair value and cash flows of financial instruments will fluctuate in the future due to reasons other than changes in the market prices resulting from interest rate risk or foreign exchange risk. The purchase and sale of

goods produced and the services provided by the Group under the free market conditions, as well as the purchases of resources used in production is impacted by the price risk.

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

#### **b) Credit risk**

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

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

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

### **c) Liquidity risk**

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

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

### **3.2. Capital risk management**

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

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

loan covenants, the Group monitors capital on the basis of the capital ratio.

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

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

### **3.3. Fair value estimation of financial instruments**

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

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

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based

on market conditions existing at the end of each reporting period. Quoted market prices for similar instruments are used for long-term debt.

Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. Those fair values are compared to counterparty's bank revaluation reports.

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

The fair value of CO<sub>2</sub> emission allowances for greenhouse gases forward contracts is calculated as difference between actual market and settlement prices for CO<sub>2</sub> 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:

<b>LVL</b>	<b>Generation and supply</b>	<b>Distribution system services</b>	<b>Management of transmission system assets</b>	<b>Corporate functions</b>	<b>TOTAL segments</b>	<b>Adjustments and eliminations</b>	<b>Consolidated</b>
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
<b>Period 01.01.-30.06.2013</b>							
<b>Revenue</b>							
External customers	275,287	104,921	19,645	1,941	401,794	-	401,794
Inter-segment	7,874	661	908	15,683	25,126	(25,126)	-
<b>Total revenue</b>	<b>283,161</b>	<b>105,582</b>	<b>20,553</b>	<b>17,624</b>	<b>426,920</b>	<b>(25,126)</b>	<b>401,794</b>
<b>Results</b>							
<b>Segment operating profit</b>	<b>14,891</b>	<b>7,524</b>	<b>4,455</b>	<b>1,302</b>	<b>28,172</b>	<b>(3,949)</b>	<b>24,223</b>
Capital expenditure	19,630	23,099	17,763	3,744	64,236	-	64,236
<b>Period 01.01.-30.06.2012</b>							
<b>Revenue</b>							
External customers	264,496	103,118	18,157	2,342	388,113	(351)	387,762
Inter-segment	9,986	636	810	17,277	28,709	(28,709)	-
<b>Total revenue</b>	<b>274,482</b>	<b>103,754</b>	<b>18,967</b>	<b>19,619</b>	<b>416,822</b>	<b>(29,060)</b>	<b>387,762</b>
<b>Results</b>							
<b>Segment operating profit</b>	<b>43,386</b>	<b>2,837</b>	<b>4,831</b>	<b>2,841</b>	<b>53,895</b>	<b>(3,716)</b>	<b>50,179</b>
Capital expenditure	74,582	22,862	9,193	2,470	109,107	-	109,107
<b>EUR</b>							
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
<b>Period 01.01.-30.06.2013</b>							
<b>Revenue</b>							
External customers	391,698	149,289	27,952	2,763	571,702	-	571,702
Inter-segment	11,204	940	1,292	22,315	35,751	(35,751)	-
<b>Total revenue</b>	<b>402,902</b>	<b>150,229</b>	<b>29,244</b>	<b>25,078</b>	<b>607,453</b>	<b>(35,751)</b>	<b>571,702</b>
<b>Results</b>							
<b>Segment operating profit</b>	<b>21,188</b>	<b>10,705</b>	<b>6,339</b>	<b>1,853</b>	<b>40,085</b>	<b>(5,618)</b>	<b>34,467</b>
Capital expenditure	27,931	32,867	25,274	5,327	91,399	-	91,399
<b>Period 01.01.-30.06.2012</b>							
<b>Revenue</b>							
External customers	376,344	146,724	25,835	3,332	552,235	(500)	551,735
Inter-segment	14,209	905	1,153	24,583	40,850	(40,850)	-
<b>Total revenue</b>							
<b>Results</b>							
<b>Segment operating profit</b>	<b>61,733</b>	<b>4,037</b>	<b>6,874</b>	<b>4,042</b>	<b>76,686</b>	<b>(5,288)</b>	<b>71,398</b>
Capital expenditure	106,121	32,530	13,080	3,514	155,245	-	155,245

## Segment assets

	Generation and supply	Distribution	Management of transmission system assets	Corporate functions	TOTAL segments	Adjustments and eliminations	Consolidated
At 30 June 2013 LVL'000	1,037,028	869,172	279,976	59,594	2,245,770	195,107	2,440,877
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 June 2013 EUR'000	1,475,558	1,236,720	398,370	84,794	3,195,442	277,613	3,473,055
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.-30.06.2013	01.01.-30.06.2012	01.01.-30.06.2013	01.01.-30.06.2012
	LVL'000	LVL'000	EUR'000	EUR'000
<b>Segment operating profit</b>	<b>28,172</b>	<b>53,895</b>	<b>40,085</b>	<b>76,686</b>
Inter-segment sales (elimination)	(4)	(274)	(6)	(390)
Finance income	1,766	2,160	2,513	3,073
Finance costs	(5,843)	(5,716)	(8,313)	(8,134)
Share of profit of associates	132	114	188	163
<b>Group profit before income tax</b>	<b>24,223</b>	<b>50,179</b>	<b>34,467</b>	<b>71,398</b>

## Reconciliation of assets

	30.06.2013	31.12.2012	30.06.2013	31.12.2012
	LVL'000	LVL'000	EUR'000	EUR'000
<b>Segment operating assets</b>	<b>2,245,770</b>	<b>2,268,592</b>	<b>3,195,443</b>	<b>3,227,916</b>
Investments in associates	5,079	4,948	7,227	7,040
Investments in held-to-maturity financial assets	20,113	20,134	28,619	28,649
Current financial assets	46	42	66	59
Other assets and assets held for sale	2,601	8,149	3,700	11,595
Cash and cash equivalents	167,268	170,425	238,001	242,493
<b>Group operating assets</b>	<b>2,440,877</b>	<b>2,472,290</b>	<b>3,473,056</b>	<b>3,517,752</b>

## 5. REVENUE

	01.01.-30.06.2013	01.01.-30.06.2012	01.01.-30.06.2013	01.01.-30.06.2012
	LVL'000	LVL'000	EUR'000	EUR'000
Electricity and electricity services	319,493	307,654	454,598	437,752
Heat sales	52,114	51,675	74,152	73,527
Lease and management of transmission system assets	19,412	17,434	27,621	24,806
Other revenue	10,775	10,999	15,331	15,650
<b>Total revenue</b>	<b>401,794</b>	<b>387,762</b>	<b>571,702</b>	<b>551,735</b>

## 6. MATERIALS, CONSUMABLES AND SUPPLIES

	01.01.-30.06.2013	01.01.-30.06.2012	01.01.-30.06.2013	01.01.-30.06.2012
	LVL'000	LVL'000	EUR'000	EUR'000
<b>Electricity purchases</b>				
Purchased electricity	139,274	113,018	198,169	160,810
Fair value loss / (income) on electricity swaps	4,954	(175)	7,049	(249)
Electricity transmission services	26,545	25,564	37,770	36,374
	<b>170,773</b>	<b>138,407</b>	<b>242,988</b>	<b>196,935</b>
Fuel expense	78,277	75,784	111,378	107,832
Fair value income on CO <sub>2</sub> emission allowances forward contracts	-	(226)	-	(322)
Raw materials, spare parts and maintenance costs	12,830	14,293	18,256	20,337
<b>Total materials, consumables and supplies</b>	<b>261,880</b>	<b>228,258</b>	<b>372,622</b>	<b>324,782</b>

## 7. INCOME TAX

	01.01.-30.06.2013	01.01.-30.06.2012	01.01.-30.06.2013	01.01.-30.06.2012
	LVL'000	LVL'000	EUR'000	EUR'000
Current tax	7,612	10,064	10,830	14,320
Deferred tax	(3,547)	(2,239)	(5,046)	(3,186)
<b>Total income tax</b>	<b>4,065</b>	<b>7,825</b>	<b>5,784</b>	<b>11,134</b>

## 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
<b>At 30 June 2013</b>												
Cost or valuation	23,058	2,944,849	1,231,928	101,968	330,191	<b>4,631,994</b>	32,809	4,190,143	1,752,875	145,088	469,819	<b>6,590,734</b>
Accumulated amortisation, depreciation and impairment	(17,334)	(1,651,012)	(726,381)	(77,231)	(4,805)	<b>(2,476,763)</b>	(24,664)	(2,349,178)	(1,033,548)	(109,890)	(6,837)	<b>(3,524,117)</b>
<b>Net book amount</b>	<b>5,724</b>	<b>1,293,837</b>	<b>505,547</b>	<b>24,737</b>	<b>325,386</b>	<b>2,155,231</b>	<b>8,145</b>	<b>1,840,965</b>	<b>719,327</b>	<b>35,198</b>	<b>462,982</b>	<b>3,066,617</b>
<b>At 31 December 2012</b>												
Cost or valuation	23,499	2,944,041	1,224,864	99,713	296,705	<b>4,588,822</b>	33,436	4,188,993	1,742,824	141,880	422,173	<b>6,529,306</b>
Accumulated amortisation, depreciation and impairment	(17,695)	(1,629,214)	(708,346)	(74,815)	(4,871)	<b>(2,434,941)</b>	(25,178)	(2,318,163)	(1,007,885)	(106,452)	(6,931)	<b>(3,464,609)</b>
<b>Net book amount</b>	<b>5,804</b>	<b>1,314,827</b>	<b>516,518</b>	<b>24,898</b>	<b>291,834</b>	<b>2,153,881</b>	<b>8,258</b>	<b>1,870,830</b>	<b>734,939</b>	<b>35,428</b>	<b>415,242</b>	<b>3,064,697</b>

## 9. INVENTORIES

	30.06.2013	31.12.2012	30.06.2013	31.12.2012
	LVL'000	LVL'000	EUR'000	EUR'000
Raw materials and spare parts	14,475	14,196	20,596	20,199
Other inventories	4,153	4,192	5,910	5,965
Allowance for raw materials, spare parts, technological fuel	(2,915)	(2,784)	(4,148)	(3,961)
<b>Total inventories</b>	<b>15,713</b>	<b>15,604</b>	<b>22,358</b>	<b>22,203</b>

## 10. TRADE RECEIVABLES AND OTHER CURRENT RECEIVABLES

### Trade receivables:

	30.06.2013	31.12.2012	30.06.2013	31.12.2012
	LVL'000	LVL'000	EUR'000	EUR'000
<b>Receivables:</b>				
- Electricity customers	65,842	64,637	93,685	91,971
- Heating customers	3,779	19,140	5,377	27,234
- Other trade receivables	15,908	14,450	22,635	20,560
	<b>85,529</b>	<b>98,227</b>	<b>121,697</b>	<b>139,765</b>
<b>Provision for impairment of receivables:</b>				
- Electricity customers	(25,022)	(18,894)	(35,604)	(26,884)
- Heating customers	(457)	(295)	(650)	(420)
- Other trade receivables	(1,355)	(1,217)	(1,928)	(1,732)
	<b>(26,834)</b>	<b>(20,406)</b>	<b>(38,182)</b>	<b>(29,036)</b>
<b>Receivables, net:</b>				
- Electricity customers	40,820	45,743	58,081	65,087
- Heating customers	3,322	18,845	4,727	26,814
- Other trade receivables	14,553	13,233	20,707	18,828
	<b>58,695</b>	<b>77,821</b>	<b>83,515</b>	<b>110,729</b>
Other current receivables	17,572	24,092	25,003	34,279
<b>Total trade receivables and other receivables</b>	<b>76,267</b>	<b>101,913</b>	<b>108,518</b>	<b>145,008</b>

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

	01.01.- 30.06.2013	01.01.- 30.06.2012	2012	01.01.- 30.06.2013	01.01.- 30.06.2012	2012
	LVL'000	LVL'000	LVL'000	EUR'000	EUR'000	EUR'000
<b>At the beginning of the period</b>	<b>20,406</b>	<b>9,717</b>	<b>9,717</b>	<b>29,036</b>	<b>13,825</b>	<b>13,825</b>
Receivables written off during the period as uncollectible	(151)	(79)	(203)	(215)	(112)	(289)
Allowance for impaired receivables	6,579	1,860	10,892	9,361	2,647	15,500
<b>At the end of the period</b>	<b>26,834</b>	<b>11,498</b>	<b>20,406</b>	<b>38,182</b>	<b>16,360</b>	<b>29,036</b>

## 11. CASH AND CASH EQUIVALENTS

	30.06.2013	31.12.2012	30.06.2013	31.12.2012
	LVL'000	LVL'000	EUR'000	EUR'000
Cash at bank	51,844	25,316	73,767	36,021
Short-term bank deposits	115,424	145,109	164,234	206,472
<b>Total cash and cash equivalents</b>	<b>167,268</b>	<b>170,425</b>	<b>238,001</b>	<b>242,493</b>

## 12. BORROWINGS

	30.06.2013	31.12.2012	30.06.2013	31.12.2012
	LVL'000	LVL'000	EUR'000	EUR'000
Non-current borrowings (excl. current portion)	471,081	506,797	670,288	721,107
Issued debt securities (bonds)	63,423	14,033	90,242	19,967
<b>Total non-current borrowings</b>	<b>534,504</b>	<b>520,830</b>	<b>760,530</b>	<b>741,074</b>
Current portion of non-current borrowings	78,021	73,208	111,013	104,165
Accrued interest on non-current borrowings	1,025	1,197	1,459	1,704
<b>Total current borrowings</b>	<b>79,046</b>	<b>74,405</b>	<b>112,472</b>	<b>105,869</b>
<b>Total borrowings</b>	<b>613,550</b>	<b>595,235</b>	<b>873,002</b>	<b>846,943</b>

### *Movement in borrowings:*

	01.01.-30.06.2013	2012	01.01.-30.06.2013	2012
	LVL'000	LVL'000	EUR'000	EUR'000
<b>At the beginning of the period</b>	<b>595,235</b>	<b>513,334</b>	<b>846,943</b>	<b>730,408</b>
Borrowings received	5,391	116,947	7,671	166,401
Borrowing repaid	(36,293)	(48,056)	(51,641)	(68,378)
Accrued interest on borrowings	(172)	(1,023)	(245)	(1,455)
Debt securities (bonds) issued	49,389	14,033	70,274	19,967
<b>At the end of the period</b>	<b>613,550</b>	<b>595,235</b>	<b>873,002</b>	<b>846,943</b>



### 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.- 30.06.2013	01.01.- 30.06.2012	2012	01.01.- 30.06.2013	01.01.- 30.06.2012	2012
	LVL'000	LVL'000	LVL'000	EUR'000	EUR'000	EUR'000
<b>At the beginning of the period</b>	<b>7,760</b>	<b>7,734</b>	<b>7,734</b>	<b>11,042</b>	<b>11,004</b>	<b>11,004</b>
Charged to the Consolidated Income Statement	275	98	26	392	139	38
<b>At the end of the period</b>	<b>8,035</b>	<b>7,832</b>	<b>7,760</b>	<b>11,434</b>	<b>11,143</b>	<b>11,042</b>

#### *Environmental provisions*

	01.01.- 30.06.2013	01.01.- 30.06.2012	2012	01.01.- 30.06.2013	01.01.- 30.06.2012	2012
	LVL'000	LVL'000	LVL'000	EUR'000	EUR'000	EUR'000
<b>At the beginning of the period</b>	<b>2,748</b>	<b>1,783</b>	<b>1,783</b>	<b>3,910</b>	<b>2,537</b>	<b>2,537</b>
Charged to the Consolidated Income Statement	(4)	(14)	965	(6)	(20)	1,373
<b>At the end of the period</b>	<b>2,744</b>	<b>1,769</b>	<b>2,748</b>	<b>3,904</b>	<b>2,517</b>	<b>3,910</b>

### 14. RELATED PARTY TRANSACTIONS

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

#### *The following transactions were carried out with related parties:*

	01.01.-30.06.2013	01.01.-30.06.2012	01.01.-30.06.2013	01.01.-30.06.2012
	LVL'000	LVL'000	EUR'000	EUR'000
Sales of goods and services	76,192	77,011	108,411	109,577
Purchases of goods and services	33,168	35,049	47,194	49,871

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

	30.06.2013	31.12.2012	30.06.2013	31.12.2012
	LVL'000	LVL'000	EUR'000	EUR'000
Trade receivables from related parties	9,266	21,354	13,184	30,384
Trade payables to related parties	6,451	8,871	9,179	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 6 month period ending 30 June 2013 remuneration to the key management personnel, Supervisory body, including salary, social

insurance payments and payments to pension plan is amounted to LVL 515.1 thousand or EUR 732.9 thousand (01.01.-30.06.2012: LVL 478.8 thousand or EUR 681.3 thousand) and are included in the Consolidated Income Statement position 'Personnel expenses'.

## **15. EVENTS AFTER THE REPORTING PERIOD**

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 6 month period ending 30 June 2013.

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