

Unaudited Interim
Condensed
Consolidated
Financial Statements

for 6 month period ending
30 June 2013

30 August 2013



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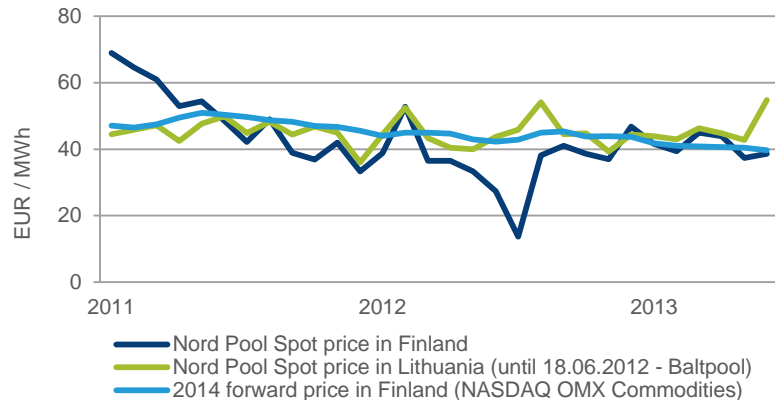
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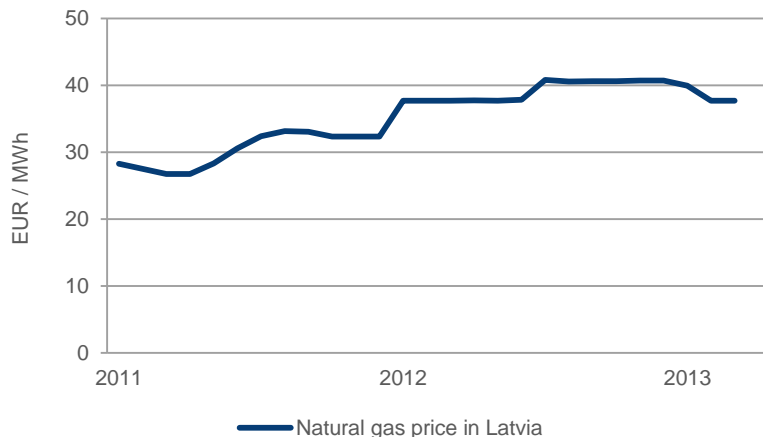
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Adverse market conditions persist in 1H 2013

Electricity spot price increases, forward price continues to decrease



Steady high natural gas price in Latvia*

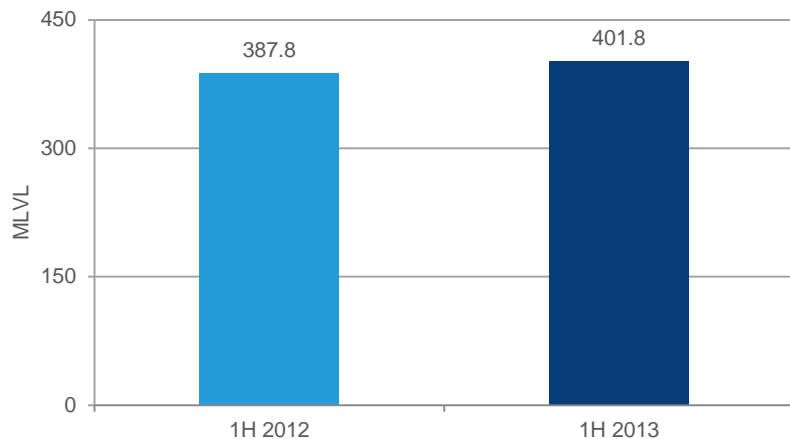


Main facts – 1H 2013

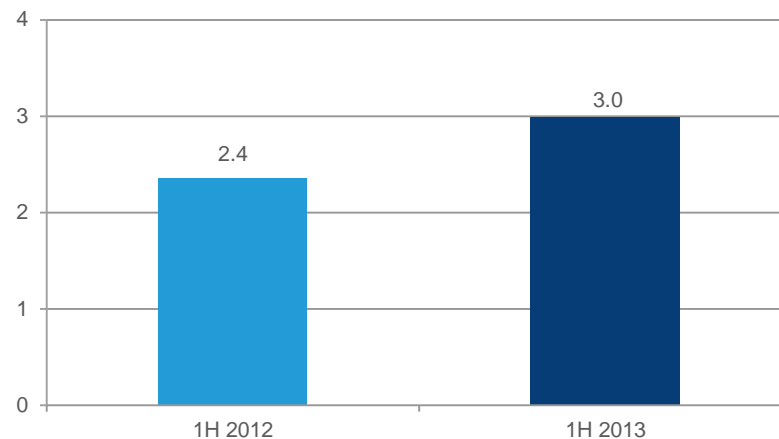
- ▲ Water level in Nordic hydropower plant reservoirs stayed below the long-term average resulting in a 9% rise in *Nord Pool Spot* Finland electricity price (41 EUR/MWh)
- ▲ Transmission system capacity limitations determine price differences between Lithuania and Finland bidding areas. In Lithuania bidding area electricity price was 45.9 EUR/MWh (+ 4%), which is 12% higher than in Finland
- ▲ Lower coal and EUA prices determined a decline in electricity forward price, which has a diminishing impact on electricity retail prices
- ▲ *Nord Pool Spot* Latvia bidding area was opened on 3 June 2013
- ▲ In 1H 2013, natural gas price in Latvia was 38.0 EUR/MWh (+1%)
- ▲ Macroeconomic indicators in the Baltics continue to improve, Latvia shows the fastest GDP growth in the EU (Q1 – 5.6%, Q2 – 4.3%)
- ▲ Latvia will join the European Economic and Monetary Union on 1 January 2014
- price of natural gas in Latvia, including the gas excise tax, for users with gas consumption above 100,000 thousands m³ (Source: <http://www.lg.lv/>)

Adverse market conditions do not affect the revenue

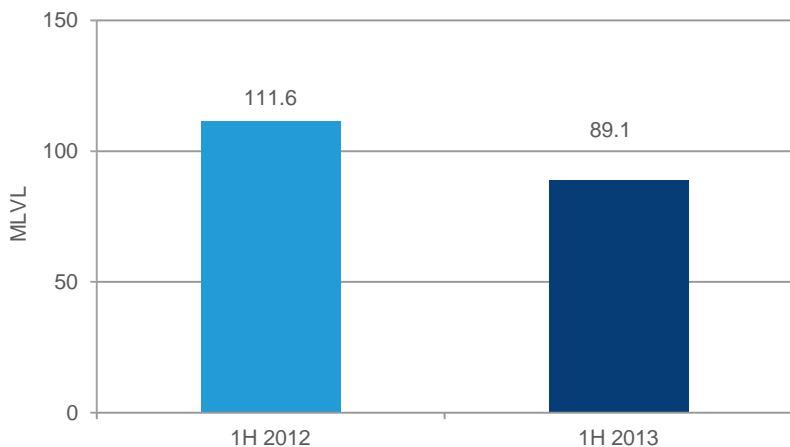
Revenue



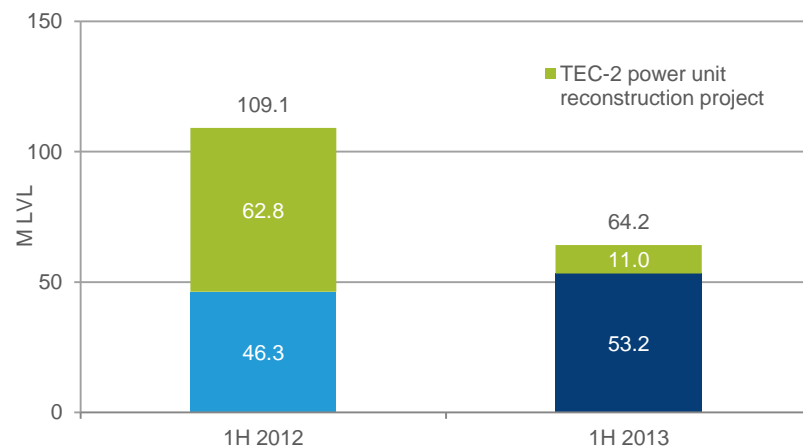
Net Debt / EBITDA



EBITDA

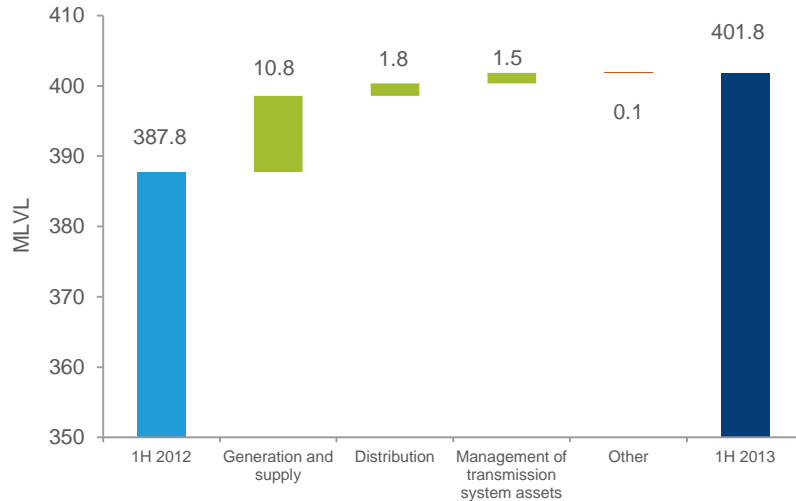


Investments



Revenue growth in all operating segments

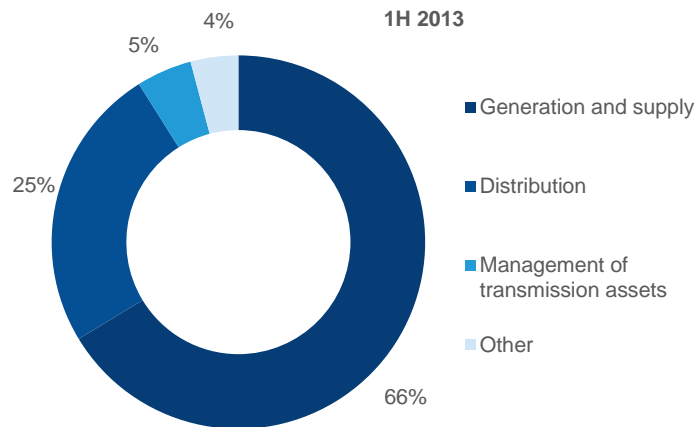
Revenue dynamics by segments



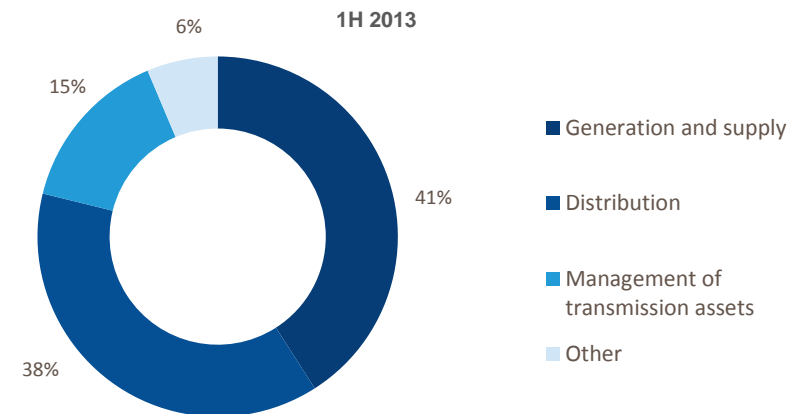
Revenue growth in all operating segments

- ▲ Revenue of the Group increased by 4 % reaching 401.8 MLVL
- ▲ Weight of unregulated service revenues increased to 38% (1H 2012: 34%)
- ▲ Decrease in EBITDA was due to lower EBITDA in generation and supply operating segment, while EBITDA increased in distribution and transmission system management segments
- ▲ Total asset value is close to LVL 2.5 billion

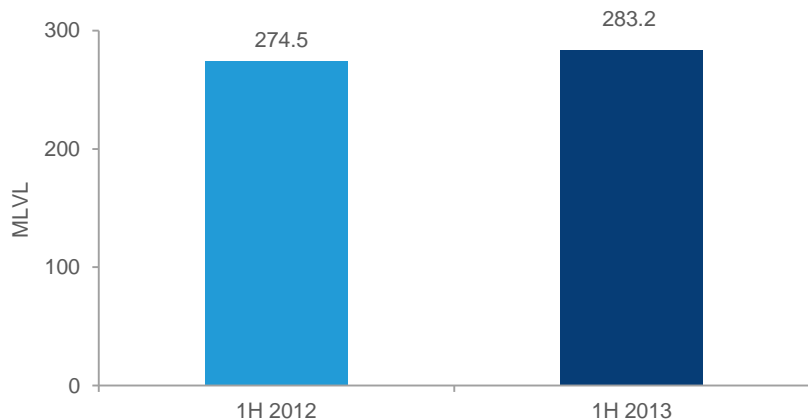
Segment revenue (1H 2013)



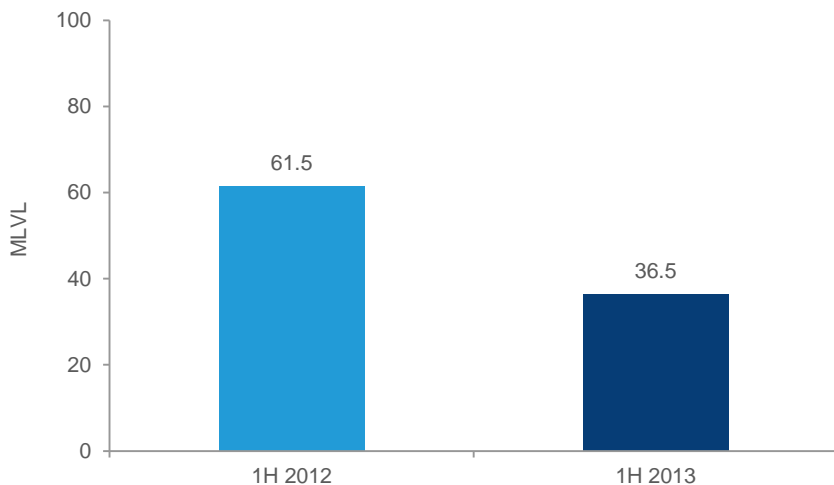
Segment EBITDA



Segment revenue



Segment EBITDA

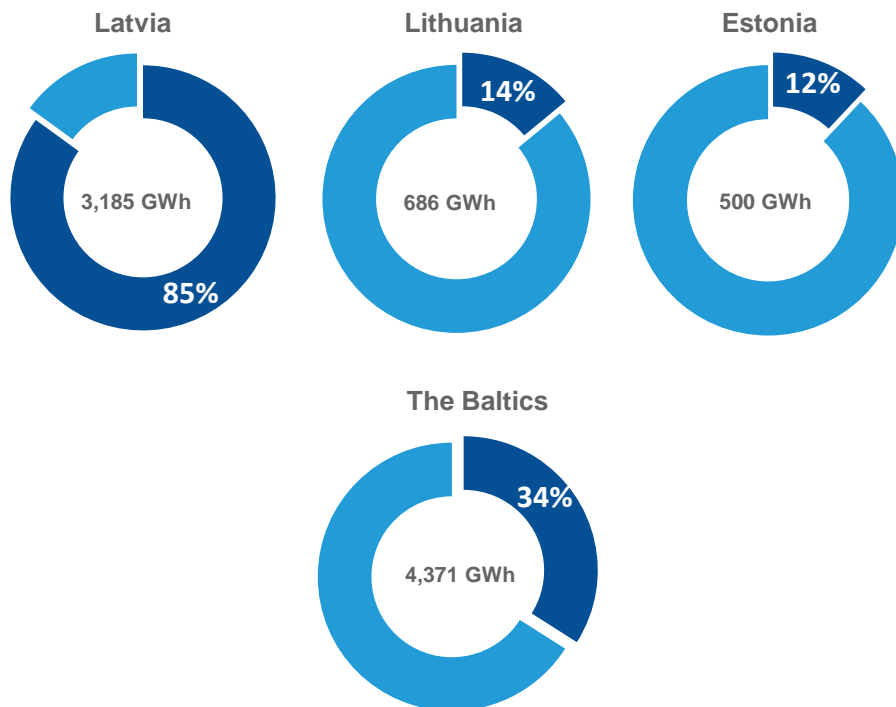


The largest segment of the Group

- ▲ Generation and supply operating segment forms 66% of the total revenue and the revenue continues to grow (+3%) due to increased supply in Lithuania and Estonia
- ▲ Negative impact on EBITDA of the segment:
 - ▲ 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
 - ▲ 9% decrease of industrial sector electricity consumption in Latvia
 - ▲ increase of electricity volume (+44%) purchased from generators under the mandatory procurement process
 - ▲ losses due to electricity supply at regulated tariff in Latvia



Market share in the Baltics – 34%

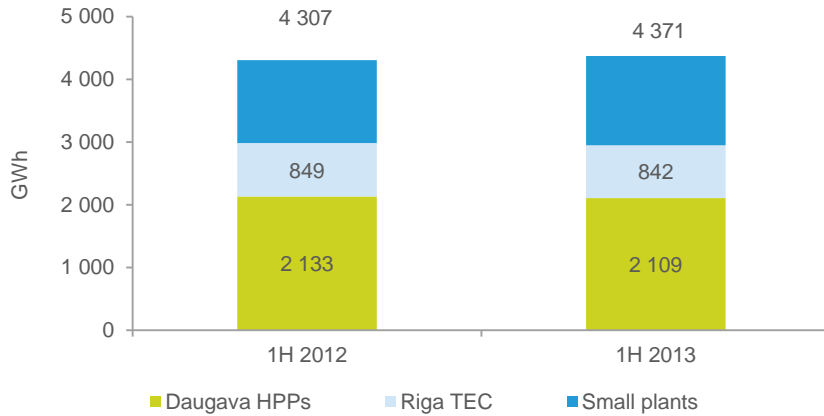


Focused and successful operations in the market

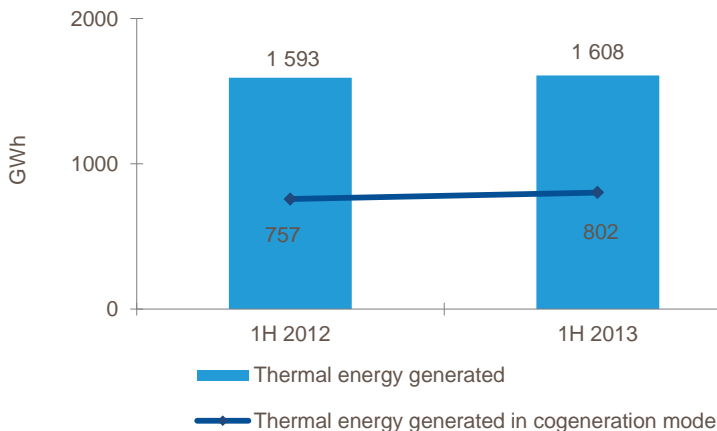
- ▲ Amount of customers in Estonia and Lithuania has increased more than 10 times – the Group focuses on SMEs and households
- ▲ Supplied electricity amounts is 4,371 GWh, 27% of which is supplied outside Latvia
- ▲ Purposeful actions to promote *Elektrum* brand awareness are carried out
- ▲ Market liberalisation facilitates growth of electricity supply outside Latvia reaching 1,186 GWh, while competitors supplied 570 GWh in Latvia



2,974 GWh electricity generated



Half of thermal energy is generated in cogeneration mode

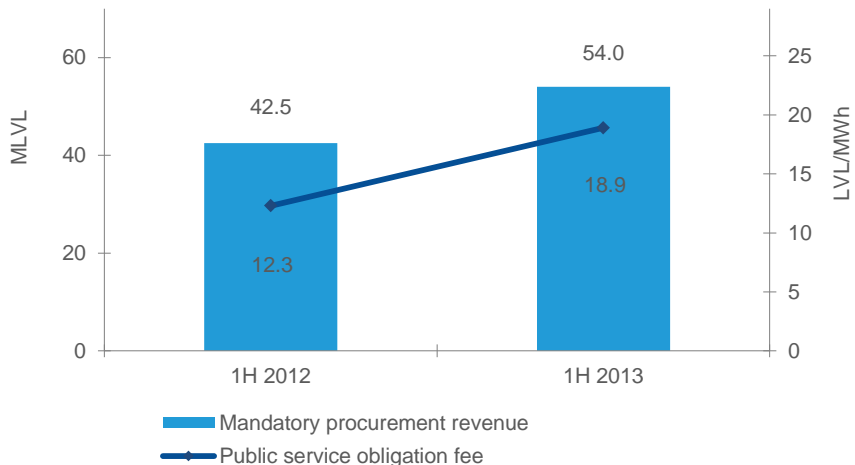
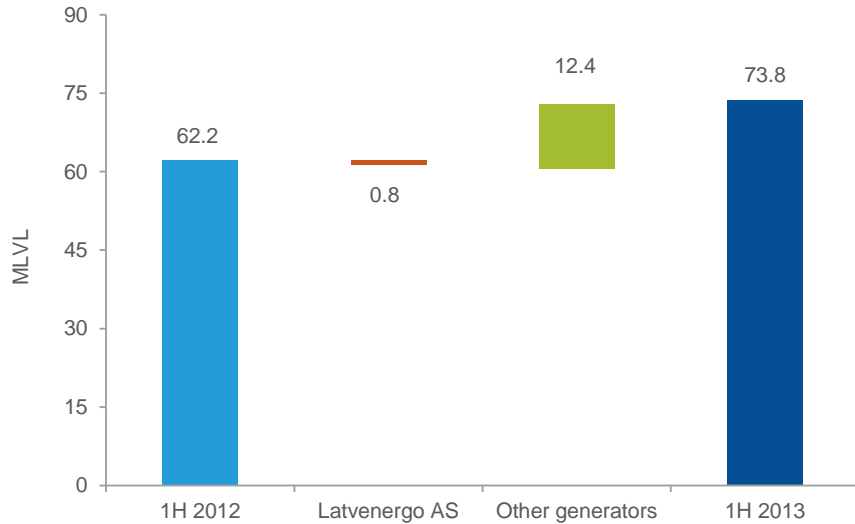


Effective and balanced generation sources

- ▲ Capacity structure of electricity and thermal energy generation at Riga TEC allows adjusting generation mode to the market conditions
- ▲ 71% of generated electricity or 48% of supplied electricity are generated from renewable energy resources
- ▲ Thermal energy generation remained at the 2012 level

Revenues from mandatory procurement do not cover actual costs

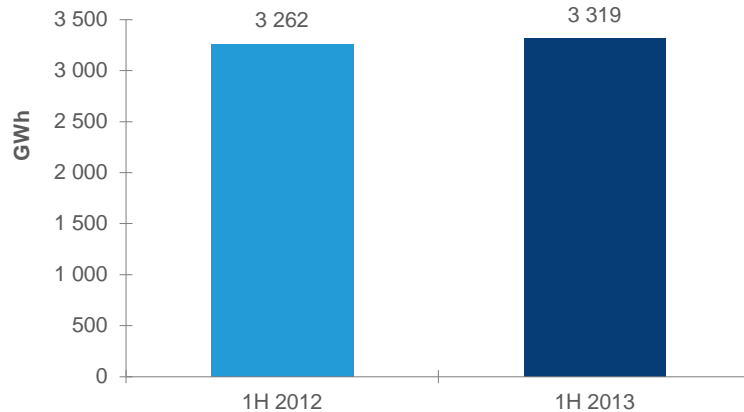
Actual costs rise by 19%



Latvenergo AS weight in eligible costs decreases

- ▲ Latvenergo AS is obliged to purchase electricity from generators in Latvia that qualify for support plans within the mandatory procurement process
- ▲ In 1H 2013, electricity volume purchased from other generators within the mandatory procurement process increased by 44%, reaching 670 GWh
- ▲ Latvenergo AS weight in the eligible costs of the mandatory procurement decreased to 36%
- ▲ As of 1 April 2013, the mandatory procurement public service obligation fee is determined at 18.9 LVL/MWh

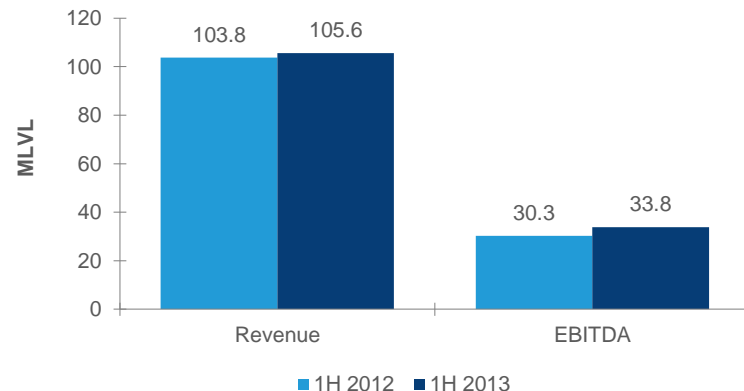
Distributed electricity



Distributed electricity volume continues to increase

- ▲ Increase of distributed electricity by 2%
- ▲ Electricity losses continue to decrease - 170 GWh

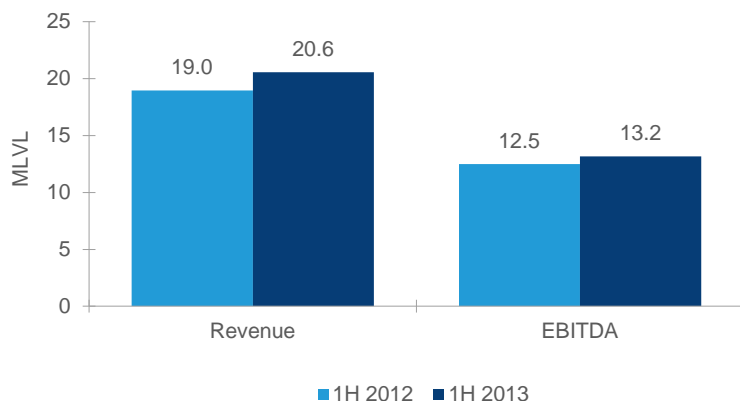
Financial highlights



EBITDA growth in distribution segment

- ▲ Positive impact on profitability:
 - ▲ higher volume of distributed electricity
 - ▲ lower price of purchased electricity (-4%) and reduced amount of losses
- ▲ Negative impact on profitability due to increase of transmission service costs

Growth of revenue improves EBITDA

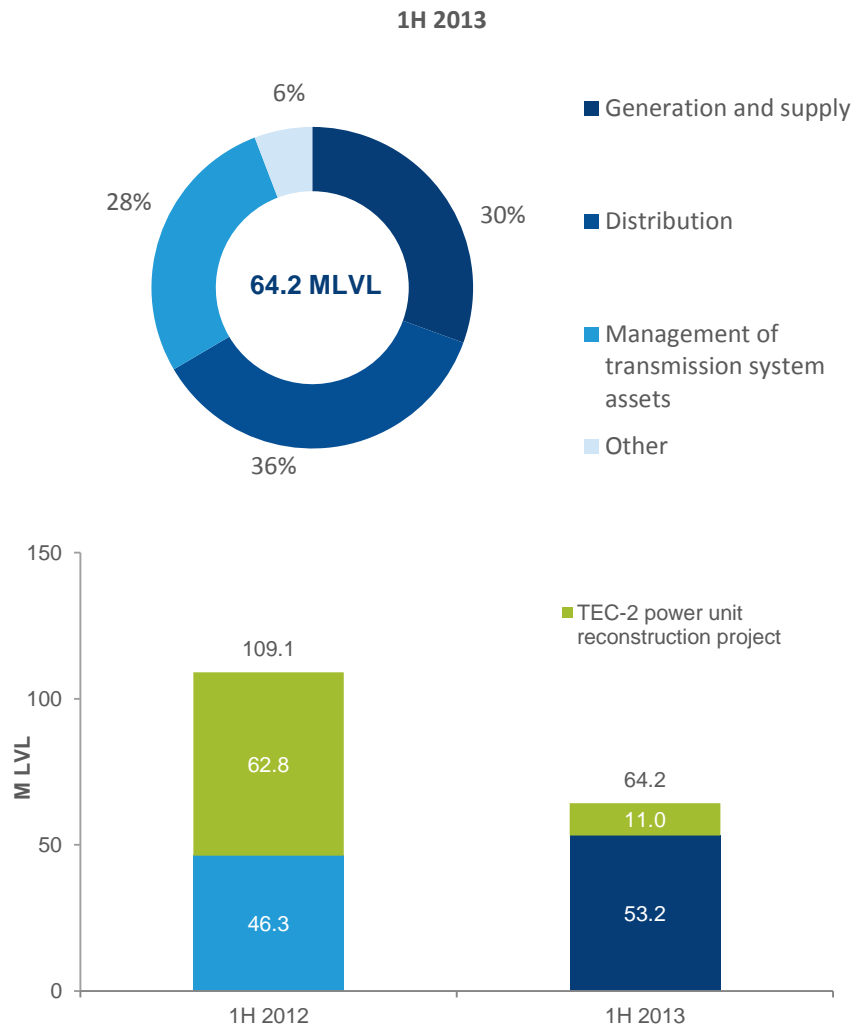


Return of transmission system assets is 2.8%

- ▲ In 1H 2013, the rise of profitability is determined by a gradual inclusion of the value of regulatory asset revaluation reserve into the lease
- ▲ Value of transmission system assets increased by 5% due to investments
- ▲ As a prerequisite for establishment of the Nord Pool Spot Latvia bidding area on 3 June 2013, certification of the TSO took place on 30 January 2013
- ▲ The PUC decision provides a takeover of transmission system construction and maintenance functions by TSO, while Latvijas elektriskie tīkli AS stays as the owner of transmission system assets

Reconstruction of Riga TEC-2 power unit approaching completion

Investments in network assets – 64% of the total



Customers as investment priority

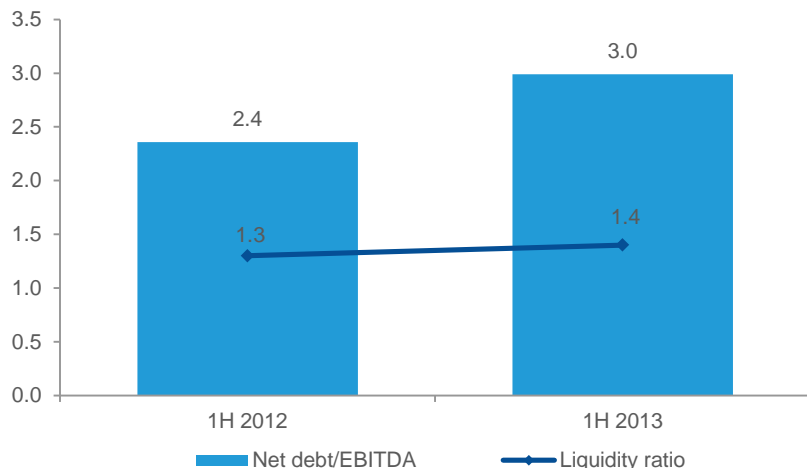
- ▲ Upon evaluating investments in transmission and distribution system assets, improved service quality and technical parameters are key priorities
- ▲ Riga TEC-2 project approaching completion – final equipment adjustments are carried out
 - ▲ Total CAPEX – 226 MLVL*
 - ▲ Completion in 2013
- ▲ NordBalt 02 - 330kV, *Kurzeme Ring*** – the major investment project of the following years
 - ▲ Total CAPEX – 66 MLVL
 - ▲ Completion in 2014
- ▲ Latvenergo Group responsibly plans future investments without committing to significant long-term liabilities

* EPC costs (engineering, procurement, construction)

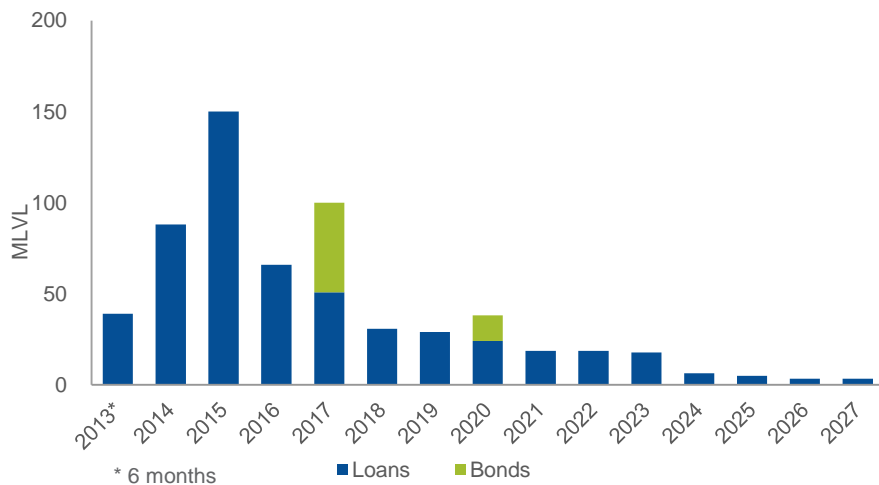
** first and second stage

Continuous attraction of funding in capital markets

Stable liquidity ratios



Debt repayment schedule



Moody's rating - Baa3 (stable)

- ▲ 20 MEUR bonds with 7-year maturity were issued in May. 7-year bonds ensured a 2.89% yield, which is close to the yield of 5-year bonds
- ▲ In H1 2013, 70 MEUR bonds were issued increasing the total amount up to 90 MEUR
- ▲ Increase in net debt / EBITDA ratio was determined by investments in reconstruction of Riga TEC-2 and decrease in generation and supply segment EBITDA
- ▲ Equity forms 58% of the total assets
- ▲ Moody's Investors Service reconfirms Baa3 (stable) credit rating

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Latvia

Consolidated income statement*

	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	401,794	387,762	571,702	551,735
Other income	5,019	1,547	7,142	2,201
Materials, consumables and supplies	(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)
Operating profit	28,167	53,621	40,079	76,296
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
Profit before income tax	24,223	50,179	34,467	71,398
Income tax	(4,065)	(7,825)	(5,784)	(11,134)
Profit for the period	20,158	42,354	28,683	60,264

* Unaudited financial results

Consolidated statement of financial position*

	30.06.2013.	31.12.2012.	30.06.2013.	31.12.2012.
	LVL'000	LVL'000	EUR'000	EUR'000
ASSETS				
Non-current assets				
Intangible assets and PPE	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
Total non-current assets	2,181,582	2,180,111	3,104,112	3,102,019
Current assets				
Inventories	15,713	15,604	22,358	22,203
Trade and other receivables	76,267	101,913	108,518	145,008
Financial assets	46	4,237	66	6,029
Cash and cash equivalents	167,268	170,425	238,001	242,493
Total current assets	259,295	292,179	368,943	415,733
TOTAL ASSETS	2,440,877	2,472,290	3,473,055	3,517,752
EQUITY				
Share capital	904,605	904,605	1,287,137	1,287,137
Non-current assets revaluation reserve	465,738	465,738	662,685	662,685
Hedge reserve	(8,511)	(13,130)	(12,110)	(18,682)
Other reserves	79	77	113	110
Total reserves	457,306	452,685	650,688	644,113
Retained earnings	40,840	49,761	58,111	70,803
Non-controlling interest	3,770	3,459	5,364	4,922
Total equity	1,406,521	1,410,510	2,001,300	2,006,975
LIABILITIES				
Non-current liabilities				
Borrowings	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	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
Total non-current liabilities	843,980	837,140	1,200,875	1,191,143
Current liabilities				
Borrowings	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
Total current liabilities	190,376	224,640	270,880	319,634
Total liabilities	1,034,356	1,061,780	1,471,755	1,510,777
TOTAL EQUITY AND LIABILITIES	2,440,877	2,472,290	3,473,055	3,517,752

* Unaudited financial results

Consolidated statement of cash flows*

	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
Cash flows from operating activities				
Profit before income tax	24,223	50,179	34,467	71,398
Adjustments for:				
- 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
Cash generated from operations	71,477	132,865	101,703	189,049
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)
Net cash generated from operating activities	56,633	124,613	80,581	177,307
Cash flows from investing activities				
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
Net cash used in investing activities	(56,520)	(81,383)	(80,420)	(115,798)
Cash flows from financing activities				
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*	(21,537)	(39,900)	(30,644)	(56,773)
Net cash used in financing activities	(3,270)	(1,852)	(4,653)	(2,635)
Net (decrease) / increase in cash and cash equivalents	(3,157)	41,378	(4,492)	58,874
Cash and cash equivalents at the beginning of the period	170,425	108,877	242,493	154,918
Cash and cash equivalents at the end of the period	167,268	150,255	238,001	213,792

* Unaudited financial results