



Unaudited Interim Condensed Consolidated Financial Statements

for the 6 months period
ended 30 June 2014

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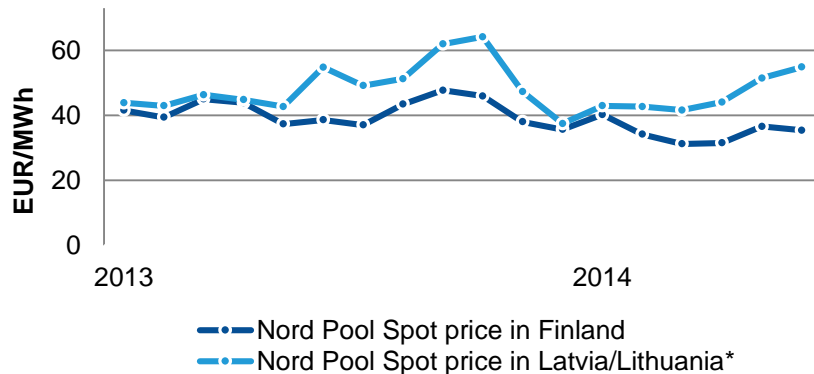
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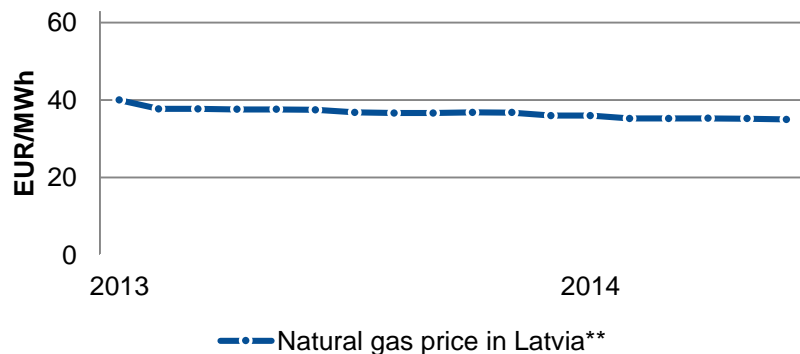
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Electricity Nord Pool Spot price decrease in the Nordic countries

Low electricity price



Still high natural gas price



Main facts – 1H 2014

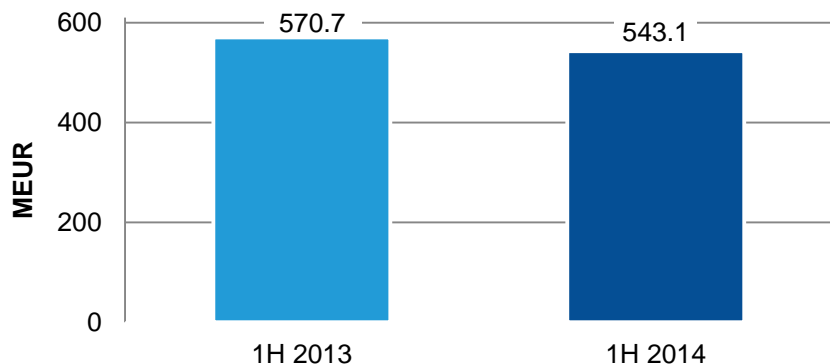
- Nord Pool Spot electricity price decreased by 15% in Finland (34.9 EUR/MWh); in Latvia/Lithuania the price remained at the level of the previous year (46.3 EUR/MWh)
- Electricity price decrease was determined by lower electricity consumption due to warmer weather conditions and decline in the global market coal price
- Transmission capacity deficit determines price differences between Latvia/Lithuania and Estonia bidding areas
- Power transmission interconnection *EstLink-2* was launched
- In 1H 2014, natural gas price in Latvia still remains high (35.3 EUR/MWh)
- Latvia joined the European Economic and Monetary Union on 1 January 2014

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

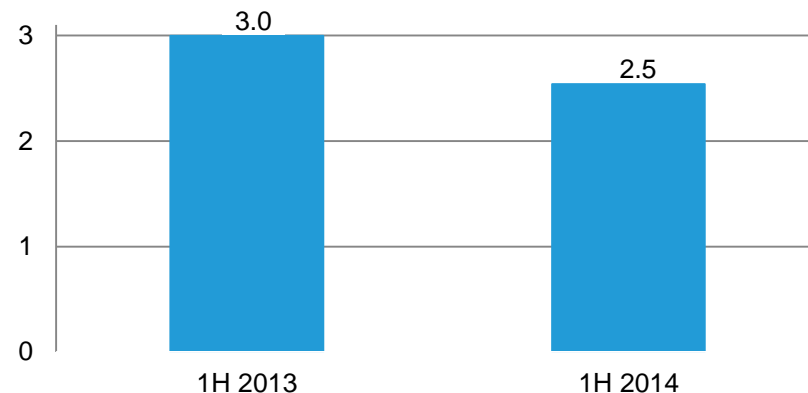
** price of natural gas in Latvia, including the excise tax, for users with gas consumption above 100,000 thousands nm³ (source: <http://www.lg.lv/>)

Increase in EBITDA of the Group

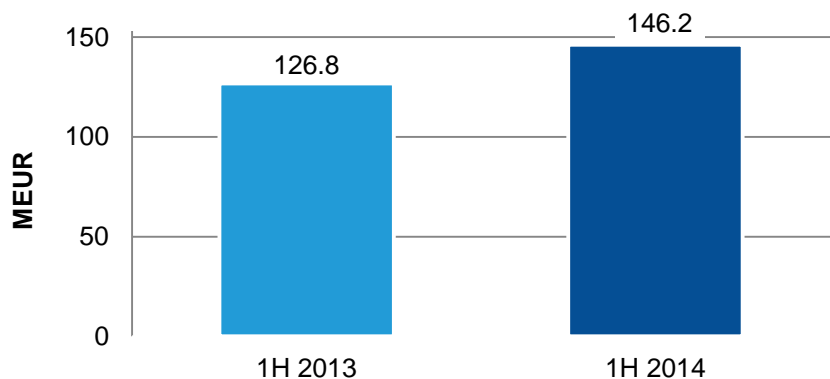
Revenue



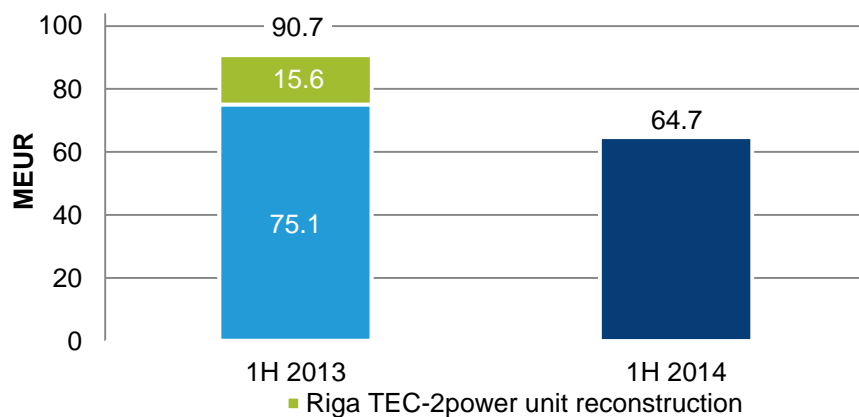
Net debt / EBITDA



EBITDA

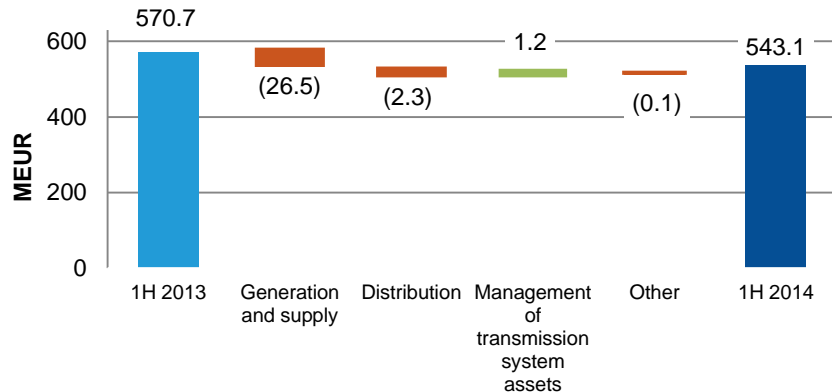


Investments



Increase in EBITDA of the Group

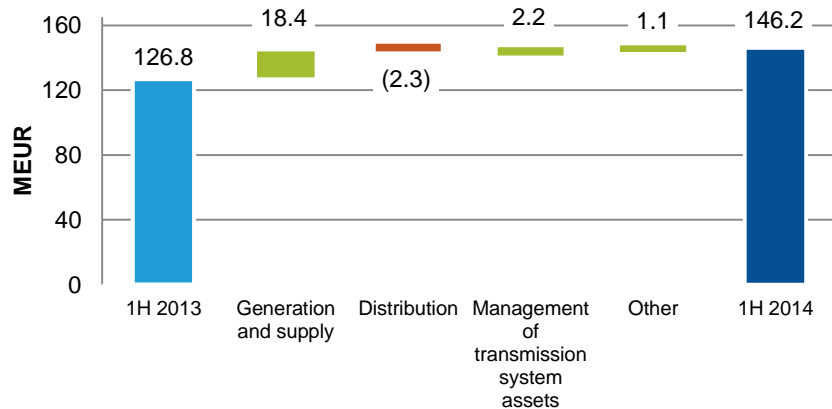
Revenue dynamics by segment



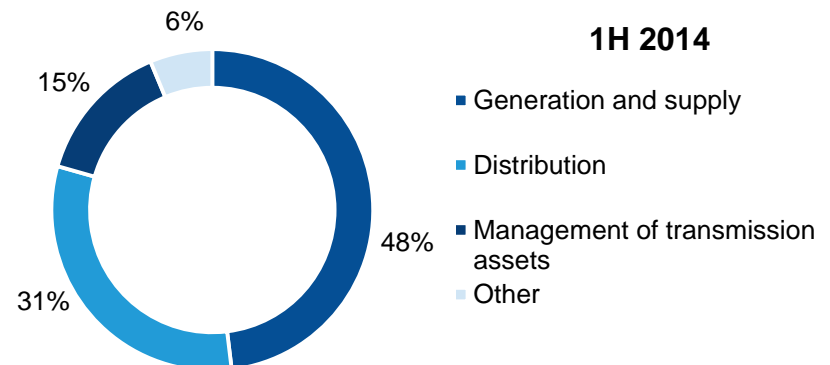
EBITDA reached 146.2 MEUR

- Results were positively impacted by recognition of balanced mandatory procurement revenues and costs (+26.3 MEUR)
- Lower revenues of generation and supply segment due to change in accounting principles* related to the mandatory procurement as of 1 April 2014 (-41.5 MEUR)
- Lower volume of distributed electricity decreased revenue and EBITDA of distribution segment

EBITDA dynamics by segment



Weight of EBITDA by segment

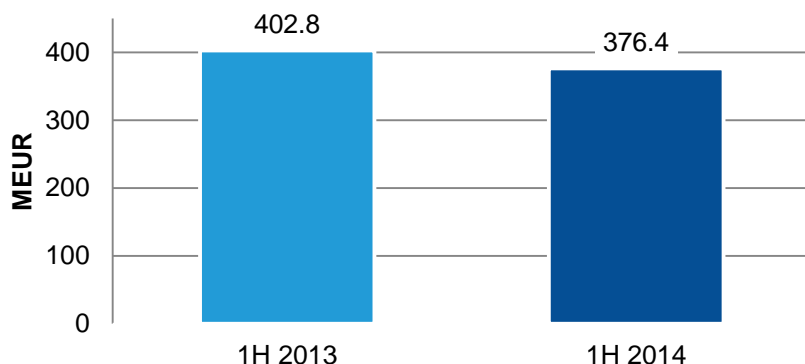


* Principal-agent accounting principle – mandatory procurement revenues and costs are balanced and recognised in the balance sheet assets

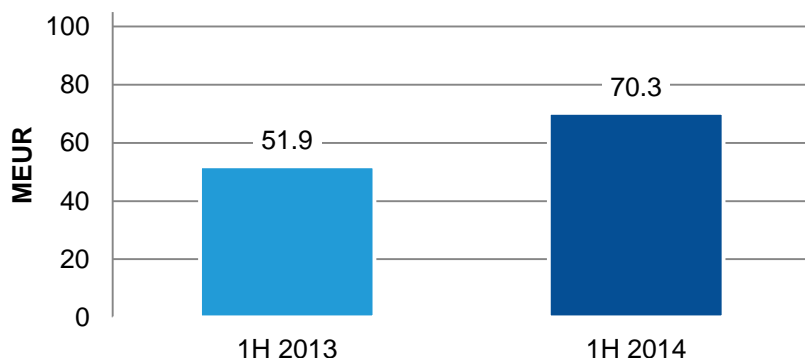
Generation and supply



Segment revenue



Segment EBITDA



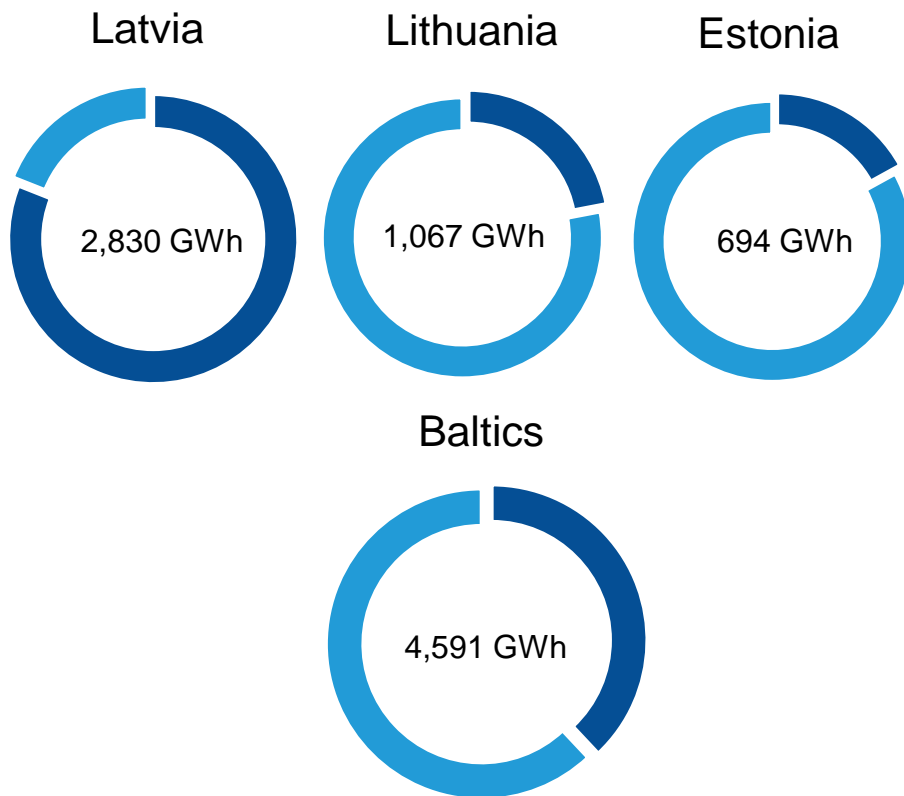
The largest segment of the Group

- Decrease in revenues is mainly determined by change in accounting principles related to the mandatory procurement as well as by decrease in thermal energy and electricity consumption due to warmer weather conditions
- Results were positively impacted by recognition of balanced mandatory procurement revenues and costs (+26.3 MEUR), while negatively –
 - by 35% lower electricity output at Daugava HPPs
 - increase of costs (EUR 7.7 million) due to introduction of SET as of 1 January 2014
- Lost revenues due to electricity supply at the regulated tariff in Latvia (21.0 MEUR)



More than 1/3 of electricity supplied outside Latvia

Retail electricity supply



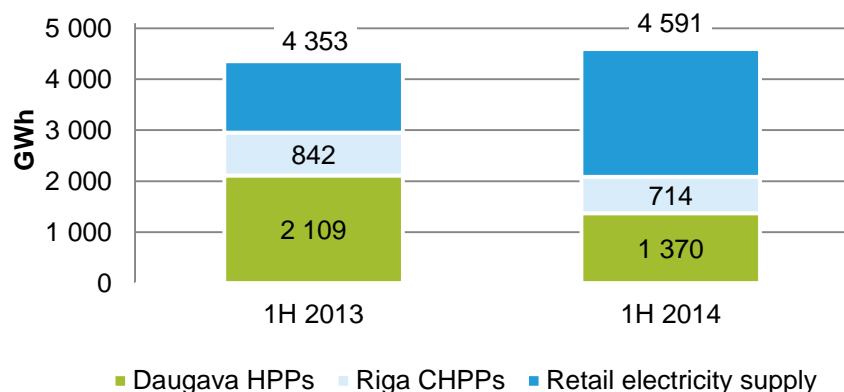
Focused and successful operations in the market

- Latvenergo Group – the largest electricity supplier in the Baltics
- Retail electricity supply has been increased by 5% despite a decline in the Baltic electricity consumption by 4%
- More than 1/3 of retail electricity supply in Lithuania and Estonia
- The number of customers in Lithuania and Estonia exceeds 32 thousands, and retail electricity supply was increased by 51%
- 81% of the retail electricity supply were supplied on the open electricity market in the Baltics, while 19% – at the regulated tariff in Latvia

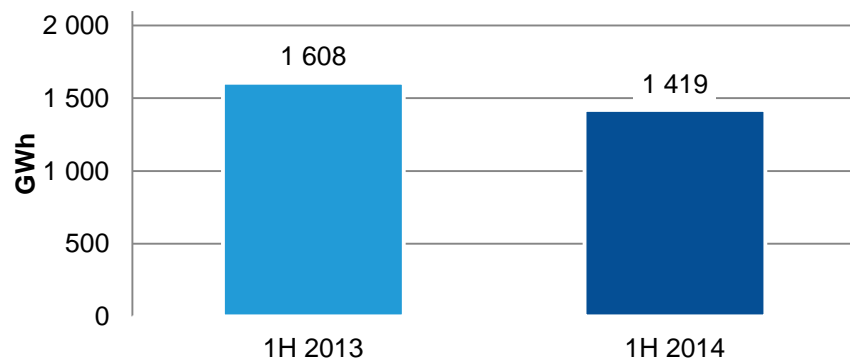
Riga CHPPs operation adjusted to the market conditions



2,111 GWh of electricity generated



1,419 GWh of thermal electricity generated



Effective and balanced generation sources

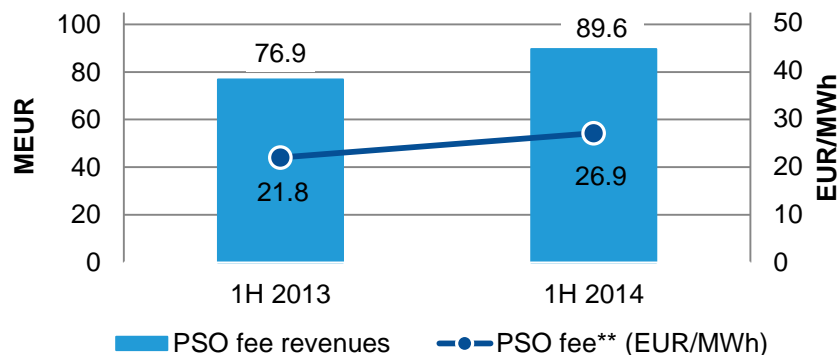
- Generated electricity represents 46% of retail electricity supply
- Daugava HPPs generation decreased by 740 GWh due to lower water level
- Due to warmer weather conditions, thermal energy generation at Riga CHPPs was decreased by 189 GWh and thus electricity generation decreased by 128 GWh
- Electricity generation at Liepaja and small power plants increased by 4 GWh (27 GWh)

Mandatory procurement does not affect the results

Uncollected PSO fee income recognised in the assets Balanced PSO fee revenues and costs

		1H 2014	1H 2013	Δ	Δ, %
Mandatory procurement PSO fee income	MEUR	89.6	76.9	12.8	17%
Uncollected PSO fee income recognised in the assets	MEUR	37.8	0.0	37.8	–
Mandatory procurement expenditures* :	MEUR	(127.5)	(103.2)	(24.3)	24%
Cogeneration after SET	MEUR	(70.3)	(67.0)	(3.3)	5%
Renewable energy resources SET	MEUR	(42.1)	(36.2)	(5.9)	16%
SET	MEUR	(15.2)	0.0	(15.2)	–
Difference	MEUR	0.0	(26.3)	26.3	100%

PSO fee

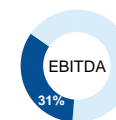


- As of 1 April 2014, the public trader functions are performed by Enerģijas publiskais tirgotājs AS
- In accordance with the applicable regulations, in 1H 2014, EUR 37.8 million of uncollected PSO fee income were recognised in the balance sheet under receivables
- Increase of PSO fee revenues was due to increase of PSO fee on 1 April 2013
- Along with introduction of SET (on 1 January 2014), EUR 15.2 million were withheld from mandatory procurement payments to generators and transferred into the State Budget
- Major part of mandatory procurement expenditure increase after SET comprises payments to generators using renewable energy sources (5.9 MEUR)

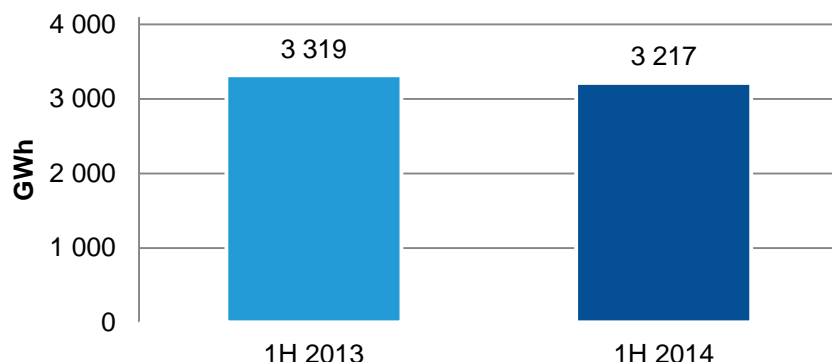
* Mandatory procurement expenditures – costs of electricity purchased within the mandatory procurement and guaranteed fee for electrical capacity installed at power plants minus revenues from sale of purchased electricity on the Nord Pool Spot exchange

** weighted average during the period

Distribution asset value exceeds 1/3 of the Group assets



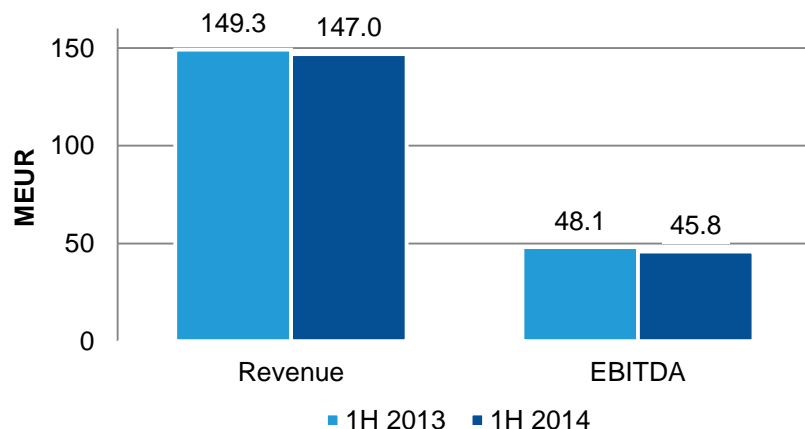
Distributed electricity lower by 3%



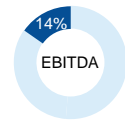
Decreased electricity losses

- Warmer weather conditions and lower industrial sector consumption led to a decline in distributed electricity
- Positive impact on the results due to lower electricity losses (-13 GWh) and lower electricity purchase price
- Negative impact on the results due to 3% lower distributed electricity volume
- Distribution asset value exceeds 1,250 MEUR

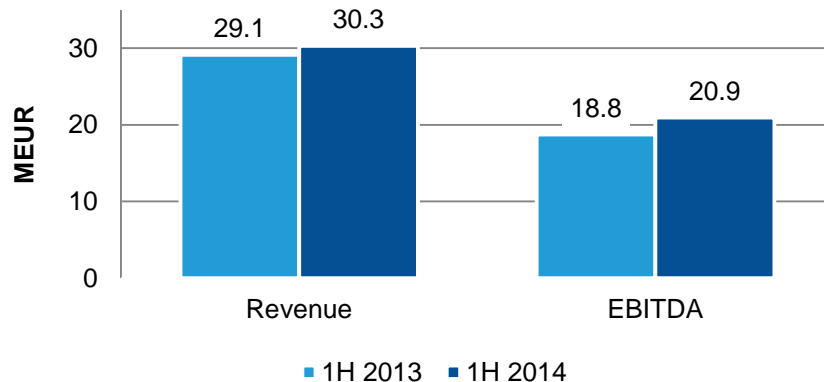
Lower distributed electricity volume affects the results



Transmission system assets – gradually improving returns



Growth of revenue improves EBITDA



Return on transmission system assets – 4,0%

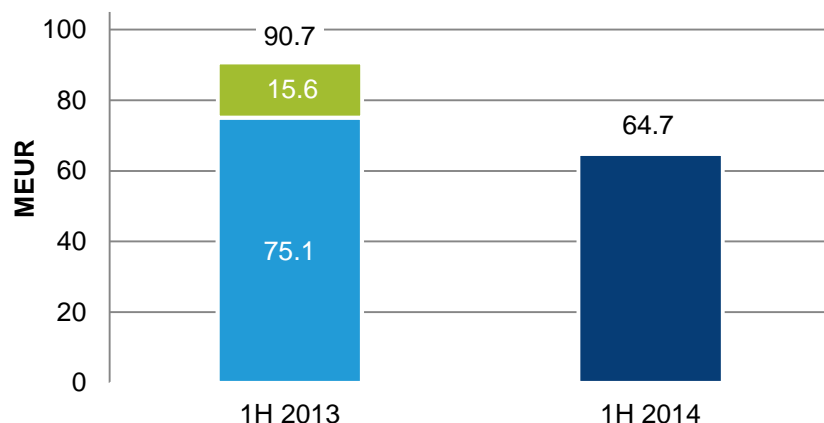
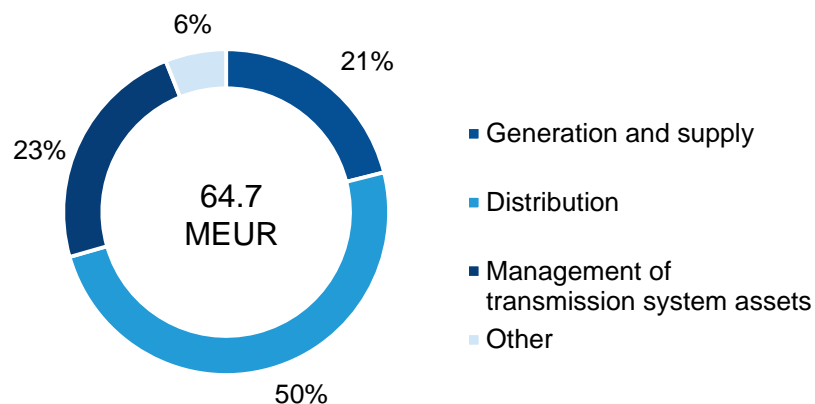
- Positive impact on profitability due to a gradual inclusion of the value of regulatory asset revaluation reserve into the lease
- Transmission system asset value increased by 9% due to investments

Future events

- The PUC decision on certification of the TSO provides a takeover of transmission system construction and maintenance functions by TSO as from 2015, while Latvijas elektriskie tīkli AS retains ownership of transmission system assets. These changes will not have an adverse impact on financial results

Construction of *Kurzeme Ring* transmission line connection *Grobiņa-Ventspils* approaching completion

Investments in network assets exceed 70% Investment projects

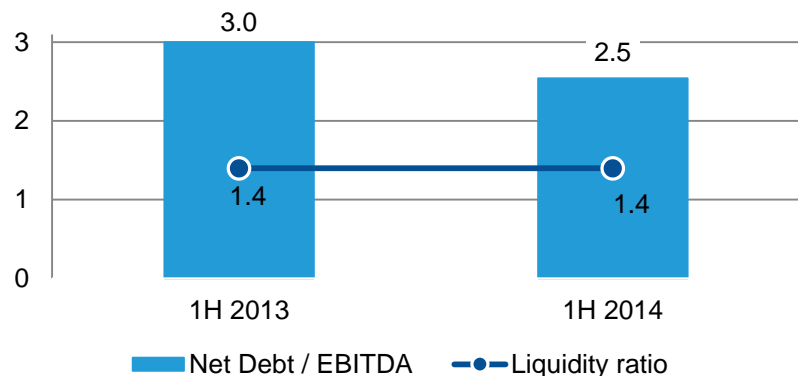


■ Riga TEC-2 power unit reconstruction

- NordBalt 02 -330kV, *Kurzeme Ring* :
 - total costs ~200 MEUR
 - completion in 2019
 - construction of 330 kV connection line *Grobiņa-Ventspils* approaching completion
 - environmental impact assessment has been performed for the final stage of the project *Ventspils-Tume-Rīga*
- Daugava HPPs hydropower unit reconstruction :
 - estimated costs > 200 MEUR
 - completion in 2022
 - contracts for reconstruction of two Plavinas HPP and three Kegums HPP hydropower units have been concluded
- Along with the completion of the Riga TEC-2 second power unit reconstruction project in late 2013, total investments are lower in 2014

We plan and source funding in a timely manner

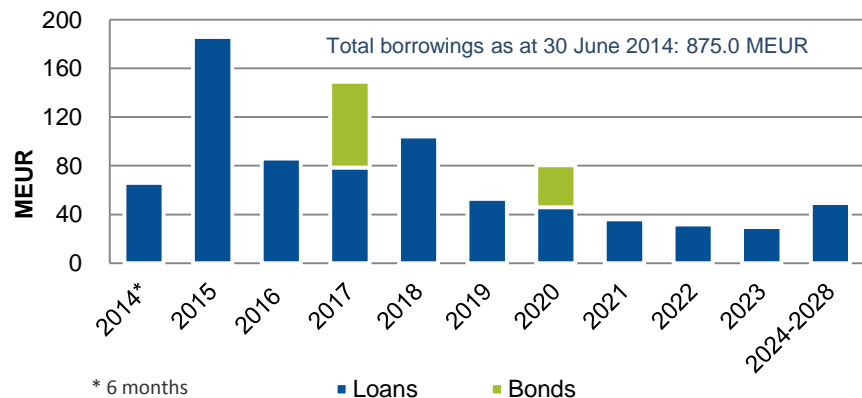
Stable liquidity ratios



Diversified borrowing sources

- Total amount of bonds issued – 105 MEUR
- We source borrowed capital in a timely manner to ensure the required funding for investment programme of the following years and debt repayments due in 2015
- We responsibly plan future investments without committing to significant irrevocable long-term liabilities prior to ensure the necessary funding
- Equity – 58% of the total assets
- Moody's Investors Service reconfirmed credit rating Baa3 (stable)

Debt repayment schedule





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Abbreviations



EU –	European Union
HPPs –	Hydropower plants
IFRS –	International Financial Reporting Standards
PSO fee –	Public service obligation fee
PUC –	Public Utilities Commission
Riga CHPPs –	Riga combined heat and power plants
SET –	Subsidised Energy Tax
TSO –	Transmission system operator

Consolidated income statement *

	01/01–30/06/2014	01/01–30/06/2013
	EUR'000	EUR'000
Revenue	543,082	570,734
Other income	1,842	1,327
Raw materials and consumables used	(320,295)	(367,402)
Personnel expenses	(48,814)	(46,778)
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	(87,917)	(86,699)
Other operating expenses	(29,635)	(31,103)
Operating profit	58,263	40,079
Finance income	1,391	2,513
Finance costs	(10,159)	(8,313)
Share of profit / (loss) of associates	(395)	188
Profit before taxes	49,100	34,467
Income tax	(6,751)	(5,784)
Profit for the period	42,349	28,683

* Unaudited Interim Condensed Consolidated Financial Statements. Prepared in accordance with the IFRS as adopted by the EU

Consolidated statement of financial position *

	30/06/2014	31/12/2013
	EUR'000	EUR'000
ASSETS		
<i>Non-current assets</i>		
Intangible assets and property, plant and equipment	3,073,204	3,097,905
Investment property	1,766	1,473
Investments in associates and other financial investments	41	41
Investments in held-to-maturity financial assets	28,558	28,588
Other non-current receivables	30	57
TOTAL non-current assets	3,103,599	3,128,064
<i>Current assets</i>		
Inventories	22,132	21,634
Trade receivables and other current receivables	203,526	161,560
Current financial investments	5,192	8,060
Derivative financial instruments	21	617
Cash and cash equivalents	193,805	255,423
TOTAL current assets	424,676	447,294
TOTAL ASSETS	3,528,275	3,575,358
EQUITY		
Share capital	1,288,011	1,288,011
Reserves	647,668	652,418
Retained earnings	92,715	74,832
Equity attributable to equity holders of the Parent Company	2,028,394	2,015,261
Non-controlling interests	6,115	6,453
TOTAL equity	2,034,509	2,021,714
LIABILITIES		
<i>Non-current liabilities</i>		
Borrowings	709,400	805,192
Deferred income tax liabilities	271,268	269,116
Provisions	16,171	15,597
Derivative financial instruments	10,002	6,238
Other liabilities and deferred income	173,312	170,152
TOTAL non-current liabilities	1,180,153	1,266,295
<i>Current liabilities</i>		
Trade and other payables	135,878	130,670
Borrowings	165,582	139,483
Derivative financial instruments	12,153	17,196
TOTAL current liabilities	313,613	287,349
TOTAL liabilities	1,493,766	1,553,644
TOTAL EQUITY AND LIABILITIES	3,528,275	3,575,358

* Unaudited Interim Condensed Consolidated Financial Statements. Prepared in accordance with the IFRS as adopted by the EU

Consolidated statement of cash flows *

	01/01–30/06/2014	01/01–30/06/2013
	EUR'000	EUR'000
Cash flows from operating activities		
Profit before tax	49,100	34,467
Adjustments:		
- Amortisation, depreciation and impairment of non-current assets	88,976	89,173
- Net financial adjustments	4,073	12,557
- Other adjustments	582	370
Operating profit before working capital adjustments	142,731	136,567
(Increase) / decrease in current assets	(55,553)	28,420
Increase / (decrease) in trade and other payables	9,385	(63,284)
Cash generated from operating activities	96,563	101,703
Interest paid	(9,808)	(9,942)
Interest received	1,376	1,554
Income tax paid	(3,427)	(12,734)
Net cash flows from operating activities	84,704	80,581
Cash flows from investing activities		
Purchase of intangible assets and property, plant and equipment	(67,026)	(81,294)
Proceeds on financing from EU funds and other financing	2,074	844
Proceeds from redemption of held-to-maturity assets	30	30
Net cash flows used in investing activities	(64,922)	(80,420)
Cash flows from financing activities		
Proceeds from issued debt securities (bonds)	–	70,274
Proceeds from borrowings from financial institutions	2,600	7,671
Repayment of borrowings	(72,627)	(51,641)
Dividends paid to non-controlling interests	(1,198)	(313)
Dividends paid to equity holders of the Parent Company*	(12,649)	(30,644)
Dividends received from associates	2,474	–
Net cash flows used in financing activities	(81,400)	(4,653)
Net decrease in cash and cash equivalents	(61,618)	(4,492)
Cash and cash equivalents at the beginning of the period	255,423	242,493
Cash and cash equivalents at the end of the period	193,805	238,001

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