

AS LATVENERGO

Supplement No.1 to the Base Prospectus of the Programme for the issuance of Notes in the amount of LVL 50,000,000 or its equivalent in EUR

This document (the “**Supplementary Prospectus**”) constitutes a supplement to the Base Prospectus of AS Latvenergo (the “**Company**”) Programme for the issuance of Notes in the amount of LVL 50,000,000 or its equivalent in EUR (the “**Base Prospectus**”), approved by the Company on 23 November 2012 and registered with the Latvian Financial and Capital Market Commission on 28 November 2012.

This Supplementary Prospectus, which is a part of the Base Prospectus, is a supplement to the Base Prospectus and should be read together with the Base Prospectus.

This Supplementary Prospectus has been prepared due to the fact that the Company has published annual unaudited condensed consolidated financial statements of the Group for the year ended 31 December 2012 (available on the Company’s website www.latvenergo.lv).

1. Section “Selected Consolidated Financial Information” on page 62 of the Base Prospectus shall be replaced as follows:

“SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following table is a summary of the Group’s consolidated financial performance and key performance indicators for the three financial years ended 31 December 2010, 31 December 2011 and 31 December 2012 respectively and the two interim periods ended 30 June 2011 and 30 June 2012 respectively. The information set out in the table below has been extracted (without any material adjustment) from, and is qualified by reference to and should be read in conjunction with the audited consolidated annual reports of the Group for the years ended 31 December 2010 and 2011 respectively, the annual unaudited condensed consolidated financial statements of the Group for the year ended 31 December 2012 and the unaudited consolidated interim report of the Group for the six month period ended 30 June 2012, each of which is attached to this Base Prospectus and forms an integral part of this Base Prospectus. Annual reports, unaudited consolidated interim report and annual unaudited condensed consolidated financial statements of the Group are prepared according to International Financial Reporting Standards (“**IFRS**”).

		Year ended 31 December 2010	Year ended 31 December 2011	Year ended 31 December 2012	Six months ended 30 June 2011	Six months ended 30 June 2012
		<i>Audited</i>	<i>Audited</i>	<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>
Financial Highlights						
Revenue	LVL thousand	567,386	681,767	751,038	350,782	389,174
Including electricity sales	LVL thousand	470,663	583,428	574,576	295,448	298,772
Heat sales	LVL thousand	71,863	69,233	90,548	40,736	51,675
EBITDA ¹⁾	LVL thousand	207,240	180,582	180,787	122,793	112,439
EBITDA margin ²⁾		37%	26%	24%	35%	29%
Operating profit ³⁾	LVL thousand	61,826	53,345	58,591	51,557	54,388
Operating margin ⁴⁾		11%	8%	8%	15%	14%
Net profit	LVL thousand	44,325	43,778	44,652	39,412	42,354
Net profit margin ⁵⁾		8%	6%	6%	11%	11%
Return on assets (ROA) ⁶⁾		2.2%	1.9%	1.9%	1.3%	2.0%
Return on equity (ROE) ⁷⁾		4.0%	3.2%	3.2%	2.2%	3.5%
Non-current assets at the end of the period	LVL thousand	1,942,231	2,026,594	2,178,999	1,962,428	2,082,771
Total assets at the end of the period	LVL thousand	2,279,266	2,288,004	2,480,626	2,278,358	2,339,344

		Year ended 31 December 2010	Year ended 31 December 2011	Year ended 31 December 2012	Six months ended 30 June 2011	Six months ended 30 June 2012
Total equity at the end of the period	LVL thousand	1,344,748	1,351,576	1,419,421	1,351,606	1,350,248
Borrowings at the end of the period	LVL thousand	545,607	513,334	595,233	529,338	550,781
Cash flows from operating activities	LVL thousand	160,563	180,399	145,010	115,343	124,613
Capital expenditure	LVL thousand	127,539	198,723	185,723	83,884	110,758
Net debt at the end of the period ⁸⁾	LVL thousand	311,342	404,458	424,808	347,284	400,526
Net debt/EBITDA ratio ⁹⁾		1.5	2.2	2.3	1.6	2.2
Operating Highlights						
Retail electricity sales	GWh	7,620	8,980	8,287	4,589	4,307
Electricity produced in power plants	GWh	5,869	5,285	5,077	3,565	3,001
Total amount of purchased electricity	GWh	3,028	4,466	4,168	1,565	1,887
Including purchased electricity from independent producers	GWh	693	759	1,036	436	459
The rest amount of purchased electricity	GWh	2,335	3,707	3,132	1,129	1,428
Aggregate heat sales	GWh	2,928	2,524	2,669	1,572	1,570
Number of employees at the end of the period		4,517	4,490	4,457	4,525	4,443
Moody's credit rating of the Issuer		Baa3 (stable)	Baa3 (stable)	Baa3 (stable)	Baa3 (stable)	Baa3 (stable)

- 1) EBITDA – earnings before interest, income tax, share of result of associates, depreciation and amortisation, and impairment of intangible and fixed assets.
- 2) EBITDA margin – EBITDA / revenue.
- 3) Operating profit – earnings before income tax, finance income and costs.
- 4) Operating margin – operating profit / revenue.
- 5) Net profit margin – net profit / revenue.
- 6) Return on assets (ROA) – net profit rolling twelve months / average value of assets (assets at the beginning of twelve months period + assets at the end of the period/2).
- 7) Return on equity (ROE) – net profit rolling twelve months / average value of equity (equity at the beginning of twelve months period + equity at the end of the period/2).
- 8) Net debt – borrowings at the end of the period minus cash and cash equivalents at the end of the period.
- 9) Calculated for rolling twelve months."

2. Section under the heading "Historical Financial Information" on page 64 of the Base Prospectus shall be replaced as follows:

„The Group's consolidated audited annual reports as of and for the financial years ended 31 December 2011 and 2010 (prepared according to IFRS), unaudited condensed consolidated financial statements for the financial year ended 31 December 2012 (prepared according to IFRS) and unaudited consolidated interim report as of and for the six month period ended 30 June 2012 (prepared according to IFRS) are attached to this Base Prospectus and forms an integral part of this Base Prospectus."

3. Section under the heading "Significant Changes in Financial and Trading Position" on page 65 of the Base Prospectus shall be replaced as follows:

„There has been no material adverse change in the Company's or the Group's financial or trading position since 31 December 2012."

4. The following Section on page 65 of the Base Prospectus shall be added:

"Recent Developments

The Group's 2012 annual unaudited condensed consolidated financial statements show that Group net profit in 2012 has reached LVL 45 million (2011: LVL 44 million). Group revenue and EBITDA in 2012 was LVL

751 million (2011: LVL 682 million) and LVL 181 million (2011: LVL 181 million) respectively. Return on equity for the year 2012 amounted to 3.2 per cent (2011: 3.2 per cent). In 2012 Group supplied 8,287 GWh electricity to retail clients obtaining 33% market share in the Baltics, compared with 8,980 GWh supplied during 2011.”

5. First paragraph of the Section B.12 of the Summary and table below the first paragraph of the Section B.12 of the Summary on page 7 of the Base Prospectus shall be replaced as follows:

“The following summary of the Group’s consolidated financial performance and key performance indicators as of, and for each of the years ended, 31 December 2010, 2011 and 2012 and as of, and for each of the six month periods ended 30 June 2011 and 2012 has been extracted, without any adjustment, from the Group’s consolidated financial statements in respect of those dates and periods.

		Year ended 31 December 2010	Year ended 31 December 2011	Year ended 31 December 2012	Six months ended 30 June 2011	Six months ended 30 June 2012
		<i>Audited</i>	<i>Audited</i>	<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>
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Return on assets (ROA)		2.2%	1.9%	1.9%	1.3%	2.0%
Return on equity (ROE)		4.0%	3.2%	3.2%	2.2%	3.5%
Non-current assets at the end of the period	LVL'000	1,942,231	2,026,594	2,178,999	1,962,428	2,082,771
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Number of employees at the end of the period		4,517	4,490	4,457	4,525	4,443
Moody’s credit rating of the Issuer		Baa3 (stable)	Baa3 (stable)	Baa3 (stable)	Baa3 (stable)	Baa3 (stable)

6. Last paragraph of the Section B.12 of the Summary on page 8 of the Base Prospectus shall be replaced as follows:

„There has been no material adverse change in the Issuer’s or the Group’s financial or trading position since 31 December 2012.”

7. Section "Documents on Display" on page 76 of the Base Prospectus shall be supplemented with paragraph (e) as follows:

"(e) Latvenergo Group 2012 Annual Unaudited Condensed Consolidated Financial Statements (unaudited; prepared according to the IFRS)."


This Supplementary Prospectus has been registered with the Latvian Financial and Capital Market Commission.


The Supplementary Prospectus should be read together with the Base Prospectus. The definitions used in the Base Prospectus are applicable also to this Supplementary Prospectus. In the event of any discrepancy between this Supplementary Prospectus and the Base Prospectus or any other document incorporated in the Base Prospectus by reference, the Supplementary Prospectus shall take precedence.


Riga, 12 March 2013

Management Board of AS Latvenergo:


Chairman of the Management Board (CEO)
Aris Zīgurs


Member of the Management Board (CFO)
Zane Kotāne


Member of the Management Board (CCO)
Uldis Bariss

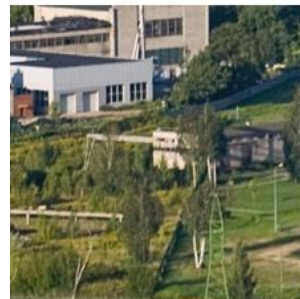
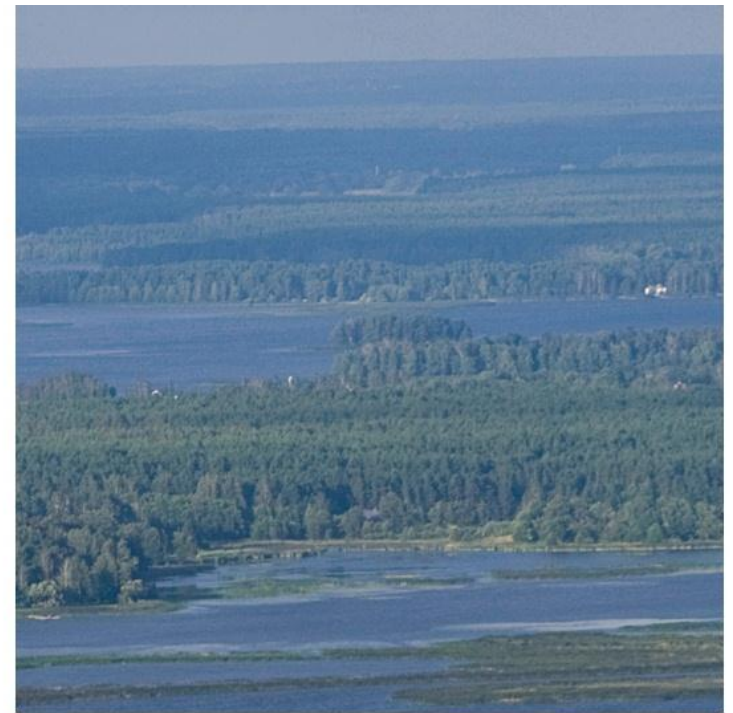

Member of the Management Board (CAO)
Arnis Kurgs


Member of the Management Board (COO)
Māris Kuņickis



Latvenergo Group 2012 Annual Unaudited Condensed Consolidated Financial Statements

PREPARED IN ACCORDANCE WITH THE
INTERNATIONAL FINANCIAL REPORTING STANDARDS
AS ADOPTED BY EUROPEAN UNION



For the fourth year Latvenergo Group is recognized as the most valuable company in Latvia and it is one of the most valuable companies in the Baltics. In 2012 Latvenergo Group turnover increased by 10% exceeding EUR 1 billion. Latvenergo Group is the largest electricity supplier in the Baltics with 33% market share

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FINANCIAL CALENDAR

24.04.2013

Consolidated Financial Statements 2012

31.05.2013

Unaudited Interim Consolidated Financial Statements for 3 months in 2013

30.08.2013

Unaudited Interim Consolidated Financial Statements for 6 months in 2013

29.11.2013

Unaudited Interim Consolidated Financial Statements for 9 months in 2013

CONTACTS FOR INVESTOR RELATIONS

E-mail: investor.relations@latvenergo.lv

Homepage: <http://www.latvenergo.lv/investors>

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.

1 EUR = 0.702804 LVL

Summary

- An unusually high water inflow in the Nordic countries and falling coal and CO2 allowance prices in 2012 resulted in a significant decrease in the market price of electricity both in the Baltic and in the Nordic countries. While an increase in natural gas price in Latvia by nearly 30% was determined by a rise of crude oil price.
- Increase of the economic activity in Latvia in 2012 has improved the macroeconomic indicators (gross domestic product, inflation rate, unemployment rate etc.), leading to a growth of electricity consumption by 8%. Latvia is expected to join the European Monetary Union in 2014.
- Latvenergo Group revenue in 2012 increased by 10% compared to 2011, exceeding EUR 1 billion. Revenue increased in the generation and supply, the distribution services as well as in the management of transmission system assets segment.
- Despite the adverse electricity market conditions, in 2012 Latvenergo Group maintained its profit in the prior year level. Positive financial results are mainly due to a higher generated electricity volume in Daugava HPPs, while it is negatively affected by higher costs of the electricity purchased in the mandatory procurement process.
- In 2012 Latvenergo Group had a 33% market share in the Baltic electricity market. With a further opening of the Baltic electricity market, Latvenergo Group revised its retail strategy focusing on small and medium-sized enterprises and households. In 2012 the retail customers in Lithuania and Estonia increased almost two-fold. A diverse range of electricity products were developed and launched in 2012. These products are offered in Estonia and Lithuania under the new retail brand of Latvenergo Group- *Elektrum*.
- With a further liberalization of the Baltic electricity market, in 2013 Latvenergo Group will continue to carry out targeted electricity sales activities and strengthen its position in the Baltic electricity market.
- Group capital investments in 2012 amounted to LVL 185.7 million. The completion of on-going reconstruction project of Riga CHPP-2 is scheduled for 2013. Significant investments are made in the development of transmission and distribution networks in order to improve the service quality and technical parameters.
- To diversify its borrowing sources, AS Latvenergo has successfully executed the first series issuance of corporate bonds in amount of EUR 50 million under the total LVL 50 million programme. Latvenergo Group maintains a stable capital structure and good liquidity ratios.
- At the end of 2012 the *Latvenergo Group Strategy until 2016* has been approved defining main perspectives - strengthening its position in the Baltic electricity market, diversification of generating sources and balanced development of networks.

Latvenergo Group in Brief

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

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

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

Latvenergo Group divides its operations into three core operating segments- generation and supply, distribution system services 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 heat generation operations, conducted by AS Latvenergo and SIA Liepājas enerģija, as well as electricity supply (retail and wholesale) operations in the Baltics carried out by AS Latvenergo, 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 Lietuva UAB	Lithuania	Electricity supply	100%
Elektrum Eesti OÜ	Estonia	Electricity supply	100%
Elektrum Latvija SIA	Latvia	Electricity supply	100%
Liepājas enerģija SIA	Latvia	Thermal energy generation and sales in Liepāja city, electricity generation	51%

The distribution system services operating segment provides electricity distribution services in Latvia (approximately 99% of the territory). Service is provided by AS Sadales tīkls- 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 consists of construction and maintenance of the transmission system assets (330 kV and 110kV transmission lines, substations and distribution points) as well as the lease of assets to the transmission system operator AS Augstsprieguma tīkls. The revenues from lease of transmission system assets are calculated in accordance with the methodology approved by the PUC.

Latvenergo Group Strategy until 2016, approved at the end of 2012, 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:

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

Key Performance Indicators

OPERATIONAL INDICATORS

		2012	2011
Retail electricity supply	GWh	8,287	8,980
Electricity production	GWh	5,077	5,285
Aggregate heat supply	GWh	2,669	2,524
Number of employees		4,457	4,490
Moody's credit rating		Baa3 (stable)	Baa3 (stable)

FINANCIAL INDICATORS

		2012	2011
Revenue	M LVL	751.0	681.8
EBITDA ¹⁾	M LVL	180.8	180.6
Net profit	M LVL	44.7	43.8
Total assets	M LVL	2,480.6	2,288.0
Equity	M LVL	1,419.4	1,351.6
Net debt ²⁾	M LVL	424.8	404.5
Capital expenditure	M LVL	185.7	198.7

FINANCIAL RATIOS

	2012	2011
Net debt/EBITDA ratio	2.3	2.2
EBITDA margin ³⁾	24%	26%
Capital ratio ⁴⁾	57%	59%

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

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

3) EBITDA margin - EBITDA / revenue

4) Capital ratio - equity / total assets

Operating Environment

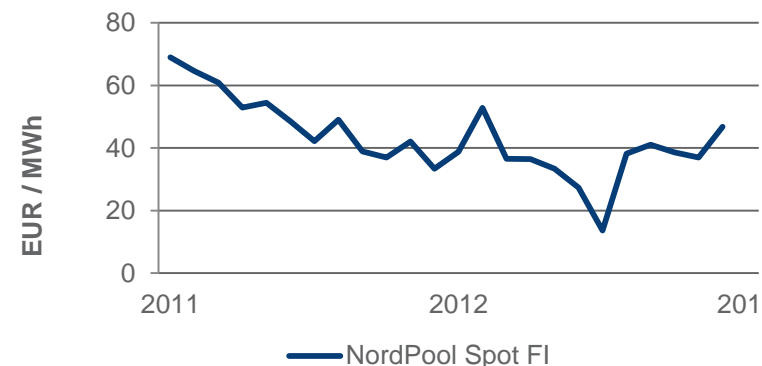
THE LOWEST ELECTRICITY PRICE IN NORDIC ELECTRICITY MARKET SINCE 2007 DUE TO AN UNUSUALLY HIGH WATER INFLOW

An unusually high water inflow in Nordic hydropower basins started in the rain abundant summer of 2011 and continued the whole year in 2012. The average hydro basin fill in 2012 was 69%, while a normal fill is 64%. The high hydropower output extorted the most expansive cogeneration power plants from the Nordic market, resulting in a decline in the market price of electricity. The decline in electricity market price is also due to a relatively low coal and CO2 allowance prices and a relatively stable nuclear development.

In 2012 the average market price in Nord Pool Spot in Finland was 37 EUR/MWh, which is 26% less than in 2011 and the lowest since 2007.

The low prices of electricity were determined by a constant electricity flow from the Nordic region to the mainland of Europe, including the Baltic States. In the Nord Pool Spot Estonian area the average electricity price in 2012 was 39 EUR/MWh, which was approximately 10% less than the last year. Therefore, in 2012 the Baltic power supply companies used the option to import cheaper electricity from Nordic countries through the Estlink connection between Estonia and Finland. The Baltic electricity imports from Nordic countries reached an unprecedented volume - 1.6 TWh. In 2012 the imported volume is three times

higher than the year before, while the Baltic electricity exports to the Nordic countries fell four times.



TRANSMISSION CONSTRAINTS LIMITING ELECTRICITY IMPORTS

Electricity transmission constraints between Latvia and Estonia in certain periods limit the technical possibility to import electricity from Nordic countries and Estonia thus reducing the electricity market liquidity in Latvia and Lithuania.

The average spot price of electricity in Nord Pool Lithuanian area was 45 EUR/MWh - 22% higher than price in Nord Pool Spot Finland area (37 EUR/MWh) and 15% higher than in Nord Pool Spot Estonian area (39 EUR/MWh).

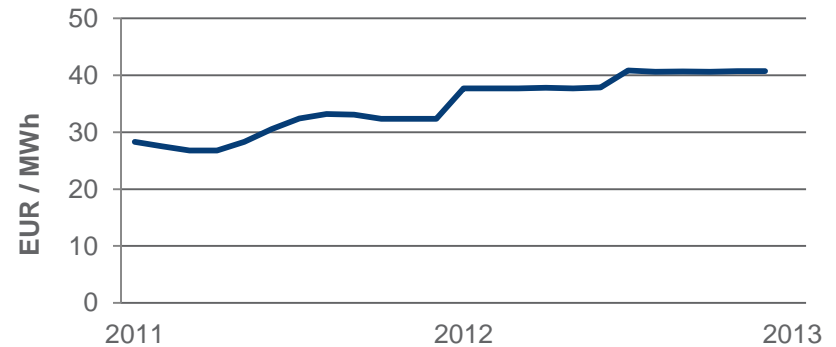
Operating Environment

HIGH CRUDE OIL PRICE INCREASES THE GAS PRICE IN LATVIA

The price of natural gas in Latvia is linked to the crude oil price (an average from the past 9 months of heavy fuel oil and diesel quotations index). As a result the natural gas price in Latvia has an ongoing upward trend since the beginning of 2011.

According to the information published in the homepage of AS Latvijas Gāze (a gas operator in Latvia), in 2012 the average price of natural gas in Latvia, including the gas excise tax, for users with gas consumption above 100,000 thousand sm^3 was 39 EUR/MWh, which is 30% higher than in 2011 (30 EUR/MWh), while compared the gas price in January 2011 and December 2012, the price of gas has increased by as much as 44%.

A rise in natural gas price and a decline in price of electricity reduce the competitiveness of cogeneration power plants and promote the substitution of electricity generation with electricity imports.



THE BALTIC ECONOMY RECOVERY FROM CRISIS

Recovering from the economic crisis, in 2012 the Baltic countries experienced an improvement in the macroeconomical situation.

In the 3rd quarter of 2012, based on data from the Statistical Office of the European Union (Eurostat), the average GDP growth in the Baltic States was approximately 4.4%, while the Europe average rate showed a 0.5% recession. A decline in inflation rate to 2.3% in Latvia, 3.2% in Lithuania and 4.2% in Estonia in 2012, as well as a fall in the average unemployment rate in the

Baltics, which, according to Eurostat, in the 3rd quarter of 2012 was 12% (2011:15 %), indicates an improvement of the economic situation.

Positive macroeconomic indicators enable Latvia to meet the Maastricht criteria thus it is expected that in 2014 Latvia will join the European Monetary Union (EMU). Estonia has already joined the EMU on 1 January 2011.

An improvement in the macroeconomic situation promotes growth in consumption, an increase of purchasing power and a reduction in interest rates.

THE LIBERALISATION OF THE BALTIC ELECTRICITY MARKET

According to the Baltic Energy Market Interconnection Plan (BEMIP) in 2012 the Baltic electricity market opening continues. At the end of 2012 the unregulated part of the Baltic electricity market comprised about 60% of the total electricity consumption. Electricity at a regulated tariff in Latvia as of 1 November 2012 is sold only to household customers, which accounts for approximately 20% of the total electricity consumption in Latvia.

In 2013 the market share of the Baltic regulated market will continue to drop. Since 1 January 2013 the electricity market in Estonia is deregulated for all customers, while in Lithuania - for all commercial customers. Full opening of the electricity market in Latvia is expected to occur at the end of 2013.

Operating Environment

UNBUNDLING OF THE TRANSMISSION SYSTEM OPERATOR

To meet the requirements of the European Parliament and the Council Directive 2009/72/EC providing that transmission system operators need to be unbundled from vertically integrated utilities, on 2 January 2012 all shares of the transmission system operator AS Augstsprieguma tīkls owned by AS Latvenergo were sold to the Ministry of Finance of the Republic of Latvia.

On 30 January 2013, after the end of the reporting period, the Public Utilities Commission (PUC) Advisory Council passed a decision concerning the certification of the transmission system operator. This is a prerequisite for establishment of the Nord Pool Spot Latvian bidding area in 2013.

MANDATORY PROCUREMENT

A mandatory procurement support to gas-fueled cogeneration power stations with an installed electric capacity of more than 4MW (including Riga combined heat and power plants (CHPP)) was revised in 2012, limiting the support term to 15 years (previously - unlimited) and simultaneously providing a common accounting of cogeneration capacity utilization for suppliers within a single license area of heating system. In 2012 Riga CHPP a provision for impairment losses in amount of EUR 3.1 million were made.

Financial results

Latvenergo Group revenue exceeds EUR 1 billion and it increased by 10% compared to 2011. A revenue growth was observed in all operating segments- the generation and supply, distribution system services and as well as in the management of transmission system assets segment.

Latvenergo Group revenue exceeds EUR 1 billion and increased by 10%

Revenue in distribution system services segment and management of transmission system assets are fully regulated while the regulated revenue in generation and supply segment consists of revenues from electricity supply at a regulated tariff, thermal energy sales and revenues from mandatory procurement public service obligation fees. In turn the non-regulated revenue consists mainly of electricity supply in open-market and wholesales revenue.

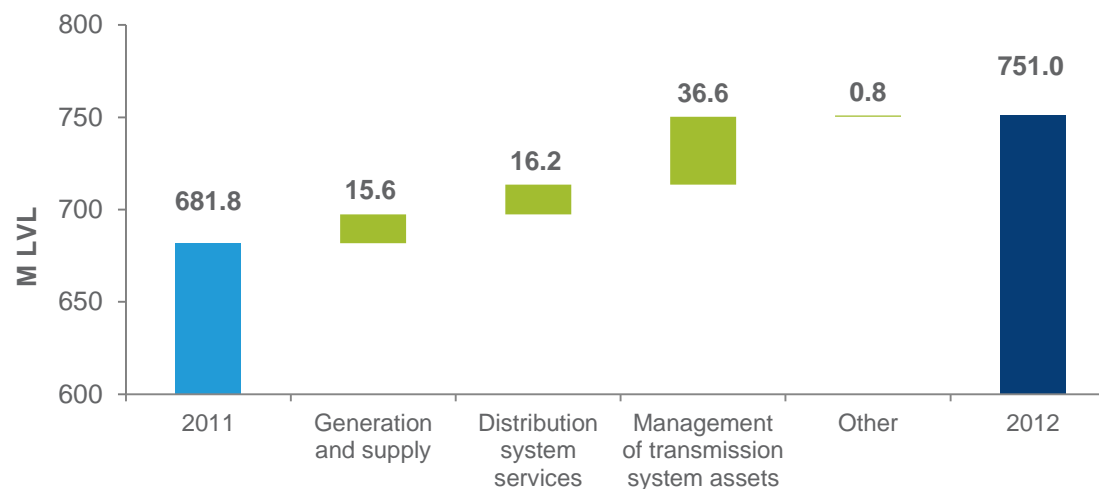
A decline in the regulated revenue is observed due to the opening of the electricity market in Latvia, which took place on 1 April and further on 1 November, providing that only the household customer segment is a subject to regulated tariff. In 2012 revenue from regulated electricity supply was LVL 98.0 million - a 31% decrease compared to 2011. In general, non-regulated service revenue represents about 40% of Latvenergo Group total revenue in 2012.

		2012	2011	Δ	Δ, %
Revenue	M LVL	751.0	681.8	69.3	10%
EBITDA	M LVL	180.8	180.6	0.2	0%
Net profit	M LVL	44.7	43.8	0.9	2%

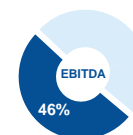
Latvenergo Group EBITDA and net profit in 2012 is LVL 180.8 million (2011: LVL 180.6 million) and LVL 44.7 million (2011: LVL 43.8 million) respectively.

The group's results were positively influenced by an increased electricity volume produced in Daugava HPPs, changes in the average electricity tariff and generally higher electricity consumption in Latvia. A change in electricity tariffs came in force on 1 April 2011. A negative impact on results was caused by an increase in costs of purchased power in the mandatory procurement process, higher natural gas price and an increase in transmission service tariff.

In 2012 revenues increase in all operating segments



Generation and supply



Revenue	65%
EBITDA	46%
Assets	43%
Employees	21%

Segment weight in Latvenergo Group

The generation and supply is the major operating segment of Latvenergo Group both by revenue and EBITDA. The generation and supply segment revenue reached LVL 524.5 million (2011: LVL 529.9), thereafter EBITDA was LVL 82.8 million (2011: LVL 90.3 million). 82% of revenue of the segment consists of revenue from electricity and related services, 17% of thermal energy revenue.

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

Operational figures		2012	2011	Δ	Δ, %
Electricity supply	GWh	8,287	8,980	(693)	-8%
Electricity generation	GWh	5,077	5,285	(208)	-4%
Thermal energy generation	GWh	2,712	2,568	144	6%
Financial figures		2012	2011	Δ	Δ, %
Revenue	M LVL	524.5	529.9	(5.3)	-1%
EBITDA	M LVL	82.8	90.3	(7.5)	-8%
Total assets	M LVL	1,075.6	927.9	147.8	16%

Results in the segment was negatively impacted by such market factors as rise of natural gas price in Latvia, which increased costs of mandatory procurement, and decrease in electricity price in

the Baltics, consequently promoting a decline in open-market electricity sales price. At the same time, the decline of electricity price provided a lower purchased electricity costs.

ELECTRICITY SUPPLY

In 2012 Latvenergo Group supplied 8,287 GWh electricity to retail clients obtaining 33% market share in the Baltics. Approximately 80% of retailed energy were supplied to customers in Latvia, but 20% to retail customers in Lithuania and Estonia. Retail electricity supply volume reduced by 693 GWh or 8% compared to 2011. This is due to a change in sales strategy, increasing the focus on small and medium-sized enterprises (SME) and households. In 2012 retail customer base in Lithuania and Estonia increased almost two-fold.

In 2012 a diversified range of electricity products was developed and introduced in Lithuania and Estonia under a new retail brand Elektrum.

Elektrum is a lively, personal and smart supplier, which gradually becomes recognized in the Baltic States.

Major part of electricity supply is generated from renewable energy resources

Latvenergo Group electricity supply volume in Latvia is 6,708 GWh (market share- 88%; open market share- 81%), in Lithuania – 1,058 GWh (11%; 17%) and in Estonia - 522 GWh (6%; 18%). The total electricity supply volume in Lithuania and Estonia is 1,580 GWh, which is greater than the sales volume provided by competing electricity suppliers - 920 GWh in Latvia.

In 2012 5,875 GWh or 71% of the total electricity supply of Latvenergo Group were sold in the open electricity market while 2,412 GWh or 29% (2011: 3,650 GWh or 41%) were sold at a regulated tariff (in Latvia). A positive effect on electricity supply revenue in 2012 was due to a change of the regulated electricity tariffs on 1 April 2011 (+ LVL 9.6 million).

It is expected that in 2013 the electricity market opening process in Latvia will proceed, thus results of the segment will be increasingly affected by operations in a competitive environment and skills to retain existing customers and attract new ones outside Latvia.



GENERATION

In 2012 Latvenergo Group power plants generated electricity in a total amount of 5,077 GWh - a 4% decrease compared to 2011. 72% or 3,635 GWh (or 44% of electricity supply) was generated from renewable energy resources, while 28% of electricity was generated in cogeneration power plants using natural gas.

Electricity generation in Daugava HPPs in 2012 was 3,627 GWh - an increase of 804 GWh or 28% growth compared to 2011 (+ LVL 25.9 million). The growth of generated volume in Daugava HPPs was a result of increased water inflow in Daugava River, mainly outside the usual flooding period. It required an operative adjustment of scheduled maintenance works and changes in power generation regimes.

In response to a decline in the market price of electricity, rise in natural gas price and increased power generation in Daugava HPP, in 2012 Riga CHPP produced 1,409 GWh of electricity, which is 42% less than in 2011 (2,425 GWh). The composition of CHPP electricity and heat capacity gives a flexibility to choose production modes, ensuring both the necessary increase of generated thermal energy by 6% for heat supply in Riga as well as electricity generation in economically justified conditions thus mitigating the negative impact of mandatory procurement costs.

Riga CHPPs revenue consists of the electricity component which reflects variable costs of electricity generation (mainly natural gas costs)

		2012	2011	Δ	Δ, %
Electricity supply to retail customers	GWh	8,287	8,980	(693)	-8%
Electricity production	GWh	5,077	5,285	(208)	-4%
<i>Daugava HPPs</i>	GWh	3,627	2,823	804	28%
<i>Riga CHPPs</i>	GWh	1,409	2,425	(1,016)	-42%
<i>Small plants</i>	GWh	41	37	4	11%

and the fixed capacity component, covering plant maintenance and capital costs.

The generated electricity in Latvenergo Group's power plants forms a 61% share of total electricity supply (2011: 59%). In 2012 the group purchased 4,168 GWh electricity (2011: 4,466 GWh) of which 1,019 GWh was electricity purchased in the mandatory procurement process (35% increase compared to 2011).

The growth of purchased electricity volume was mainly determined by the increased output in biomass and biogas plants.

2012 in whole Latvenergo Group generated 2,712 GWh of thermal energy, which is 6% more than in 2011 (2,568 GWh). The increase in heat generation were mainly due to a lower average air temperature during the heating season (October-April), which based on the data provided by the Central Statistical Bureau of Latvia was +1.2 OC (2011: + 2.3 OC).

Thermal energy production		2012	2011	Δ	Δ, %
Riga CHPPs	GWh	2,446	2,315	131	6%
Liepaja plants and small plants	GWh	266	253	13	5%
Total	GWh	2,712	2,568	144	6%



MANDATORY PROCUREMENT

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

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 2012 Latvenergo Group as a public supplier has received LVL 85.5 million revenues from the mandatory procurement public service obligation fee (2011: LVL 75.8 million). The increase of revenue was due to an increase of the mandatory procurement public service obligation fee from 11.7LVL/MWh to 12.3LVL/MWh on 1 April 2012.

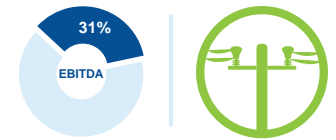
In 2012 disbursements for mandatory procurement above the market price for AS Latvenergo as a public supplier is LVL 132.8 million (2011: LVL 80.2 million). The increase of costs is due to higher mandatory procurement costs from Latvenergo Group plants (+ LVL 17.4 million), as well as from other generators (+ LVL 35.2 million). The growth of costs from other generators is due to increase of volume (growth by 268 GWh or 34%) and a higher price of natural

		2012	2011	Δ	Δ, %
Mandatory procurement revenue	M LVL	85.5	75.8	9.7	13%
Mandatory procurement expenses	M LVL	132.8	80.2	52.6	66%
<i>AS Latvenergo</i>	M LVL	55.9	39.5	16.4	42%
<i>other generators</i>	M LVL	76.9	39.3	36.2	89%
Difference	M LVL	(47.3)	(4.5)	(42.9)	962%

gas, which increased by about 30% compared to 2011.

AS Latvenergo production unit share in the eligible costs forms 42% (2011: 49%). The CHPP rate was flexible to change by adjusting its operations to the actual situation in the electricity market and reducing the electricity output when the price of imported electricity was lower.

Mandatory procurement costs above the market price incurred during 2012 for AS Latvenergo as a public supplier are included in the mandatory procurement public service obligation fee. According to the PUC decision on 20 February 2013 it is determined at 18.9 LVL/MWh effective as of 1 April 2013.



Distribution system services

Revenue	26%
EBITDA	33%
Assets	35%
Employees	56%

Segment weight in Latvenergo Group

The distribution system services segment is the second largest in Latvenergo Group by turnover and EBITDA. The segment revenue in 2012 is LVL 209.6 million (2011: LVL 190.9 million), while EBITDA is LVL 60.7 million (2011: 55.1 million). The distribution system asset value is LVL 872.5 million and has not changed significantly compared to 2011.

The amount of distributed electricity has increased due to a recovery of economic activity

Results were positively impacted by a 4% increase of distributed electricity volume (+ LVL 8.1 million), the average distribution service tariff increase (+ LVL 6.8 million) and lower costs of electricity losses (+ LVL 1 million), while it had a negative impact from increased transmission service and operating costs (LVL 8.5 million). In 2012 significantly increased volume of clean-out of transmission lines.

Operational ratios		2012	2011	Δ	Δ, %
Electricity distributed	GWh	6,468	6,199	269	4%
Distribution losses	GWh	432	447	(15)	-3%
Distribution losses	%	5.9%	6.4%		
Financial ratios		2012	2011	Δ	Δ, %
Revenue	M LVL	209.6	190.9	18.7	10%
EBITDA	M LVL	60.7	54.9	5.8	11%
Total assets	M LVL	872.5	862.2	10.3	1%
Number of employees		2,502	2,543	(41.0)	-2%

In 2012 the volume of distributed electricity is 6,468 GWh (2011: 6,199 GWh) - increased by 4% mainly due to growth in electricity consumption by commercial customers (+11%). In 2012 the average distribution service tariff in Latvia is 30.1 LVL/MWh (+4%). Changes of distribution service tariffs came in force on 1 April 2011.

Due to focused management activities, in 2012 the distribution network losses reduced to 432 GWh, which is 15 GWh less than a year ago. The distribution loss rate of distributed power decreased to 5.9% (2011: 6.4%), which is the lowest rate in the group history.

Management of transmission system assets

Revenue	5%
EBITDA	14%
Assets	11%
Employees	10%

Segment weight in Latvenergo Group

Rates of return in the management of transmission system assets segment are gradually improving

Turnover of the transmission system asset management segment forms 5% of Latvenergo Group revenue and 14% of EBITDA. Revenue of the segment in 2012 is LVL 39.7 million (2011: LVL 37.7 million), while EBITDA is LVL 24.6 million (2011: LVL 23.3 million). The value of transmission system assets is LVL 269.7 million and compared to 2011 has increased by LVL 9.1 million.

		2012	2011	Δ	Δ, %
Revenue	M LVL	39.7	37.7	2.0	5%
EBITDA	M LVL	24.6	23.3	1.2	5%
Total assets	M LVL	269.7	260.6	9.1	3%
Number of employees		438	493	(55)	-11%

According to the Electricity transmission system services tariff calculation methodology approved by the PUC, the value of regulatory assets revaluation reserve (AS Augstsprieguma tīkls) is gradually included in the lease. In 2012 the total value of depreciation is included in revenues from

lease while the return of assets revaluation reserve is included partially

The return on transmission system assets in 2012 has increased to 2.5%. It is expected that steady growth of profitability ratios will continue, approaching to the industry averages.

Investments

Total amount of investments in 2012 is LVL 185.7 million (2011: 198.7 million) of which LVL 95.1 million is made in generation assets, LVL 58.4 million in distribution assets and LVL 23.5 million in transmission system assets.

Investments in transmission and distribution network development are made with the aim to improve the service quality and technical

In 2012 the amount invested in transmission and distribution network assets has significantly increased reaching 44% (2011: 29%) of total investments. Investments are made in order to improve the distribution network service quality and its technical parameters, such as frequency and duration of outages, voltage quality and others.

Major investment projects in 2012:

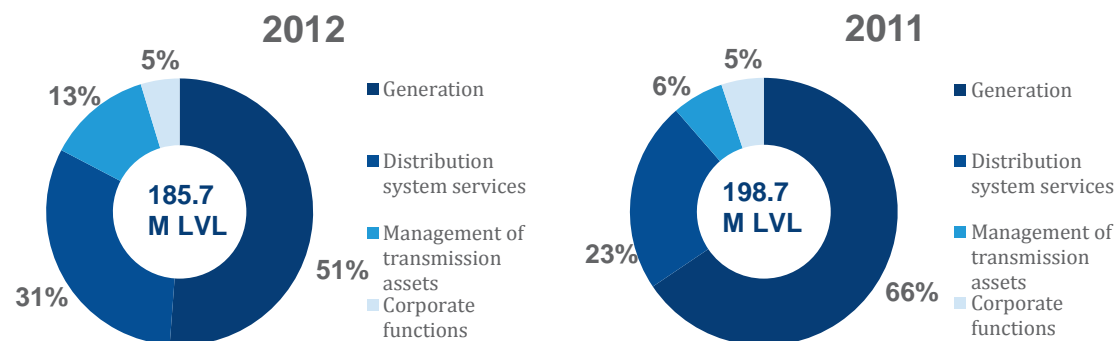
- Reconstruction project of Riga CHPP-2: the project provides the construction of second combined-cycle power unit (with electrical capacity of 420 MW, thermal capacity - 270 MW). The project initiated in 2010 and is expected to be completed in 2013. In 2012 LVL 50.8 million have been invested completing main construction works of the major power generating plant facilities, adjustment works of facilities are planned in 2013. The total amount of power plant construction agreement is LVL 226 million,

the completed workload is LVL 219.1 million as at the end of 2012;

- 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 cost until 2014 is estimated at LVL 66 million. In 2012 LVL 16.1 million investments have been made;
- Biomass fired CHPP construction in Liepaja: the cogeneration power station (with electrical power - 2MW, heat power- 10MW) was launched in December 2012. The total cost of the project - LVL 7.5 million;
- Daugava HPP hydropower units' reconstruction programme: it provides reconstruction of 11 hydropower units. The program is expected to be completed until

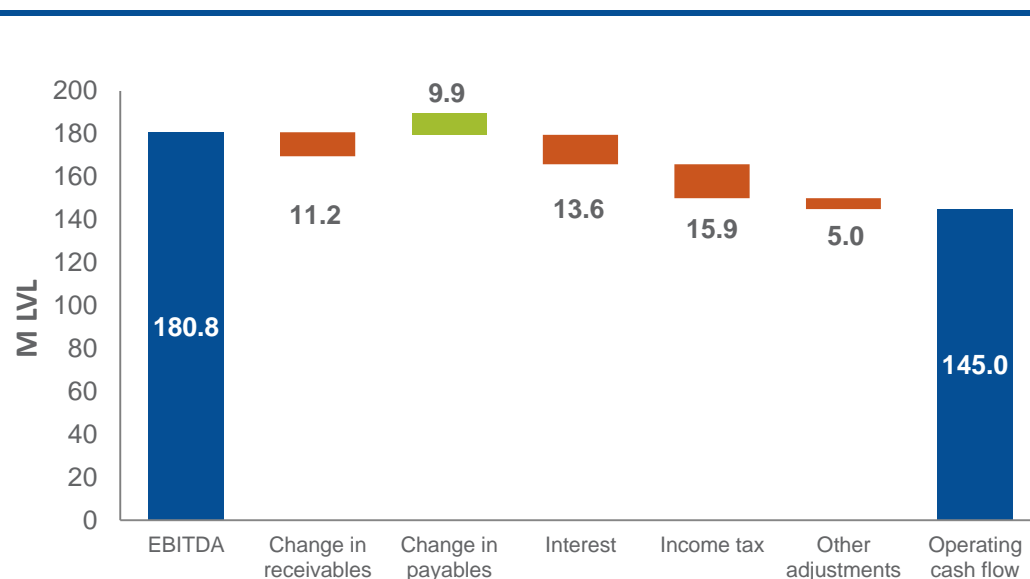
2022 with the total investment estimated to exceed LVL 100 million.

Although the total investment amount of Latvenergo Group in is extensive and even greater than the cash flow from operating activities, its scope in the coming years could be substantially reduced if the market conditions will limit fundraising opportunities.



Cash flow from operating activities

Latvenergo Group cash flow from operating activities in 2012 was EUR 145.0 million. The cash flow from operating activities is LVL 35.8 smaller than EBITDA (LVL 180.8 million) due to a negative impact from financial costs (LVL 13.6 million), corporate income tax paid (- LVL 15.9 million) and increase in accounts receivable (- LVL 11.2 million), mainly due to an increase in heating debts as a result of rise in natural gas price. In turn it was positively impacted from increase in accounts payable (+ LVL 9.9 million), mainly connected to the volume of purchased electricity in the mandatory procurement process.



Funding and liquidity

In order to diversify borrowing sources, as a part of the LVL 50 million programme for corporate bond issuance, in 2012 AS Latvenergo issues bonds of EUR 20 million. In January 2013 another EUR 30 million bonds were issued under the same programme.

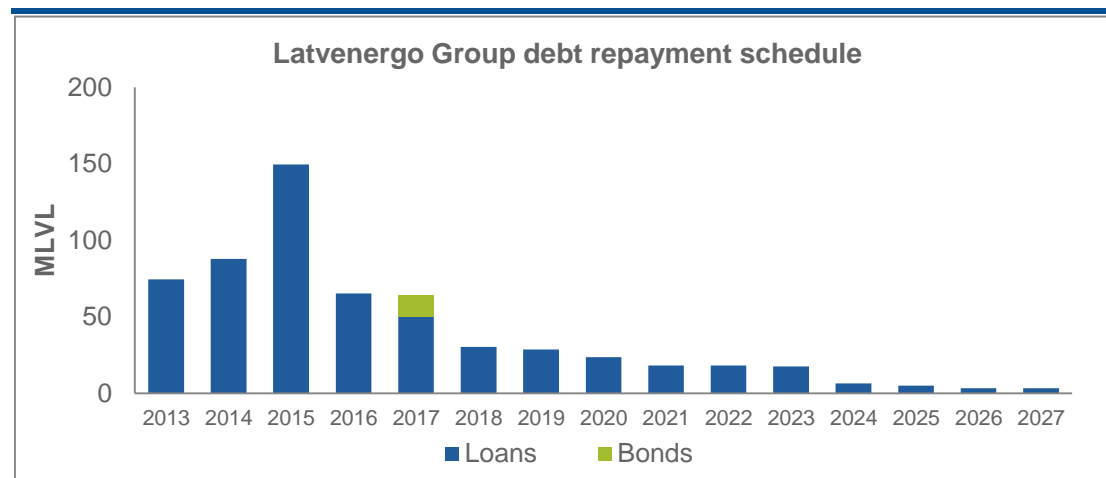
For implementation of the capital investment programme and fulfill commitments, Latvenergo Group ensures sufficient liquidity reserves at the same time sustaining good liquidity ratios. As at 31 December 2012 Latvenergo Group liquid assets (cash and short term bank deposits with a maturity up to 3 months) amounted to LVL 170.4 million (2011: LVL 108.9 million), while the current ratio¹ slightly declined to 1.3 (2011: 1.4).

As at the end of 2012 Latvenergo Group borrowings (mainly from foreign investment banks and financial institution registered in Latvia) amounted to LVL 595.2 million (2011: LVL 513.3 million) with the weighted average repayment period of 4.4 years (2011: 4.5 years).

In order to diversify borrowing sources in 2012 the Group issued corporate bonds

As of 1 January 2014 with the expected accession of Latvia to the European Monetary Union, Latvenergo Group operating activities will no longer be a subject the euro currency risk. All borrowings of Latvenergo Group as at the end of 2012 are denominated in euro currency. Nearly all

¹ Current ratio: current assets / current liabilities



borrowings from financial institutions had a variable interest rate, comprising 3 to 6 months EURIBOR and margin rate. Taking into account the effect of interest rate swaps, 46% of the borrowings had a fixed interest rate with an average period of 2 years as at 31 December 2012.

In 2012 the weighted average effective interest rate (with interest rate swaps) is 2.9% (2011: 3.0%), ensuring good debt service ratios (interest coverage ratio² –10.9).

Latvenergo Group net debt as at 31 December 2012 is LVL 424.8 million (2011: LVL 404.5 million), while the net debt/EBITDA ratio is 2.3 (2011: 2.2). In 2012 all the binding financial

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

covenants set in Latvenergo Group loan agreements have been met.

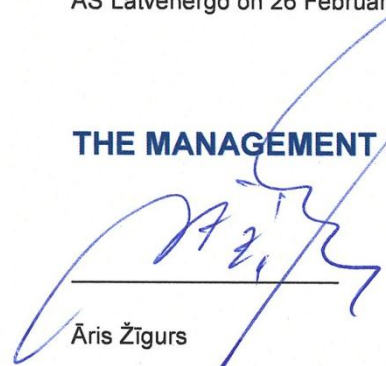
In 2012 AS Latvenergo rate by the Moody's Investors Service remains Baa3 with a stable outlook.

Statement of management responsibility

Based on the information available to the Management Board of Latvenergo AS in all material aspects Latvenergo Group unaudited condensed consolidated financial statements for 2012 have been prepared in accordance with applicable laws and regulations and give a true and fair view of assets, liabilities, financial position and profit and loss of the Latvenergo Group. All information included in the management report is true.

The Latvian version of Latvenergo Group 2012 Unaudited Consolidated Financial Statements denominated in Latvian lats was approved by the Management Board of AS Latvenergo on 26 February 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

Notes to the Unaudited Condensed Consolidated Financial Statements

CONSOLIDATED INCOME STATEMENT

	Notes	2012	2011	2012	2011
		LVL'000	LVL'000	EUR'000	EUR'000
Revenue	4	751,038	681,767	1,068,631	970,067
Other income		3,939	4,175	5,605	5,940
Materials, consumables and supplies	5	(474,916)	(408,192)	(675,745)	(580,805)
Personnel expenses		(64,152)	(61,572)	(91,280)	(87,609)
Depreciation, amortisation and impairment		(122,196)	(127,384)	(173,869)	(181,251)
Other operating expenses		(35,122)	(35,449)	(49,974)	(50,439)
Operating profit		58,591	53,345	83,368	75,903
Finance income		3,478	3,047	4,949	4,336
Finance costs		(11,247)	(13,956)	(16,003)	(19,858)
Share of profit of an associate		253	232	360	330
Profit before income tax		51,075	42,668	72,674	60,711
Income tax	6	(6,423)	564	(9,139)	802
Profit from discontinued operations		-	546	-	777
Profit for the year		44,652	43,778	63,535	62,290

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2012	2011	2012	2011
	LVL'000	LVL'000	EUR'000	EUR'000
Net profit	44,652	43,778	63,535	62,290
Other comprehensive income/(loss)				
Changes on revaluation of PPE	67,225	81	95,653	116
Losses on currency translation differences	(2)	(14)	(3)	(20)
Losses from change in hedge reserve	(4,883)	(4,335)	(6,948)	(6,168)
Other comprehensive income/(loss)	62,340	(4,268)	88,702	(6,072)
Total comprehensive income for the year	106,992	39,510	152,237	56,218

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	31 December 2012	31 December 2011	31 December 2012	31 December 2011
		LVL'000	LVL'000	EUR'000	EUR'000
ASSETS					
<i>Non-current assets</i>					
Intangible assets and PPE	7	2,153,885	2,006,103	3,064,702	2,854,427
Investments in associates and other financial investments		4,947	4,696	7,039	6,682
Held-to-maturity financial assets		20,134	15,670	28,648	22,296
Other non-current assets		33	125	47	178
Total non-current assets		2,178,999	2,026,594	3,100,436	2,883,583
<i>Current assets</i>					
Inventories	8	15,604	13,949	22,203	19,848
Trade and other receivables	9	111,361	91,420	158,452	130,079
Financial assets		4,237	47,164	6,029	67,108
Cash and cash equivalents	10	170,425	108,877	242,493	154,918
Total current assets		301,627	261,410	429,177	371,953
TOTAL ASSETS		2,480,626	2,288,004	3,529,613	3,255,536
EQUITY					
Share capital		904,605	325,862	1,287,137	463,660
Non-current assets revaluation reserve		465,738	974,899	662,685	1,387,156
Hedge reserve		(13,129)	(8,247)	(18,681)	(11,734)
Other reserves		77	10,269	110	14,611
		452,686	976,921	644,114	1,390,033
Retained earnings		58,669	45,773	83,478	65,129
Non-controlling interest		3,461	3,020	4,925	4,297
Total equity		1,419,421	1,351,576	2,019,654	1,923,119
LIABILITIES					
<i>Non-current liabilities</i>					
Borrowings	11	520,804	462,888	741,037	658,630
Deferred income tax liabilities		187,821	172,425	267,245	245,339
Provisions	12	10,508	9,517	14,952	13,541
Derivative financial instruments		12,555	10,629	17,864	15,124
Other liabilities and deferred income		105,507	94,815	150,123	134,910
Total non-current liabilities		837,195	750,274	1,191,221	1,067,544
<i>Current liabilities</i>					
Borrowings	11	74,429	50,446	105,903	71,778
Derivative financial instruments		12,344	13,134	17,564	18,688
Trade and other current liabilities, deferred income		137,237	122,574	195,271	174,407
Total current liabilities		224,010	186,154	318,738	264,873
Total liabilities		1,061,205	936,428	1,509,959	1,332,417
TOTAL EQUITY AND LIABILITIES		2,480,626	2,288,004	3,529,613	3,255,536

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Parent Company						Attributable to owners of the Parent Company				Non-controlling interest	
	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
As at 31 December 2010	323,544	972,278	46,356	1,342,178	2,570	1,344,748	460,362	1,383,427	65,958	1,909,747	3,657	1,913,404
Increase in share capital	2,318	-	-	2,318	-	2,318	3,298	-	-	3,298	-	3,298
Dividends for 2010	-	-	(35,000)	(35,000)	-	(35,000)	-	-	(49,801)	(49,801)	-	(49,801)
Transfer to reserves	-	10,257	(10,257)	-	-	-	-	14,594	(14,594)	-	-	-
Profit for the year	-	-	43,328	43,328	450	43,778	-	-	61,650	61,650	640	62,290
Other comprehensive income/(loss) for the year	-	(5,614)	1,346	(4,268)	-	(4,268)	-	(7,988)	1,916	(6,072)	-	(6,072)
Total comprehensive income/(loss) for the year	-	(5,614)	44,674	39,060	450	39,510	-	(7,988)	63,566	55,578	640	56,218
As at 31 December 2011	325,862	976,921	45,773	1,348,556	3,020	1,351,576	463,660	1,390,033	65,129	1,918,822	4,297	1,923,119
Increase in share capital	578,743	(577,990)	-	753	-	753	823,477	(822,406)	-	1,071	-	1,071
Dividends for 2011	-	-	(39,900)	(39,900)	-	(39,900)	-	-	(56,773)	(56,773)	-	(56,773)
Transfer to reserves	-	(10,266)	10,266	-	-	-	-	(14,607)	14,607	-	-	-
Profit for the year	-	-	44,211	44,211	441	44,652	-	-	62,907	62,907	628	63,535
Other comprehensive income/(loss) for the year	-	64,021	(1,681)	62,340	-	62,340	-	91,094	(2,392)	88,702	-	88,702
Total comprehensive income/(loss) for the year	-	64,021	42,530	106,551	441	106,992	-	91,094	60,515	151,609	628	152,237
As at 31 December 2012	904,605	452,686	58,669	1,415,960	3,461	1,419,421	1,287,137	644,114	83,478	2,014,729	4,925	2,019,654

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	2012	2011	2012	2011
		LVL'000	LVL'000	EUR'000	EUR'000
Cash flows from operating activities					
Profit before tax		51,075	42,668	72,674	60,711
Adjustments for:					
- Amortisation, depreciation, impairment loss of non-current assets		122,196	129,325	173,869	184,013
- Discontinued operations		-	546	-	777
- Net financial adjustments		1,898	22,599	2,701	32,155
- Other adjustments		585	103	832	147
Increase in current assets		(11,187)	(7,666)	(15,918)	(10,908)
Increase in payables, accrued expense, deferred income and other liabilities		9,934	22,863	14,135	32,531
Cash generated from operations		174,501	210,438	248,293	299,426
Net interest paid		(13,625)	(13,965)	(19,387)	(19,870)
Income tax paid		(15,866)	(16,074)	(22,575)	(22,871)
Net cash generated from operating activities		145,010	180,399	206,331	256,685
Cash flows from investing activities					
Purchase of intangible assets and PPE		(170,237)	(182,301)	242,226	(259,391)
Proceeds on financing from EU funds		2,416	1,479	3,438	2,104
Net investments in held-to-maturity assets		41,348	(57,387)	58,833	(81,654)
Net cash used in investing activities		(126,473)	(238,209)	(179,955)	(338,941)
Cash flows from financing activities					
Proceeds on issued debt securities (bonds)		14,020	-	19,949	-
Proceeds on borrowings from credit institutions	11	116,947	4,357	166,401	6,199
Repayment of borrowings	11	(48,056)	(36,936)	(67,378)	(52,554)
Dividends paid		(39,900)	(35,000)	(56,773)	(49,801)
Net cash generated/(used in) financing activities		43,011	(67,579)	61,199	(96,156)
Net increase/(decrease) in cash and cash equivalents		61,548	(125,389)	87,575	(178,412)
Cash and cash equivalents at the beginning of the year	10	108,877	234,266	154,918	333,330
Cash and cash equivalents at the end of the year	10	170,425	108,877	242,493	154,918

Notes to the Unaudited Condensed Consolidated Financial Statements

CORPORATE INFORMATION

All of the shares of public limited company Latvenergo or Latvenergo AS (hereinafter – the Parent Company) are owned by the State of Latvia and are held by the Ministry of Economics of Republic of Latvia. The registered address of the Company is 12 Pulkveža Brieža St., Riga, LV-1230, Latvia.

Latvenergo AS is engaged in the production and supply of electrical power and heat in the territory of Latvia and the EU. The Parent Company is one of the largest corporate entities in Latvia.

Latvenergo AS head 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.

According to amendments to Electricity market Law, related to requirements of the European Parliament and the Council Directive as of 13th July of the 2009th Directive 2009/72/EC transmission operator needs to be separated from electricity generation, distribution and sale. On 2 January 2012 shares of transmission system operator Augstsprieguma tīkls AS were sold to Ministry of Finance.

The Condensed Consolidated Financial Statements for the period ending 31 December 2012 include the financial information in respect of the Parent Company and its all subsidiaries for the annual period ending 31 December 2012 and comparative information for annual period ending 31 December 2011. Items included in the Condensed Consolidated Financial Statements are translated into Euros using official currency rate of the Bank of Latvia 1EUR = 0.702804 LVL.

The Condensed Consolidated Financial Statements of the Latvenergo Group for the 12 months ended 31 December 2012 are presented in thousands of Latvian Lats (LVL) in Latvian language and were authorised by the Management Board on 26 February 2013.

1. ACCOUNTING POLICIES

These Unaudited 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 has not changed. These policies have been consistently applied to all reporting periods presented, unless otherwise

stated. Where it is necessary, comparatives are reclassified.

The Condensed Consolidated Financial Statements are prepared under the historical cost convention, as modified by the revaluation of land and buildings, 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 2011.

All amounts shown in these unaudited Condensed Consolidated Financial Statements are presented in thousands of Latvian Lats (LVL), unless stated otherwise.

2. FINANCIAL RISK MANAGEMENT

Financial risk factors

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

Risk management is carried out by the Parent Company's Treasury department (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.

Market risk

I) Foreign exchange risk

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

However, the peg of Lat to Euro at the beginning of the year 2005 resulted in limited EUR/LVL currency risk, as the Group had no any substantial liabilities in any other foreign currency except Euro. At 31 December 2012 the Group had none of their borrowings denominated in other currencies than the Euro.

Management has set up a Financial Risk Management policy inter alia to manage the Group's foreign currencies exchange risk against functional currency. To manage the Group's foreign currencies exchange risk arising from future transactions and recognized assets and liabilities, the Group uses forward contracts, transacted by the Group Treasury. Foreign currencies exchange risk arises when future

transactions or recognized assets or liabilities are denominated in a currency that is not 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 dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and hedging. Based on these scenarios, the Group calculates the impact on profit and loss as well as on cash flows of a defined interest rate shift. 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. To hedge the risk the Parent Company has purchased electricity swap contracts that are used to hedge the risk related to changes in the price of electricity.

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 with banks is managed by balancing the placement of financial assets in order to maintain the possibility to choose the best offers and to reduce probability to incur losses.

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

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.

Capital risk management

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

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

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

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

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

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 use a variety of methods and make assumptions that are based on market conditions existing at each end of 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 CO₂ emission allowances for greenhouse gases forward contracts is calculated as discounted difference between actual market and settlement prices for CO₂ 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.

3. 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 parent company's management board.

The Group divides its operations into three main operating segments – generation and supply, distribution system services and management of transmission system assets. In addition Corporate

Functions, that covers administration and other support services, are presented separately.

The generation and supply segment comprises the Group's electricity and heat generation operations, which are organised into the legal entities: Latvenergo AS and Liepājas enerģija SIA, as well as electricity sales operations, including wholesale, which are conducted in Baltics region by the subsidiaries Elektrum Eesti OÜ and Elektrum Lietuva UAB.

The operations of the distribution system services segment relates to the provision of electricity distribution services in Latvia and are managed by the subsidiary Sadales tīkls AS, the largest distribution system operator in Latvia. In 2011

distribution assets owned by the parent company were invested in the equity of Sadales tīkls AS for the purpose of establishing the distribution system operator as required by the market liberalisation.

The subsidiary Latvijas elektriskie tīkli AS represents business segment – management of transmission system assets. The Republic of Latvia has applied the second unbundling model under EU Directive 2009/72/EC, which provides that the electricity transmission system assets shall remain with a vertically integrated utility, while the activities of the transmission system operator are independently managed. The assets are leased to the transmission system operator.

The following tables present revenue, profit information and segment assets of the Group's operating segments for the year 2012 and 2011 in thousands of lats and euros:

	Generation and supply	Distribution system services	Management of transmission system assets	Corporate functions	Discontinued operations	TOTAL segments	Adjustments and eliminations	The Group
Year ended 31 December 2012	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
Revenue								
External customers	504,672	204,953	36,962	4,452	-	751,039	(1)	751,038
Inter-segment	19,861	4,620	2,712	31,770	-	58,963	(58,963)	-
Total revenue	524,533	209,573	39,674	36,222	-	810,002	(58,964)	751,038
Results								
Segment profit	40,685	5,893	8,086	4,237	-	58,901	(7,826)	51,075
Year ended 31 December 2011								
Revenue								
External customers	489,070	188,775	312	3,625	3,804	685,586	(3,819)	681,767
Inter-segment	40,812	2,078	37,341	34,157	57,798	172,186	(172,186)	-
Total revenue	529,882	190,853	37,653	37,782	61,602	857,772	(176,005)	681,767
Results								
Segment profit	41,011	3,341	6,097	1,422	2,123	53,994	(11,326)	42,668

Segment assets

	Generation and supply	Distribution system services	Management of transmission system assets	Corporate functions	Discontinued operations	TOTAL segments	Adjustments and eliminations	The Group
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
At 31 December 2012	1,075,638	872,491	269,691	59,192	-	2,277,012	203,614	2,480,626
At 31 December 2011	927,880	862,185	260,600	60,207	2,721	2,113,593	174,411	2,288,004

	Generation and supply	Distribution system services	Management of transmission system assets	Corporate functions	Discontinued operations	TOTAL segments	Adjustments and eliminations	The Group
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Year ended 31 December 2012								

Revenue

External customers	718,084	291,622	52,592	6,335	-	1,068,633	(1)	1,068,632
Inter-segment	28,260	6,574	3,859	45,205	-	83,898	(83,898)	-
Total revenue	746,344	298,196	56,451	51,540	-	1,152,531	(83,899)	1,068,632

Results

Segment profit	57,890	8,385	11,505	6,029	-	83,809	(11,135)	72,674
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Year ended 31 December 2011

Revenue

External customers	695,884	268,603	444	5,158	5,413	975,502	(5,435)	970,067
Inter-segment	58,070	2,957	53,131	48,601	82,239	244,998	(244,998)	-
Total revenue	753,954	271,560	53,575	53,759	87,652	1,220,500	(250,433)	970,067

Results

Segment profit	58,353	4,754	8,675	2,023	3,022	76,827	(16,116)	60,711
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Segment assets

	Generation and supply	Distribution system services	Management of transmission system assets	Corporate functions	Discontinued operations	TOTAL segments	Adjustments and eliminations	The Group
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
At 31 December 2012	1,530,495	1,241,443	383,736	84,222	-	3,239,896	289,717	3,529,613
At 31 December 2011	1,320,254	1,226,779	370,800	85,667	3,872	3,007,372	248,164	3,255,536

ADJUSTMENTS AND ELIMINATIONS

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

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

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

Reconciliation of profit

	2012	2011	2012	2011
	LVL'000	LVL'000	EUR'000	EUR'000
Segment profit (EBIT)	58,901	53,994	83,809	76,827
Gain on held-to-maturity assets	227	1,300	323	1,850
Gain on disposal of revalued PPE	(537)	(536)	(764)	(763)
Inter-segment sales (elimination)	-	(596)	-	(848)
Gain from discontinued operations	-	(817)	-	(1,162)
Finance income	3,478	3,047	4,949	4,335
Finance costs	(11,247)	(13,956)	(16,003)	(19,858)
Share of profit of associates	253	232	360	330
Group profit before income tax	51,075	42,668	72,674	60,711

Reconciliation of assets

	31 December 2012	31 December 2011	31 December 2012	31 December 2011
	LVL'000	LVL'000	EUR'000	EUR'000
Segment operating assets	2,277,012	2,113,593	3,239,896	3,007,372
Investments in associates	4,947	4,696	7,039	6,682
Investments in held-to-maturity financial assets	20,134	15,670	28,648	22,296
Current financial assets	42	45,105	60	64,178
Other assets and assets held for sale	8,066	63	11,477	90
Cash and cash equivalents	170,425	108,877	242,493	154,918
Group operating assets	2,480,626	2,288,004	3,529,613	3,255,536

4. REVENUE

	2012	2011	2012	2011
	LVL'000	LVL'000	EUR'000	EUR'000
Electricity and electricity services	600,511	593,092	854,450	843,894
Heat sales	90,548	69,233	128,838	98,510
Other revenue	59,979	19,442	85,343	27,663
Total revenue	751,038	681,767	1,068,631	970,067

5. MATERIALS, CONSUMABLES AND SUPPLIES

	2012	2011	2012	2011
	LVL'000	LVL'000	EUR'000	EUR'000
Electricity purchases				
Purchased electricity	257,600	242,293	366,532	344,752
Fair value loss/(income) on electricity swaps	(1,525)	7,759	(2,170)	11,040
Electricity transmission services*	52,262	-	74,362	-
	308,337	250,052	438,724	355,792
Fuel expense	140,052	127,673	199,276	181,662
Fair value (income)/loss on CO ₂ emission allowances forward contracts	(4,598)	1,155	(6,542)	1,643
Raw materials, spare parts and maintenance costs	31,125	29,312	44,287	41,708
Total materials, consumables and supplies	474,916	408,192	675,745	580,805

* As of 2nd January of the 2012, according to EU Directive 2009/72/EC Augstsprieguma tīkls AS was sold to Ministry of Finance of the Republic of Latvia. Till the sale of Augstsprieguma tīkls AS transmission services were consolidated as Group intragroup transactions.

6. INCOME TAX

	2012	2011	2012	2011
	LVL'000	LVL'000	EUR'000	EUR'000
Current tax	10,251	13,730	14,586	19,537
Deferred tax	(3,828)	(14,294)	(5,447)	(20,339)
Total income tax	6,423	(564)	9,139	(802)

7. INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

	Intangible assets	Land, buildings and facilities	Technology equipment and machinery	Other fixed assets	Assets under construction	TOTAL	Intangible assets	Land, buildings and facilities	Technology equipment and machinery	Other fixed assets	Assets under construction	TOTAL
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
At 31 December 2011												
Cost or valuation	22,187	2,869,092	1,109,768	96,802	213,475	4,311,324	31,569	4,082,350	1,579,058	137,737	303,748	6,134,461
Accumulated amortisation, depreciation and impairment	(15,586)	(1,560,165)	(651,427)	(73,047)	(4,996)	(2,305,221)	(22,177)	(2,219,915)	(926,897)	(103,937)	(7,109)	(3,280,035)
Net book amount	6,601	1,308,927	458,341	23,755	208,479	2,006,103	9,392	1,862,435	652,161	33,800	296,639	2,854,427
At 31 December 2012												
Cost or valuation	23,497	2,944,041	1,224,864	99,847	296,643	4,588,892	33,433	4,188,993	1,742,824	142,070	422,086	6,529,406
Accumulated amortisation, depreciation and impairment	(17,693)	(1,629,214)	(708,346)	(74,949)	(4,805)	(2,435,007)	(25,175)	(2,318,163)	(1,007,886)	(106,643)	(6,837)	(3,464,704)
Net book amount	5,804	1,314,827	516,518	24,898	291,838	2,153,885	8,258	1,870,830	734,938	35,427	415,249	3,064,702

8. INVENTORIES

	31 December 2012	31 December 2011	31 December 2012	31 December 2011
	LVL'000	LVL'000	EUR'000	EUR'000
Raw materials and spare parts	14,196	12,532	20,199	17,831
Other inventories	4,192	4,159	5,965	5,919
Allowance for raw materials, spare parts, technological fuel	(2,784)	(2,742)	(9,961)	(3,902)
Total inventories	15,604	13,949	22,203	19,848

9. TRADE RECEIVABLES AND OTHER CURRENT RECEIVABLES

Trade receivables, net:

	31 December 2012	31 December 2011	31 December 2012	31 December 2011
	LVL'000	LVL'000	EUR'000	EUR'000
Receivables:				
- Electricity customers	64,637	66,101	91,970	94,053
- Heating customers	19,140	12,324	27,234	17,535
- Other trade receivables	14,450	5,101	20,560	7,258
	98,227	83,526	139,764	118,846
Provision for impairment of receivables:				
- Electricity customers	(10,502)	(8,320)	(14,943)	(11,838)
- Heating customers	(295)	(292)	(420)	(415)
- Other trade receivables	(1,217)	(1,105)	(1,732)	(1,572)
	(12,014)	(9,717)	(17,095)	(13,825)
Receivables, net:				
- Electricity customers	54,135	57,781	77,027	82,215
- Heating customers	18,845	12,032	26,814	17,120
- Other trade receivables	13,233	3,996	18,828	5,686
	86,213	73,809	122,669	105,021
Other current receivables:	25,148	17,611	35,783	25,058
Total trade and other receivables	111,361	91,420	158,452	130,079

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

	2012	2011	2012	2011
	LVL'000	LVL'000	EUR'000	EUR'000
At the beginning of the year	9,717	8,218	13,825	11,692
Receivables written off during the year as uncollectible	(203)	(575)	(289)	(818)
Allowance for impaired receivables	2,500	2,074	3,559	2,951
At the end of the year	12,014	9,717	17,095	13,825

10. CASH AND CASH EQUIVALENTS

	31 December 2012	31 December 2011	31 December 2012	31 December 2011
	LVL'000	LVL'000	EUR'000	EUR'000
Cash at bank and on hand	25,316	77,969	36,021	110,940
Short-term bank deposits	145,109	30,908	206,472	43,978
Total cash and cash equivalents	170,425	108,877	242,493	154,918

11. BORROWINGS

	31 December 2012	31 December 2011	31 December 2012	31 December 2011
	LVL'000	LVL'000	EUR'000	EUR'000
Non-current borrowings (excl. current portion)	506,771	462,888	721,070	658,630
Issued debt securities (bonds)	14,033	-	19,967	-
Current portion of non-current borrowings	73,234	48,226	104,203	68,619
Accrued interest on non-current borrowings	1,195	2,220	1,700	3,159
Total current borrowings	74,429	50,446	105,903	71,778
Total borrowings	595,233	513,334	846,940	730,408

Movement in borrowings:

	2012	2011	2012	2011
	LVL'000	LVL'000	EUR'000	EUR'000
At the beginning of the year	513,334	545,607	730,408	776,329
Borrowings received	116,947	4,357	166,401	6,199
Borrowing repaid	(48,056)	(36,936)	(68,378)	(52,555)
Accrued interest on borrowings	(1,025)	306	(1,458)	435
Debt securities (bonds) issued	14,033	-	19,967	-
At the end of the year	595,233	513,334	846,940	730,408

12. 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:

	2012	2011	2012	2011
	LVL'000	LVL'000	EUR'000	EUR'000
At the beginning of the year	7,734	7,321	11,005	10,417
Charged to the Consolidated Income Statement	26	413	37	588
At the end of the year	7,760	7,734	11,042	11,005

Environmental provisions

	2012	2011	2012	2011
	LVL'000	LVL'000	EUR'000	EUR'000
At the beginning of the year	1,783	1,376	2,537	1,958
Charged to the Consolidated Income Statement	965	407	1,373	579
At the end of the year	2,748	1,783	3,910	2,537

13. RELATED PARTY TRANSACTIONS

Related parties are associates, key management personnel of the Group and Supervisory body – Audit committee, as well as companies over which the Parent Company has significant control.

The following transactions were carried out with related parties:

	2012	2011	2012	2011
	LVL'000	LVL'000	EUR'000	EUR'000
Sales to related parties	2,889	3,112	4,111	4,428
Purchases from related parties	2,972	2,684	4,229	3,819

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

	31 December 2012	31 December 2011	31 December 2012	31 December 2011
	LVL'000	LVL'000	EUR'000	EUR'000
Trade receivables from related parties	273	437	388	622
Trade payables to related parties	493	351	701	499

In 2012 remuneration to the key management personnel, Supervisory body, including salary, social insurance payments and payments to pension plan is amounted to LVL 960 thousand or EUR 1,366 thousand (2011: LVL 926 thousand or EUR 1,318 thousand) and are included in the Consolidated Income Statement position 'Personnel expenses'.

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