



# **Latvenergo Interim Condensed Consolidated Financial Statements for the period ending 30 June 2012**

**UNAUDITED**  
**PREPARED IN ACCORDANCE WITH**  
**THE INTERNATIONAL FINANCIAL REPORTING STANDARDS**  
**AS ADOPTED BY EU**

## **Content**

	Page
Management Report	3
Interim Condensed Consolidated Financial Statements	
Condensed Consolidated Income Statement	4
Condensed Consolidated Statement of Comprehensive Income	4
Condensed Consolidated Statement of Financial Position	5
Condensed Consolidated Statement of Changes in Equity	6
Condensed Consolidated Statement of Cash Flows	7
Notes to the Interim Condensed Consolidated Financial Statements	8 - 17

## **Management Report**

Results for the first six months of 2012 continued to show growth in operations of the Group. Revenues for half year in 2012 were 11% higher than for the same period in 2011, and reached 389 million Lats. Operating profit increased by 6% compared to the same period year ago, and the profit for the period amounted to 42 million Lats, which is 8% increase from prior year.

The Group has also continued its investment project in all areas of operations – generation, transmission assets and distribution networks. Capital investments for the first six months in 2012 amount to 111 million Lats, which also impact 2% overall asset growth since December 2011.

On 25 June 2012, the Administrative Regional court finished a review of complaints of electricity end users on the electricity tariff approved according to the decision of the Management Board of the Company of 25 January 2011 and carried out a judgement repealing such tariff as of the day it has been approved. Latvenergo and Public Utility Commission (PUC) have submitted appeals to the court judgement. In case the cassation instance renders a judgement to leave the judgement of the Administrative Regional court unvaried and to dismiss the complaints of the PUC and the Company, the Company will have to conform to the judgement. In such case the Company will need to apply lower tariffs that were in force prior to the present tariffs. If the judgement repeals the present tariff as of the day of its approval, such lower tariffs will also need to be applied retrospectively from 1 April 2011. Although the amount of the potential loss is subject to several variables outside the control of the Company, as of 30 June 2012 the Company estimated that the loss resulting from such decision might be about 45 million Lats. Due to uncertainties related to ongoing litigation, there are no transactions recorded in relation to this litigation in these Interim Condensed Consolidated Financial Statements.

### **Post interim period events**

In order to implement the requirements of well-functioning internal electricity market prescribed in the Directive 2009/72/EC of 13 July 2009 concerning common rules for the internal market in electricity and repealing Directive 2003/54/EC, the major changes in the electricity retail market have been in place since May 2008. To facilitate the liquidity of internal market, the regulated electricity market share was gradually reduced by abolishing the regulated end-user tariffs. In August 2012, decision was passed on additional market opening in Latvia. From 1 November 2012 only the household customers in Latvia are allowed to stay with public trader, all legal entities are obliged to acquire electricity in open market.


On 21 September 2012, as a result of capitalisation of retained earnings, share capital increase amounting to 578.0 million Lats was registered in the Commercial Register of the Republic of Latvia. At the date of approving these Interim Condensed Consolidated Financial Statements, the registered share capital of the Company amounts to 903.8 million Lats.

There are no other post interim period events that would materially affect the financial position of the Group as at 30 June 2012.

### **Dividends**

On 8 June 2012, the Shareholders' meeting passed resolution on distribution of the profit for 2011. The meeting decided that LVL 39,900,000 shall be paid out in dividends. The dividends were fully paid in July 2012.

**The Management Board of Latvenergo AS:**

  
Āris Žīgurs  
Chairman of the Board

  
Zane Kotāne

  
Uldis Bariss

  
Māris Kuņickis

  
Arnis Kurgs

20 November 2012




## Condensed Consolidated Income Statement

	Notes	01.01.- 30.06.2012	01.01.- 30.06.2011	2011
		LVL'000	LVL'000	LVL'000
Revenue	4	389,174	350,782	681,767
Other income		2,313	1,816	4,175
Materials, consumables and supplies	5	(204,107)	(181,370)	(408,192)
Personnel expenses		(31,685)	(30,666)	(61,572)
Depreciation, amortisation and impairment		(58,051)	(71,236)	(127,384)
Other operating expenses		(43,256)	(17,769)	(35,449)
<b>Operating profit</b>		<b>54,388</b>	<b>51,557</b>	<b>53,345</b>
Finance income		1,394	2,289	3,047
Finance costs		(5,717)	(7,447)	(13,956)
Share of profit of an associate		114	68	232
<b>Profit before income tax</b>		<b>50,179</b>	<b>46,467</b>	<b>42,668</b>
Income tax	6	(7,825)	(6,224)	564
Profit/(loss) from discontinued operations		-	(831)	546
<b>Profit for the period</b>		<b>42,354</b>	<b>39,412</b>	<b>43,778</b>

## Condensed Consolidated Statement of Comprehensive Income

	01.01.- 30.06.2012	01.01.- 30.06.2011	2011
	LVL'000	LVL'000	LVL'000
<b>Net profit</b>	<b>42,354</b>	<b>39,412</b>	<b>43,778</b>
<b>Other comprehensive (loss)/income:</b>			
Gains on revaluation of PPE	367	35	81
(Losses)/gains on currency translation differences	(43)	3	(14)
(Losses)/gains from change in hedge reserve	(2,201)	2,408	(4,335)
<b>Other comprehensive (loss)/income</b>	<b>(1,877)</b>	<b>2,446</b>	<b>(4,268)</b>
<b>Total comprehensive income for the period</b>	<b>40,477</b>	<b>41,858</b>	<b>39,510</b>

The Management Board of Latvenergo AS:

  
Aris Žigurs  
Chairman

  
Zane Kotāne

  
Uldis Bariss


  
Māris Kunickis

  
Arnis Kurgs

## Condensed Consolidated Statement of Financial Position

	Notes	30 June 2012	31 December 2011	30 June 2011
		LVL'000	LVL'000	LVL'000
<b>ASSETS</b>				
<b>Non-current assets</b>				
Intangible assets and PPE	7	2,058,351	2,006,103	1,948,899
Investments in associates and other financial investments		4,809	4,696	4,532
Held-to-maturity financial assets		19,547	15,670	7,986
Deferred income tax assets		-	30	900
Other non-current assets		64	95	111
<b>Total non-current assets:</b>		<b>2,082,771</b>	<b>2,026,594</b>	<b>1,962,428</b>
<b>Current assets</b>				
Inventories	8	16,412	13,949	12,775
Trade and other receivables	9	73,256	91,420	72,915
Derivative financial instruments		5,086	2,450	1,944
Held-to-maturity financial assets		11,564	44,714	46,242
Cash and cash equivalents	10	150,255	108,877	182,054
<b>Total current assets:</b>		<b>256,573</b>	<b>261,410</b>	<b>315,930</b>
<b>TOTAL ASSETS</b>		<b>2,339,344</b>	<b>2,288,004</b>	<b>2,278,358</b>
<b>EQUITY</b>				
Share capital		325,862	325,862	323,544
Non-current assets revaluation reserve		973,646	974,899	975,979
Hedge reserve		(10,447)	(8,247)	(1,504)
Other reserves		23,224	10,269	9,909
		986,423	976,921	984,384
Retained earnings		34,546	45,773	40,425
Non-controlling interest		3,417	3,020	3,253
<b>Total equity:</b>		<b>1,350,248</b>	<b>1,351,576</b>	<b>1,351,606</b>
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Borrowings	11	490,878	462,888	485,951
Deferred income tax liabilities		169,819	172,425	182,599
Provisions	12	9,601	9,517	8,965
Derivative financial instruments		12,277	10,629	5,576
Other liabilities and deferred income		107,088	94,815	95,096
<b>Total non-current liabilities:</b>		<b>789,663</b>	<b>750,274</b>	<b>778,187</b>
<b>Current liabilities</b>				
Borrowings	11	59,903	50,446	43,387
Derivative financial instruments		17,124	13,134	3,054
Trade and other current liabilities, deferred income		122,406	122,574	102,124
<b>Total current liabilities:</b>		<b>199,433</b>	<b>186,154</b>	<b>148,565</b>
<b>Total liabilities:</b>		<b>989,096</b>	<b>936,428</b>	<b>926,752</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>2,339,344</b>	<b>2,288,004</b>	<b>2,278,358</b>

The Management Board of Latvenergo AS:

  
 Āris Žigurs  
 Chairman

  
 Zane Kotāne

  
 Uldis Bariss

  
 Māris Kuņickis

  
 Arnis Kurgs

## Condensed Consolidated Statement of Changes in Equity

	Attributable to owners of the Parent Company			Non- control- ling interest	TOTAL	
	Share capital	Reserves	Retained earnings			Total
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
<b>As at 31 December 2010</b>	<b>323,544</b>	<b>972,278</b>	<b>46,356</b>	<b>1,342,178</b>	<b>2,570</b>	<b>1,344,748</b>
Dividends for 2010	-	-	(35,000)	(35,000)	-	(35,000)
Transfer to reserves	-	9,907	(9,907)	-	-	-
Profit for the period	-	-	38,729	38,729	683	39,412
Other comprehensive income for the period	-	2,199	247	2,446	-	2,446
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>2,199</b>	<b>38,976</b>	<b>41,175</b>	<b>683</b>	<b>41,858</b>
<b>As at 30 June 2011</b>	<b>323,544</b>	<b>984,384</b>	<b>40,425</b>	<b>1,348,353</b>	<b>3,253</b>	<b>1,351,606</b>
Increase in share capital	2,318	-	-	2,318	-	2,318
Transfer to reserves	-	350	(350)	-	-	-
Profit/(loss) for the period	-	-	4,599	4,599	(233)	4,366
Other comprehensive income/(loss) for the period	-	(7,813)	1,099	(6,714)	-	(6,714)
<b>Total comprehensive income/(loss) for the period</b>	<b>-</b>	<b>(7,813)</b>	<b>5,698</b>	<b>(2,115)</b>	<b>(233)</b>	<b>(2,348)</b>
<b>As at 31 December 2011</b>	<b>325,862</b>	<b>976,921</b>	<b>45,773</b>	<b>1,348,556</b>	<b>3,020</b>	<b>1,351,576</b>
Dividends for 2011	-	-	(39,900)	(39,900)	-	(39,900)
Transfer to reserves	-	12,992	(12,992)	-	-	-
Disposal of revalued PPE	-	(1,619)	(286)	(1,905)	-	(1,905)
Profit for the period	-	-	41,957	41,957	397	42,354
Other comprehensive loss for the period	-	(1,871)	(6)	(1,877)	-	(1,877)
<b>Total comprehensive income/(loss) for the period</b>	<b>-</b>	<b>(1,871)</b>	<b>41,951</b>	<b>40,080</b>	<b>397</b>	<b>40,477</b>
<b>As at 30 June 2012</b>	<b>325,862</b>	<b>986,423</b>	<b>34,546</b>	<b>1,346,831</b>	<b>3,417</b>	<b>1,350,248</b>

## Condensed Consolidated Statement of Cash Flows

	Notes	01.01.- 30.06.2012 LVL'000	01.01.- 30.06.2011 LVL'000	2011 LVL'000
<b>Cash flows from operating activities</b>				
Profit before tax		50,179	46,467	42,668
<b>Adjustments for:</b>				
- Amortisation, depreciation, impairment loss of non-current assets		59,496	71,498	129,325
- Discontinued operations		-	(831)	546
- Net financial adjustments		3,418	6,383	22,599
- Other adjustments		327	152	103
Decrease/(increase) in current assets		15,319	10,813	(7,666)
Increase/(decrease) in payables, accrued expense, deferred income and other liabilities		4,126	(10,759)	22,863
<b>Cash generated from operations</b>		<b>132,865</b>	<b>123,723</b>	<b>210,438</b>
Net interest paid		(1,111)	(4,273)	(13,965)
Income tax paid		(7,141)	(4,107)	(16,074)
<b>Net cash generated from operating activities</b>		<b>124,613</b>	<b>115,343</b>	<b>180,399</b>
<b>Cash flows from investing activities</b>				
Purchase of intangible assets and PPE		(110,981)	(63,938)	(182,301)
Proceeds on financing from EU funds		198	-	1,479
Net investments in held-to-maturity assets		29,400	(52,226)	(57,387)
<b>Net cash used in investing activities</b>		<b>(81,383)</b>	<b>(116,164)</b>	<b>(238,209)</b>
<b>Cash flows from financing activities</b>				
Proceeds on borrowings from credit institutions	11	63,260	1,686	4,357
Repayment of borrowings	11	(25,212)	(18,077)	(36,936)
Dividends paid		(39,900)	(35,000)	(35,000)
<b>Net cash used in financing activities</b>		<b>(1,852)</b>	<b>(51,391)</b>	<b>(67,579)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>41,378</b>	<b>(52,212)</b>	<b>(125,389)</b>
Cash and cash equivalents at the beginning of the year	10	108,877	234,266	234,266
<b>Cash and cash equivalents at the end of the period</b>	<b>10</b>	<b>150,255</b>	<b>182,054</b>	<b>108,877</b>

# **Notes to the Interim Condensed Consolidated Financial Statements**

## **1. 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 Latvian Ministry of Economics of Republic of Latvia. The registered address of the Company is 12 Pulkveža Brieža St., Riga, LV-1230, Latvia. Pursuant to the Latvian Energy Law, Latvenergo AS is designated as the business operations of national importance and, therefore, is not subject to privatisation.

The Parent Company 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:

	<b>REGISTERED IN THE COMMERCIAL REGISTER</b>	<b>INTEREST HELD</b>	<b>BUSINESS ACTIVITY HELD</b>
Augstsprieguma tīkls AS	01.09.2005 -1.01.2012	100%	Electricity transmission
Sadales tīkls AS	18.09.2006	100%	Electricity distribution
Elektrum Eesti OÜ (previous name – Latvenergo Kaubandus OÜ)	27.06.2007	100%	Electricity sales in Estonia
Elektrum Lietuva UAB (previous name – Latvenergo Prekyba UAB)	07.01.2008	100%	Electricity sales in Lithuania
Latvijas elektriskie tīkli AS	10.02.2011	100%	Operation and maintenance of transmission system assets
Liepājas enerģija SIA	06.07.2005	51%	Thermal energy generation, transmission, distribution and sale

The Parent Company's associates:

- Nordic Energy Link AS carries out the functions of the operator of an interconnection power cable between Estonia and Finland,
- Pirmais Slēgtais Pensiju Fonds AS manages a defined-contribution corporate pension plan in Latvia.

The Interim Condensed Consolidated Financial Statements for the period ending 30 June 2012 include the financial information in respect of the Parent Company and its all subsidiaries (hereinafter – the Group) for the annual period ending 31 December 2011 and comparative information for period ending 30 June 2011.

Latvenergo AS Shareholder's meeting has approved for issue the Consolidated Financial Statements on 1 June 2012.

The Interim Condensed Consolidated Financial Statements of the Latvenergo Group for the six months ended 30 June 2012 were authorised by the Management Board on 20 November 2012.

## **2. ACCOUNTING POLICIES**

The Interim Condensed Consolidated Financial Statements of the Latvenergo Group for the six months ended 30 June 2012 have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

The Interim Condensed Consolidated Financial Statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Latvenergo Group Consolidated Financial Statements for the year ended 31 December 2011.



## ***Interim Condensed Consolidated Financial Statements – 30.06.2012***

The Interim Condensed Consolidated Financial Statements principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all reporting periods presented, unless otherwise stated. Where it is necessary, comparatives are reclassified.

The Interim 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.

The accounting policies are consistent with those applied in the Latvenergo Group Consolidated Financial Statements of 2011.

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

### ***Adoption of new standards and interpretations***

The accounting policies adopted in the preparation of the Interim Condensed Consolidated Financial Statements are consistent with those followed in the preparation of the Latvenergo Group Consolidated Financial Statements for the year ended 31 December 2011, except for the adoption of new standards and interpretations as of January 2012, noted below:

#### ***IAS 12 Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets***

The amendment clarified the determination of deferred tax on investment property measured at fair value and introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. It includes the requirement that deferred tax on non-depreciable assets that are measured using the revolution model in IAS 16 should always be measured on a sale basis. The amendment is effective for annual periods beginning on or after 1 January 2012 and has been no effect on the Group's financial position, performance or its disclosures.

#### ***IFRS 1 First-Time Adoption of International Financial Reporting Standards (Amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters***

The IASB provided guidance on how an entity should resume presenting IFRS financial statements when its functional currency ceases to be subject to hyperinflation. The amendment is effective for annual periods beginning on or after 1 July 2011. The amendment had no impact to the Group.

#### ***IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements***

The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about the entity's continuing involvement in derecognised assets to enable the users to evaluate the nature of, and risks associated with, such involvement. The amendment is effective for annual periods beginning on or after 1 July 2011. The Group does not have any assets with these characteristics so there has been no effect on the presentation of its financial statements.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

### **3. 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 30 June 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.

The Parent Company has certain investments in associates and subsidiaries outside Latvia (Estonia and Lithuania); who are exposed to foreign currency risks. Currency exposure arising from the net assets of the Group's foreign operations in Estonia and Lithuania is limited as subsidiaries outside Latvia have insignificant amount of assets. Estonia has joined Euro zone, but Lithuania has fixed currency peg to 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

## ***Interim Condensed Consolidated Financial Statements – 30.06.2012***

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.

The Group's borrowings with floating rates do not impose fair value interest rate risk. Derivatives such as interest rate swaps are the only source of fair value interest rate risk.

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

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

The most significant price risk is related to purchase of electricity and CO<sub>2</sub> emission allowances. To hedge the risk the Parent Company has purchased electricity swap contracts and CO<sub>2</sub> emission allowance forward contracts that are used to hedge the risk related to changes in the price of electricity and CO<sub>2</sub> allowances.

### ***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.

## ***Interim Condensed Consolidated Financial Statements – 30.06.2012***

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 CO<sub>2</sub> emission allowances for greenhouse gases forward contracts is calculated as discounted difference between actual market and settlement prices for CO<sub>2</sub> emission allowances multiplied by the volume of the forward contract.

The fair value of non-current borrowings with floating interest rates fixed by SWAP agreements for disclosure purposes is estimated by discounting their future contractual cash flows at the current market interest rates for similar financial instruments.

## **4. REVENUE**

	<b>01.01.- 30.06.2012</b>	<b>01.01.- 30.06.2011</b>	<b>2011</b>
	LVL'000	LVL'000	LVL'000
<b>Electricity sales:</b>	298,772	295,448	583,428
- including sales to corporate customers	228,178	229,917	457,119
- residential customers	70,594	65,531	126,309
Sales of network services	10,294	3,768	9,664
	<b>309,066</b>	<b>299,216</b>	<b>593,092</b>
Heat sales	51,675	40,736	69,233
Revenue from lease of assets	11,175	197	393
Other services	17,258	10,633	19,049
<b>Total revenue:</b>	<b>389,174</b>	<b>350,782</b>	<b>681,767</b>



## **5. MATERIALS, CONSUMABLES AND SUPPLIES**

	<b>01.01.- 30.06.2012</b>	<b>01.01.- 30.06.2011</b>	<b>2011</b>
	LVL'000	LVL'000	LVL'000
<b>Electricity purchases:</b>			
Imported from the Baltic countries	44,293	60,143	138,373
Purchased from producers in Latvia	54,535	32,703	65,439
Imported from other countries	15,602	5,980	38,481
Fair value loss/(income) on electricity swaps	(175)	2,261	7,759
	<b>114,255</b>	<b>101,087</b>	<b>250,052</b>
 Fuel expense	 75,785	 67,991	 127,673
Fair value (income)/loss on CO <sub>2</sub> emission allowances forward contracts	(226)	-	1,155
Raw materials, spare parts and maintenance costs	14,293	12,292	29,312
<b>Total materials, consumables and supplies:</b>	<b>204,107</b>	<b>181,370</b>	<b>408,192</b>

## **6. INCOME TAX**

	<b>01.01.- 30.06.2012</b>	<b>01.01.- 30.06.2011</b>	<b>2011</b>
	LVL'000	LVL'000	LVL'000
Current tax	10,064	11,346	13,730
Deferred tax	(2,239)	(5,122)	(14,294)
<b>Total income tax:</b>	<b>7,825</b>	<b>6,224</b>	<b>(564)</b>

## **7. INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT**

	<b>Intan- gible assets</b>	<b>Land, buildings and facilities</b>	<b>Technology equipment and machinery</b>	<b>Other fixed assets</b>	<b>Assets under con- struction</b>	<b>TOTAL</b>
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
<b>At 30 June 2011</b>						
Cost or valuation	20,659	2,843,327	1,105,344	96,158	158,652	4,224,140
Accumulated amortisation, depreciation and impairment	(14,332)	(1,539,257)	(644,031)	(72,850)	(4,771)	(2,275,241)
<b>Net book amount:</b>	<b>6,327</b>	<b>1,304,070</b>	<b>461,313</b>	<b>23,308</b>	<b>153,881</b>	<b>1,948,899</b>
 <b>At 31 December 2011</b>						
Cost or valuation	22,187	2,869,092	1,109,768	96,802	213,475	4,311,324
Accumulated amortisation, depreciation and impairment	(15,586)	(1,560,165)	(651,427)	(73,047)	(4,996)	(2,305,221)
<b>Net book amount:</b>	<b>6,601</b>	<b>1,308,927</b>	<b>458,341</b>	<b>23,755</b>	<b>208,479</b>	<b>2,006,103</b>
 <b>At 30 June 2012</b>						
Cost or valuation	22,250	2,904,912	1,113,929	95,441	303,357	4,439,889
Accumulated amortisation, depreciation and impairment	(16,900)	(1,614,270)	(671,742)	(73,650)	(4,976)	(2,381,538)
<b>Net book amount:</b>	<b>5,350</b>	<b>1,290,642</b>	<b>442,187</b>	<b>21,791</b>	<b>298,381</b>	<b>2,058,351</b>

## **8. INVENTORIES**

	<b>30 June 2012</b>	<b>31 December 2011</b>	<b>30 June 2011</b>
	LVL'000	LVL'000	LVL'000
Raw materials and spare parts	14,933	12,532	11,267
Technological fuel	4,143	4,143	4,118
Advance payments for inventories	50	16	37
Allowance for raw materials, spare parts, technological fuel	(2,714)	(2,742)	(2,647)
<b>Total inventories:</b>	<b>16,412</b>	<b>13,949</b>	<b>12,775</b>

### ***Movement on the allowance for raw materials, spare parts and technological fuel:***

	<b>01.01.- 30.06.2012</b>	<b>01.01.- 30.06.2011</b>	<b>2011</b>
	LVL'000	LVL'000	LVL'000
<b>At the beginning of the period</b>	<b>2,742</b>	<b>2,459</b>	<b>2,459</b>
Charged to the Consolidated Income Statement	(28)	188	283
<b>At the end of the period</b>	<b>2,714</b>	<b>2,647</b>	<b>2,742</b>

## **9. TRADE RECEIVABLES AND OTHER CURRENT RECEIVABLES**

### ***Trade receivables, net***

	<b>30 June 2012</b>	<b>31 December 2011</b>	<b>30 June 2011</b>
	LVL'000	LVL'000	LVL'000
<b>Receivables:</b>			
- Electricity customers	53,183	66,101	55,020
- Heating customers	4,350	12,324	3,879
- Other trade receivables	13,533	5,101	5,406
	<b>71,066</b>	<b>83,526</b>	<b>64,305</b>

### **Provision for impairment of receivables:**

- Electricity customers	(9,731)	(8,320)	(9,349)
- Heating customers	(561)	(292)	(732)
- Other trade receivables	(1,206)	(1,105)	(1,211)
	<b>(11,498)</b>	<b>(9,717)</b>	<b>(11,292)</b>

### **Receivables, net:**

- Electricity customers	43,452	57,781	45,671
- Heating customers	3,789	12,032	3,147
- Other trade receivables	12,327	3,996	4,195
	<b>59,568</b>	<b>73,809</b>	<b>53,013</b>

## Interim Condensed Consolidated Financial Statements – 30.06.2012

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

	01.01.- 30.06.2012	01.01.- 30.06.2011	2011
	LVL'000	LVL'000	LVL'000
<b>At the beginning of the period</b>	<b>9,717</b>	<b>8,218</b>	<b>8,218</b>
Receivables written off during the year as uncollectible	(79)	(105)	(575)
Allowance for impaired receivables	1,860	3,179	2,074
<b>At the end of the period</b>	<b>11,498</b>	<b>11,292</b>	<b>9,717</b>

### **Other current receivables**

	30 June 2012	31 December 2011	30 June 2011
	LVL'000	LVL'000	LVL'000
<b>Other current receivables:</b>	<b>13,688</b>	<b>17,611</b>	<b>19,902</b>

## **10. CASH AND CASH EQUIVALENTS**

	30 June 2012	31 December 2011	30 June 2011
	LVL'000	LVL'000	LVL'000
Cash at bank and on hand	88,698	77,969	74,038
Short-term bank deposits	61,557	30,908	108,016
<b>Total cash and cash equivalents:</b>	<b>150,255</b>	<b>108,877</b>	<b>182,054</b>

## **11. BORROWINGS**

	30 June 2012	31 December 2011	30 June 2011
	LVL'000	LVL'000	LVL'000
Non-current borrowings (excl. current portion)	490,878	462,888	485,951
Current portion of non-current borrowings	58,275	48,226	41,351
Accrued interest on non-current borrowings	1,628	2,220	2,036
<b>Total current borrowings:</b>	<b>59,903</b>	<b>50,446</b>	<b>43,387</b>
<b>Total borrowings:</b>	<b>550,781</b>	<b>513,334</b>	<b>529,338</b>

**Movement in borrowings:**

	01.01.- 30.06.2012	01.01.- 30.06.2011	2011
	LVL'000	LVL'000	LVL'000
<b>At the beginning of the period</b>	<b>513,334</b>	<b>545,607</b>	<b>545,607</b>
Borrowings received	63,260	1,686	4,357
Borrowing repaid	(25,212)	(18,077)	(36,936)
Accrued interest on borrowings	(601)	122	306
<b>At the end of the period</b>	<b>550,781</b>	<b>529,338</b>	<b>513,334</b>

## **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 :

	01.01.- 30.06.2012	01.01.- 30.06.2011	2011
	LVL'000	LVL'000	LVL'000
<b>At the beginning of the period</b>	<b>7,734</b>	<b>7,321</b>	<b>7,321</b>
Charged to the Consolidated Income Statement	98	268	413
<b>At the end of the period</b>	<b>7,832</b>	<b>7,589</b>	<b>7,734</b>

### ***Environmental provisions***

	01.01.- 30.06.2012	01.01.- 30.06.2011	2011
	LVL'000	LVL'000	LVL'000
<b>At the beginning of the period</b>	<b>1,783</b>	<b>1,376</b>	<b>1,376</b>
Charged/(credited) to the Consolidated Income Statement	(14)	-	407
<b>At the end of the period</b>	<b>1,769</b>	<b>1,376</b>	<b>1,783</b>

## **13. RELATED PARTY TRANSACTIONS**

The Parent Company and, indirectly, the other Group entities are controlled by the Latvian state.

Related parties are subsidiaries and associates, and those companies in which the Parent Company has participating interest.

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

	01.01.- 30.06.2012	01.01.- 30.06.2011	2011
	LVL'000	LVL'000	LVL'000
Sales of goods	46,577	36,543	61,811
Sales of services	466	194	1,308
<b>Total sales to related parties:</b>	<b>47,043</b>	<b>36,737</b>	<b>63,119</b>
Purchases of goods	4,256	6,265	10,444
Purchased of services	785	1,242	3,770
<b>Total purchases from related parties:</b>	<b>5,041</b>	<b>7,507</b>	<b>14,214</b>



**Interim Condensed Consolidated Financial Statements – 30.06.2012**

**Balances at the end of the year arising from sales:**

	<b>30 June 2012</b>	<b>31 December 2011</b>	<b>30 June 2011</b>
	LVL'000	LVL'000	LVL'000
Trade receivables from related parties	3,203	10,432	2,508
Trade payables to related parties	922	1,839	828
Accrued liabilities due to related party transactions	40	68	77

The Group has not created any provisions or incurred write-offs from transactions with related parties, as all debts are recoverable.

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