

Unaudited Interim  
Condensed  
Consolidated  
Financial Statements

for 3 month period ending  
31 march 2013

31 May 2013



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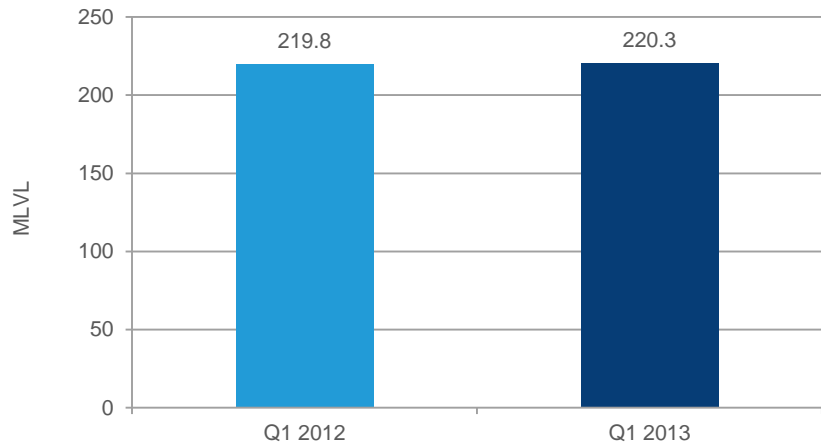
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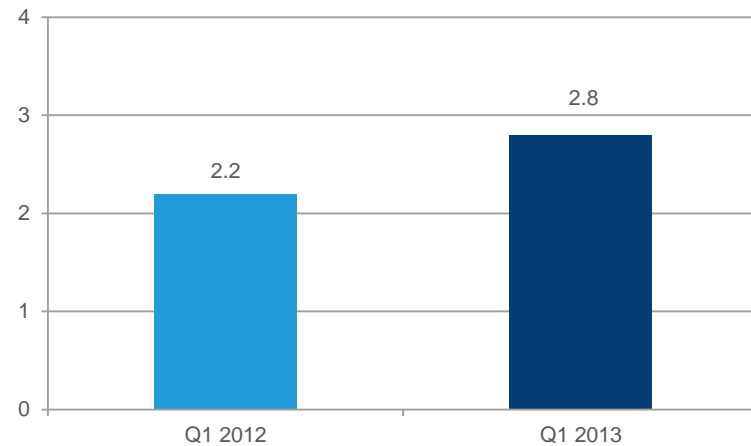
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# Adverse market conditions do not affect the revenue

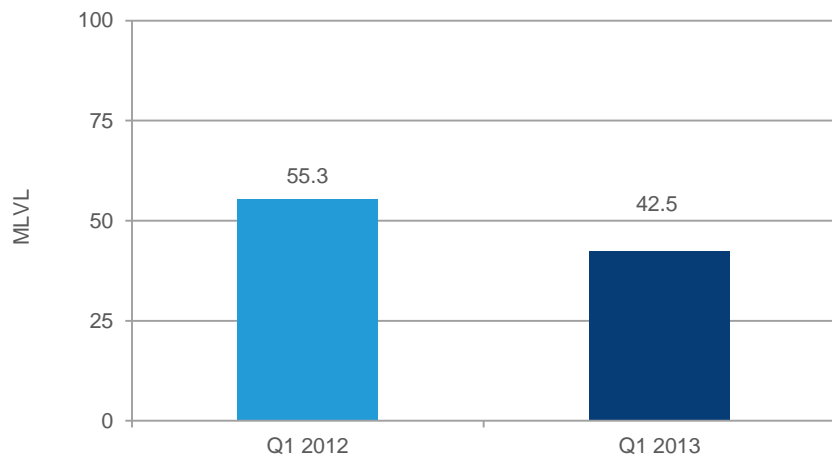
## Revenue



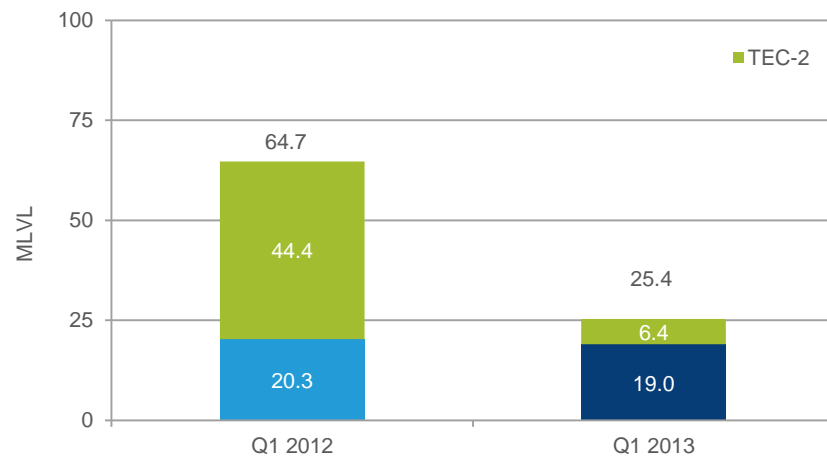
## Net Debt / EBITDA



## EBITDA

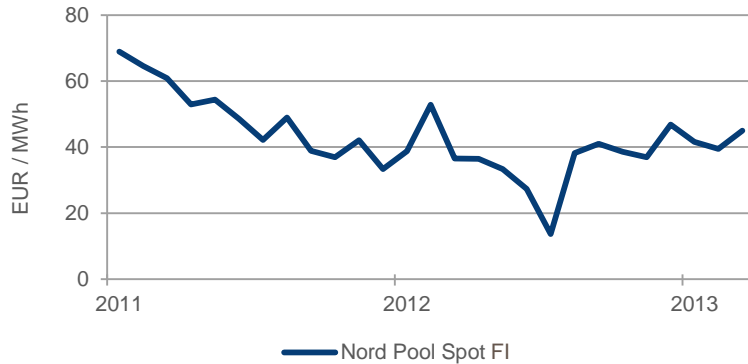


## Investments



# Adverse market conditions persist in Q1 2013

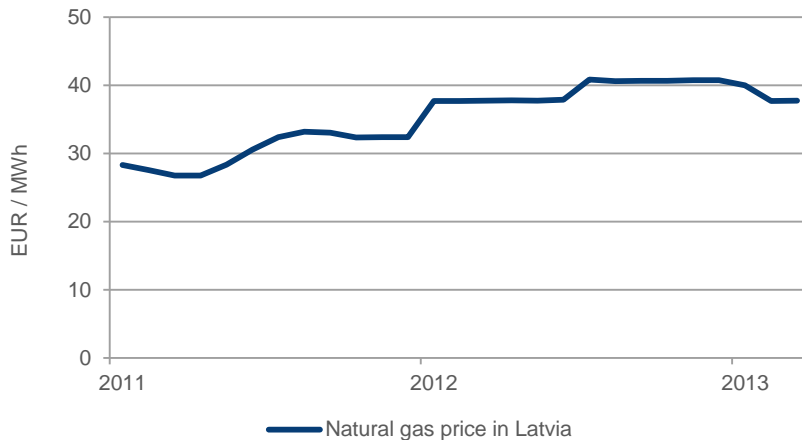
## Low electricity price



## Main facts – Q1 2013

- ▲ Lower coal and CO<sub>2</sub> emission allowance market prices determined a decline in the market price of electricity by 2% (42 EUR/MWh) in the Nord Pool Spot Finland bidding area and by 5% (44.4 EUR/MWh) in the Lithuania bidding
- ▲ Basin water level in the Nordic countries stayed below the long-term average
- ▲ Natural gas price in Latvia increased by 2% reaching 38.5 EUR/MWh
- ▲ Continuous development of the macroeconomic indicators in the Baltics – Latvia shows the fastest GDP growth in the EU (5.6%)
- ▲ Latvia is expected to join the European Monetary Union in 2014

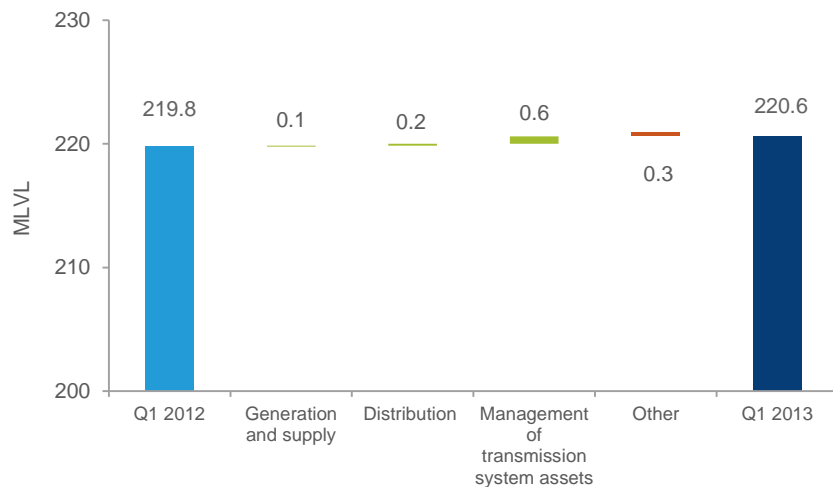
## High natural gas price in Latvia\*



\* price of natural gas in Latvia, including the gas excise tax, for users with gas consumption above 100,000 thousands m<sup>3</sup> (Source: <http://www.lg.lv/>)

# Stable revenue in all operating segments

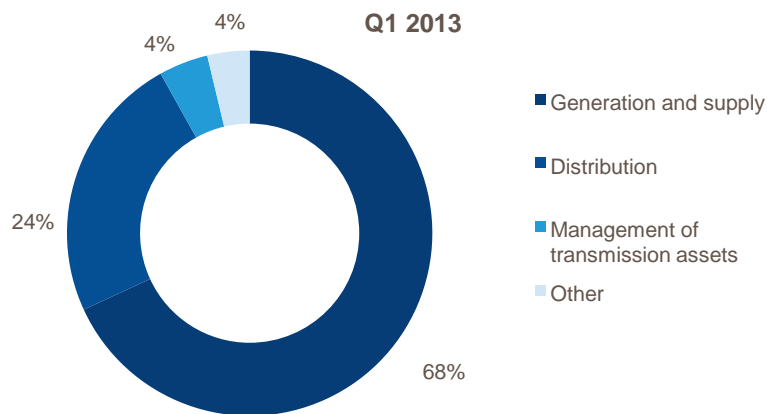
## Revenue dynamics by segments



## Stable revenue

- ▲ All operating segments show external revenue growth
- ▲ Increasing weight of generation and supply revenues
- ▲ In Q1 2013, the weight of unregulated service revenues reaches 35% (Q1 2012: 28%)

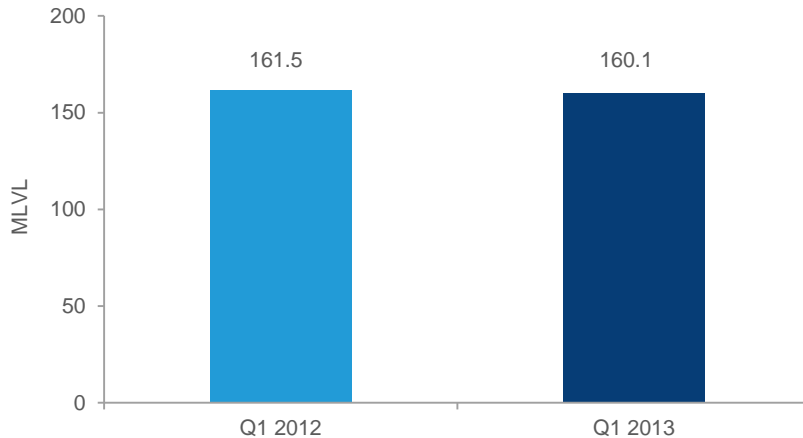
## Segment revenue (Q1 2013)



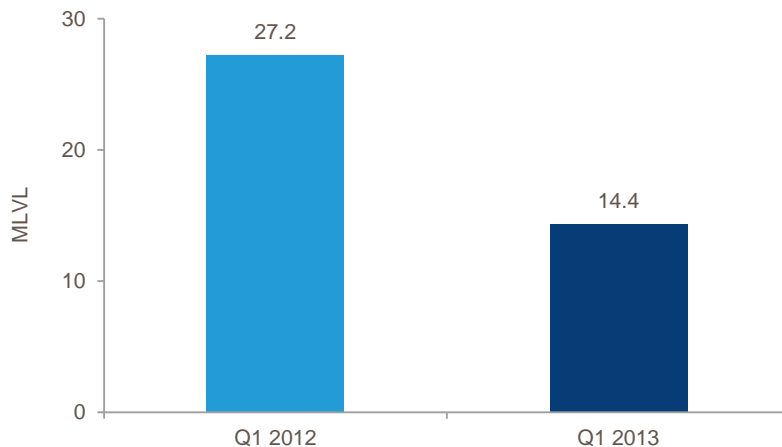
## Decrease in EBITDA

- ▲ Negative impact on profitability due to 56% increased volume of electricity procured from local generators (-7.9 MLVL) and 5% lower market price of electricity
- ▲ Increased weight of EBITDA from distribution and management of transmission system assets operating segments

## Segment revenue



## Segment EBITDA

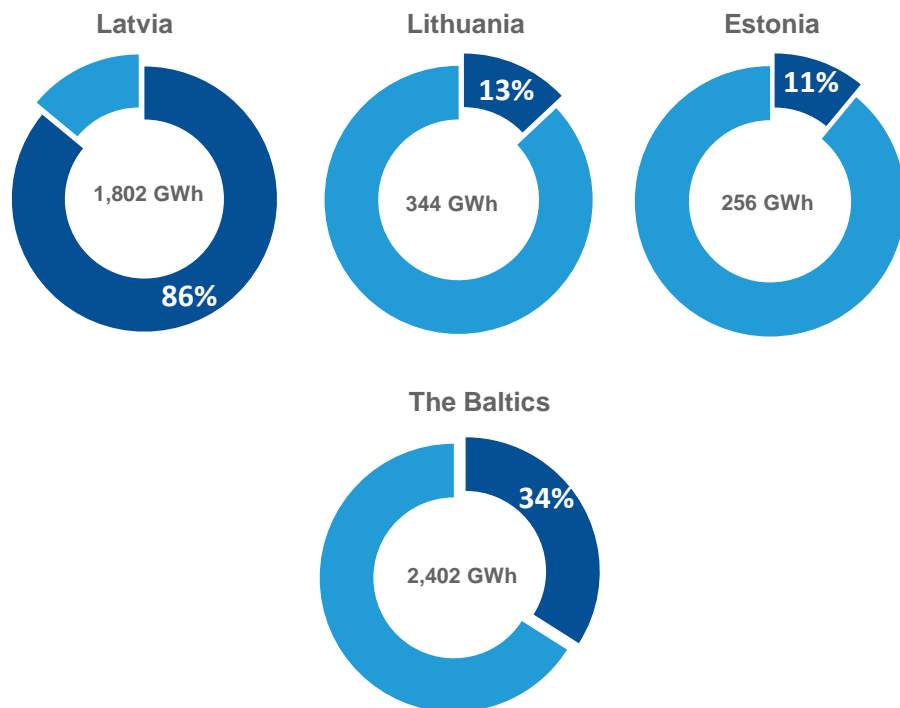


## The largest segment of the Group

- ▲ Generation and supply operating segment forms 68% of the total revenue
- ▲ The segment comprises electricity and thermal energy generation and electricity supply
- ▲ The Group is a Pan-Baltic electricity supplier
- ▲ Decrease in EBITDA is due to 56% increased volume of electricity procured from local generators (-7.9 MLVL) and 5% lower electricity market price



## Market share in the Baltics – 34%



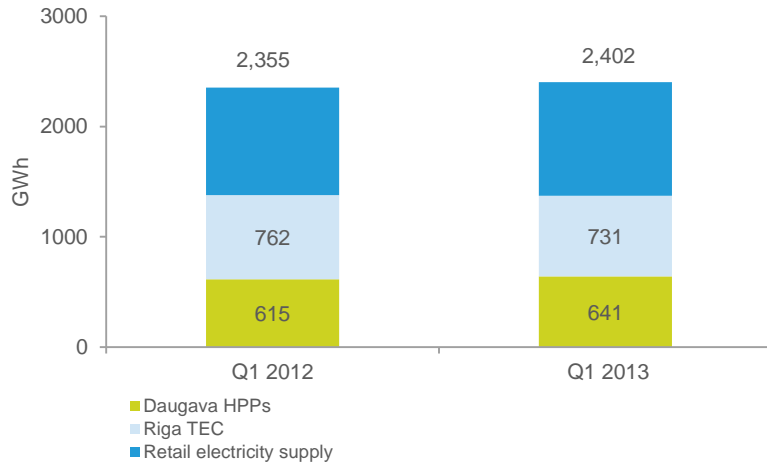
## Focused and successful operations in the market

- ▲ Amount of customers in Estonia and Lithuania has increased more than 10 times – the Group focuses on SMEs and households
- ▲ Supplied electricity amounts to 2,402 GWh, 25% of which is supplied outside Latvia
- ▲ Purposeful actions to promote *Elektrum* brand awareness are carried out
- ▲ Market liberalisation facilitates growth of electricity supply outside Latvia reaching 600 GWh, while competitors supplied 289 GWh in Latvia

# Stable weight of generated electricity



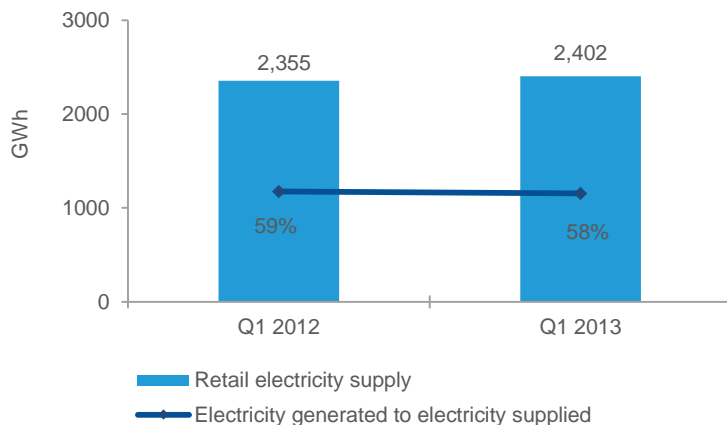
## 1,385 GWh electricity generated



## Effective and balanced generation sources

- ▲ Capacity structure of electricity and thermal energy generation at Riga TEC allows adjusting generation mode to the market conditions
- ▲ 47% of generated electricity or 27% of supplied electricity are generated from renewable energy resources
- ▲ Generated electricity weight remains stable

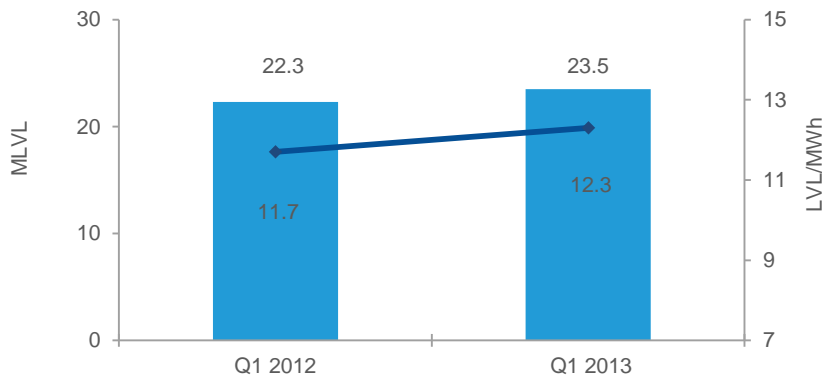
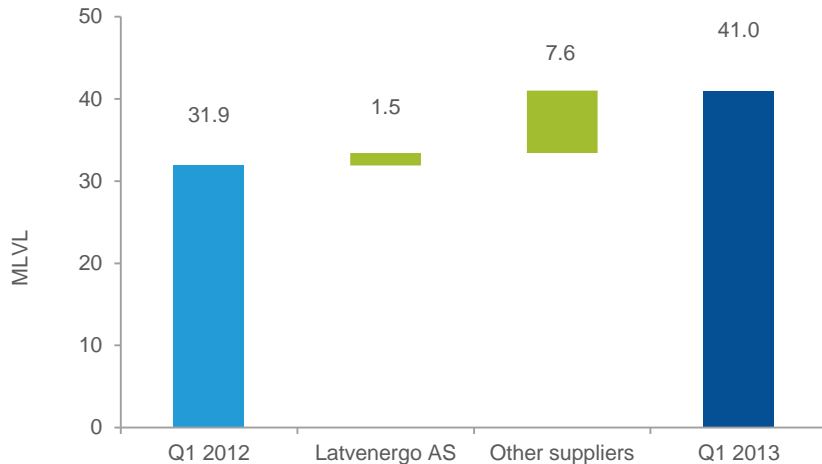
## Stable weight of generated electricity





# Revenues from mandatory procurement do not cover actual costs

## Actual costs rise by 29%

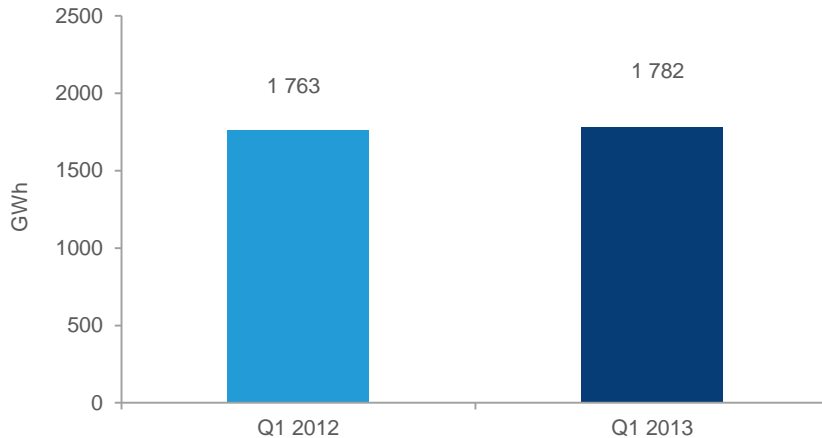


■ Mandatory procurement revenue  
◆ Public service obligation fee

## RigaTEC output decreases while mandatory procurement volume increases

- ▲ Latvenergo AS is obliged to procure electricity from generators in Latvia that qualify for mandatory procurement support plans
- ▲ In Q1 2013, electricity volume procured from local generators within the mandatory procurement process increased by 56%, reaching 382 GWh
- ▲ Increase of costs from other generators was mainly due to a higher volume of purchased electricity
- ▲ Electricity market price determined increase of mandatory procurement costs (also applies to Latvenergo Group stations)
- ▲ As of 1 April 2013 the mandatory procurement public service obligation fee is determined at 18.9 LVL/MWh

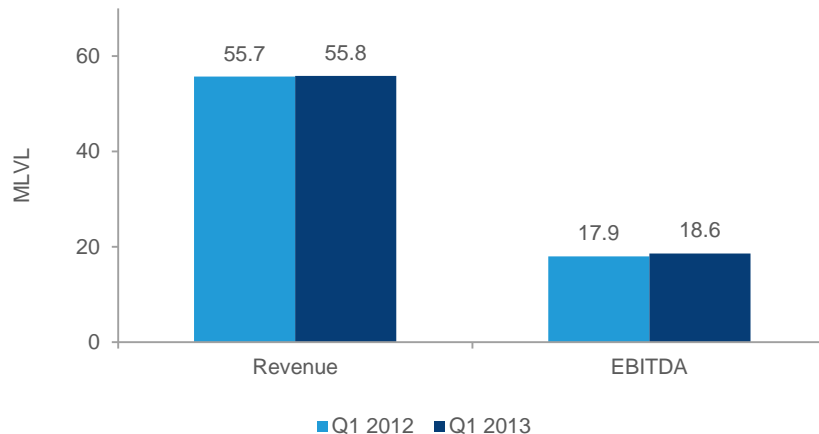
## Distributed electricity



## Increased volume of distributed electricity

- ▲ Increase of distributed electricity by 1%
- ▲ Electricity losses – 7.3%

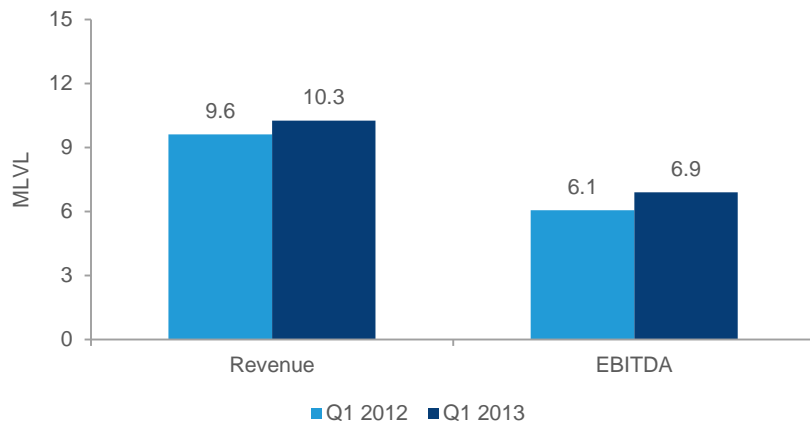
## Financial highlights



## EBITDA growth in distribution segment

- ▲ Positive impact on profitability:
  - ▲ decrease of electricity costs (+1,2 MLVL)
  - ▲ lower operational costs (+0,5 MLVL)
- ▲ Negative impact on profitability:
  - ▲ increase of the transmission service costs (-1,4 MLVL)

## Growth of revenue improves EBITDA

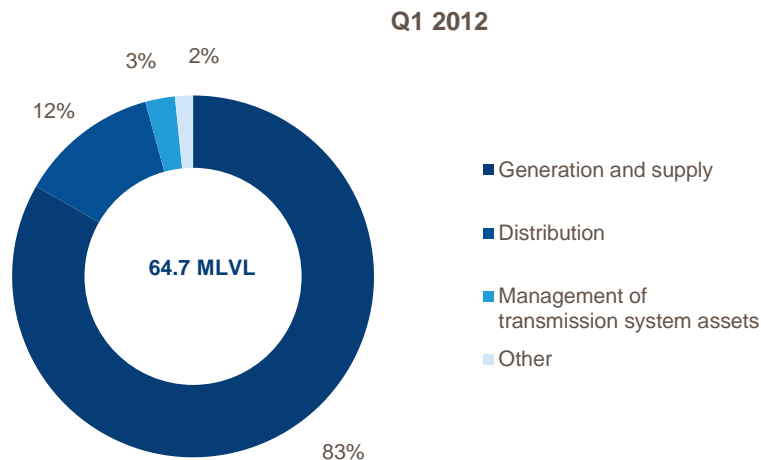
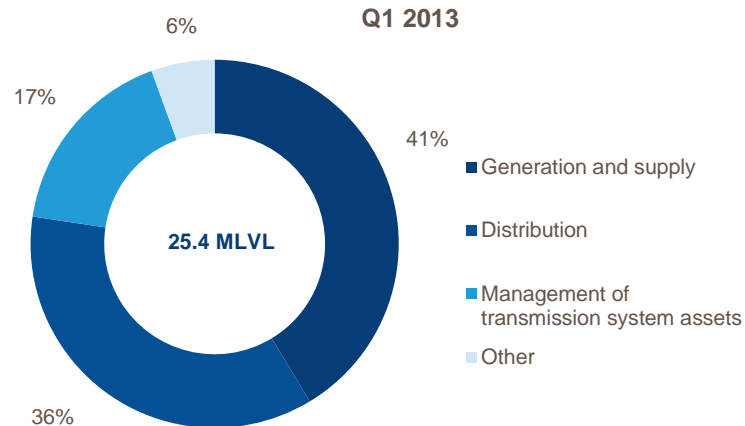


## Return of transmission system assets reaches 3.1%

- ▲ In Q 2013, the rise of profitability is determined by a gradual inclusion of the value of regulatory asset revaluation reserve into the lease
- ▲ As a result of investments, the value of transmission system assets increased by 6%
- ▲ Certification of the TSO took place on 30 January 2013, accepting inclusion of the transmission system assets into the Group and meeting the conditions for establishment of the Nord Pool Spot Latvia bidding area as of June 2013
- ▲ The PUC decision on the TSO certification provides a takeover of functions from Latvijas elektriskie tīkli AS

# Increased investment share in network assets

## Investments in network assets – 53% of the total



## Customers as investment priority

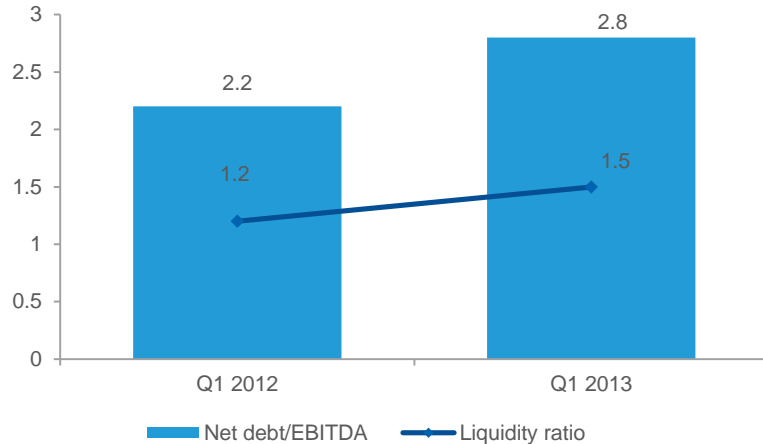
- ▲ Upon evaluating investments in transmission and distribution system assets, improved service quality and technical parameters are key priorities
- ▲ Riga TEC-2 project approaches completion – final equipment adjustments are carried out
  - ▲ Total CAPEX – 226 MLVL\*
  - ▲ Completion in 2013
- ▲ NordBalt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

\* EPC costs (engineering, procurement, construction)

\*\* first and second stage

# Continuous attraction of funding in capital markets

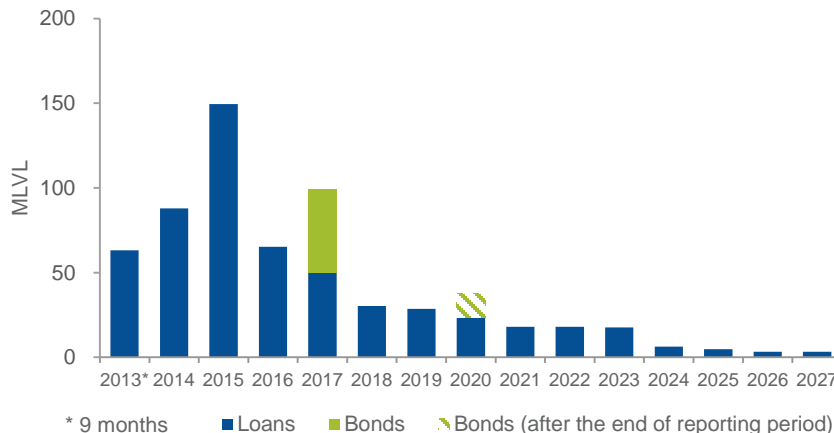
## Good debt coverage ratios



## Moody's rating - Baa3 (stable)

- ▲ In Q1 2013, 50 MEUR bonds were issued increasing the total amount up to 70 MEUR
- ▲ After the end of the reporting period the total amount of bond offer programme was increased by 35 MLVL reaching 85 MLVL (or its equivalent in EUR)
- ▲ EUR 20 million bonds (7-year maturity) were issued in May 2013. Investor demand twice exceeded supply thus ensuring 2.89% yield
- ▲ The Group equity ratio is 57% of total assets
- ▲ Reconfirmed Baa3 (stable) credit rating by Moody's Investors Service

## Debt repayment schedule



## Contacts

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**Website:** <http://www.latvenergo.lv/investors>

### Latvenergo AS

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Rīga, LV-1230

Latvia

# Consolidated income statement\*

	01.01.-31.03.2013	01.01.-31.03.2012	01.01.-31.03.2013	01.01.-31.03.2012
	LVL'000	LVL'000	EUR'000	EUR'000
Revenue	220,279	219,782	313,429	312,722
Other income	1,241	1,168	1,766	1,662
Materials, consumables and supplies	(151,982)	(141,340)	(216,251)	(201,109)
Personnel expenses	(15,983)	(15,358)	(22,742)	(21,852)
Depreciation, amortisation and impairment	(32,551)	(29,044)	(46,316)	(41,326)
Other operating expenses	(11,028)	(8,935)	(15,692)	(12,714)
<b>Operating profit</b>	<b>9,976</b>	<b>26,273</b>	<b>14,194</b>	<b>37,383</b>
Finance income	768	651	1,093	926
Finance costs	(2,939)	(3,036)	(4,182)	(4,320)
Share of profit of an associate	99	58	141	83
<b>Profit before income tax</b>	<b>7,904</b>	<b>23,946</b>	<b>11,246</b>	<b>34,072</b>
Income tax	(2,904)	(4,959)	(4,132)	(7,056)
<b>Profit for the period</b>	<b>5,000</b>	<b>18,987</b>	<b>7,114</b>	<b>27,016</b>

\* Unaudited financial results

# Consolidated statement of financial position\*

	31.03.2013	31.12.2012	31.03.2013	31.12.2012
	LVL'000	LVL'000	EUR'000	EUR'000
<b>ASSETS</b>				
<b>Non-current assets</b>				
Intangible assets and PPE	2,146,095	2,153,881	3,053,618	3,064,697
Investment property	1,112	1,116	1,582	1,588
Investments in associates and other financial investments	5,046	4,948	7,180	7,040
Held-to-maturity financial assets	20,124	20,134	28,634	28,649
Other non-current assets	56	32	80	45
<b>Total non-current assets</b>	<b>2,172,433</b>	<b>2,180,111</b>	<b>3,091,094</b>	<b>3,102,019</b>
<b>Current assets</b>				
Inventories	15,303	15,604	21,774	22,203
Trade and other receivables	108,268	101,913	154,052	145,008
Financial assets	2,140	4,237	3,045	6,029
Cash and cash equivalents	169,220	170,425	240,778	242,493
<b>Total current assets</b>	<b>294,931</b>	<b>292,179</b>	<b>419,649</b>	<b>415,733</b>
<b>TOTAL ASSETS</b>	<b>2,467,364</b>	<b>2,472,290</b>	<b>3,510,743</b>	<b>3,517,752</b>
<b>EQUITY</b>				
Share capital	904,605	904,605	1,287,137	1,287,137
Non-current assets revaluation reserve	465,738	465,738	662,685	662,685
Hedge reserve	(11,319)	(13,130)	(16,105)	(18,682)
Other reserves	77	77	110	110
<b>Total reserves</b>	<b>454,496</b>	<b>452,685</b>	<b>646,690</b>	<b>644,113</b>
Retained earnings	54,235	49,761	77,169	70,803
Non-controlling interest	3,984	3,459	5,669	4,922
<b>Total equity</b>	<b>1,417,320</b>	<b>1,410,510</b>	<b>2,016,665</b>	<b>2,006,975</b>
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Borrowings	538,558	520,830	766,299	741,074
Deferred income tax liabilities	187,797	187,822	267,211	267,246
Provisions	10,641	10,508	15,141	14,952
Derivative financial instruments	9,594	12,555	13,651	17,864
Other liabilities and deferred income	108,534	105,425	154,430	150,007
<b>Total non-current liabilities</b>	<b>855,124</b>	<b>837,140</b>	<b>1,216,732</b>	<b>1,191,143</b>
<b>Current liabilities</b>				
Borrowings	80,996	74,405	115,247	105,869
Derivative financial instruments	8,275	12,344	11,774	17,564
Trade and other current liabilities, deferred income	105,649	137,891	150,325	196,201
<b>Total current liabilities</b>	<b>194,920</b>	<b>224,640</b>	<b>277,346</b>	<b>319,634</b>
<b>Total liabilities</b>	<b>1,050,044</b>	<b>1,061,780</b>	<b>1,494,078</b>	<b>1,510,777</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>2,467,364</b>	<b>2,472,290</b>	<b>3,510,743</b>	<b>3,517,752</b>

\* Unaudited financial results



# Consolidated statement of cash flows\*

	01.01.-31.03.2013	01.01.-31.03.2012	01.01.-31.03.2013	01.01.-31.03.2012
	LVL'000	LVL'000	EUR'000	EUR'000
<b>Cash flows from operating activities</b>				
Profit before tax	7,904	23,946	11,246	34,072
<b>Adjustments for:</b>				
- Amortisation, depreciation, impairment loss of non-current assets	32,551	29,044	46,316	41,326
- Net financial adjustments	(1,737)	2,675	(2,472)	3,806
- Other adjustments	162	(256)	231	(364)
Increase in current assets	(5,405)	(7,659)	(7,691)	(10,898)
(Decrease) / increase in payables, accrued expense, deferred income and other liabilities	(19,018)	12,587	(27,060)	17,910
<b>Cash generated from operations</b>	<b>14,457</b>	<b>60,337</b>	<b>20,570</b>	<b>85,852</b>
Net interest paid	(322)	(2,418)	(458)	(3,441)
Income tax paid	(3,830)	(3,428)	(5,450)	(4,878)
<b>Net cash generated from operating activities</b>	<b>10,305</b>	<b>54,491</b>	<b>14,662</b>	<b>77,533</b>
<b>Cash flows from investing activities</b>				
Purchase of intangible assets and PPE	(34,322)	(61,751)	(48,836)	(87,864)
Net investments in held-to-maturity assets	10	14,135	14	20,112
<b>Net cash used in investing activities</b>	<b>(34,312)</b>	<b>(47,616)</b>	<b>(48,822)</b>	<b>(67,752)</b>
<b>Cash flows from financing activities</b>				
Proceeds on issued debt securities (bonds)	35,424	-	50,404	-
Repayment of borrowings	(12,622)	(7,169)	(17,959)	(10,201)
<b>Net cash generated/(used in) financing activities</b>	<b>22,802</b>	<b>(7,169)</b>	<b>32,445</b>	<b>(10,201)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(1,205)</b>	<b>(294)</b>	<b>(1,715)</b>	<b>(420)</b>
Cash and cash equivalents at the beginning of the period	170,425	108,877	242,493	154,918
<b>Cash and cash equivalents at the end of the period</b>	<b>169,220</b>	<b>108,583</b>	<b>240,778</b>	<b>154,498</b>

\* Unaudited financial results