

Unaudited Interim  
Condensed  
Consolidated  
Financial Statements

for 9 month period ending  
30 September 2013

29 November 2013



# Disclaimer

This presentation and any materials distributed or made available in connection herewith (collectively, the "presentation") have been prepared by Latvenergo AS (the "Company") solely for your use and benefit for information purposes only. By accessing, downloading, reading or otherwise making available to yourself any content of the presentation, in whole or in part, you hereby agree to be bound by the following limitations and accept the terms and conditions as set out below.

You are only authorized to view, print and retain a copy of the presentation solely for your own use. No information contained in the presentation may be copied, photocopied, duplicated, reproduced, passed on, redistributed, published, exhibited or the contents otherwise divulged, released or disseminated, directly or indirectly, in whole or in part, in any form by any means and for any purpose to any other person than your directors, officers, employees or those persons retained to advise you, who agree to be bound by the limitations set out herein.

The presentation does not constitute or form part of, and should not be construed as, an offer, solicitation or invitation to subscribe for, underwrite or otherwise acquire, any securities of the Company or any member of its group nor should it or any part of it form the basis of, or be relied on in connection with, any contract to purchase or subscribe for any securities of the Company or any member of its group, nor shall it or any part of it form the basis of or be relied on in connection with any contract or commitment whatsoever. Any person considering the purchase of any securities of the Company must inform himself or herself independently before taking any investment decision. The presentation has been provided to you solely for your information and background and is subject to amendment. Further, the information in this presentation has been compiled based on information from a number of sources and reflects prevailing conditions as of its date, which are subject to change.

The information contained in this presentation has not been independently verified. The following consolidated financial statements are unaudited and no auditor has opined that these unaudited financial statements present fairly, in all material respects, the financial position and the results of operations of the Company for the period reported in accordance with generally accepted accounting principles. Therefore, once audited by an independent auditor, the audited financial statements of the Company may differ from the unaudited financial statements presented. However, the Company has prepared the unaudited financial statements on the same basis as its audited financial statements, and in the opinion of the Company's management, the unaudited financial statements include all adjustments that the Company considers necessary for a fair presentation of its financial position and results of operations for the period presented.

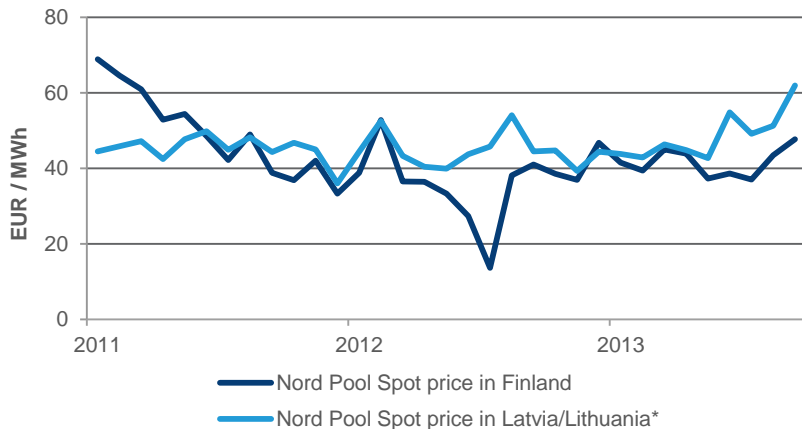
The information in this presentation is subject to verification, completion and change without notice and the Company is not under any obligation to update or keep current the information contained herein. Accordingly, no representation or warranty, express or implied, is made or given by or on behalf of the Company or any of its respective members, directors, officers or employees or any other person as to the accuracy, completeness or fairness of the information or opinions contained in this presentation, and any reliance you place on such information or opinions will be at your sole risk. Neither the Company nor any of its respective members, directors, officers or employees nor any other person accepts any liability whatsoever for any loss howsoever arising from any use of this presentation or its contents or otherwise arising in connection therewith.

This presentation includes "forward-looking statements," which include all statements other than statements of historical facts, including, without limitation, any statements preceded by, followed by or that include the words "targets," "believes," "expects," "aims," "intends," "will," "may," "anticipates," "would," "plans," "could" or similar expressions or the negative thereof. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors beyond the Company's control that could cause the actual results, performance or achievements of the Company to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Company's present and future business strategies and the environment in which the Company will operate in the future. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Accordingly, any reliance you place on such forward-looking statements will be at your sole risk. These forward-looking statements speak only as at the date as of which they are made. Past performance of the Company cannot be relied on as a guide to future performance. No statement in this presentation is intended to be a profit forecast.

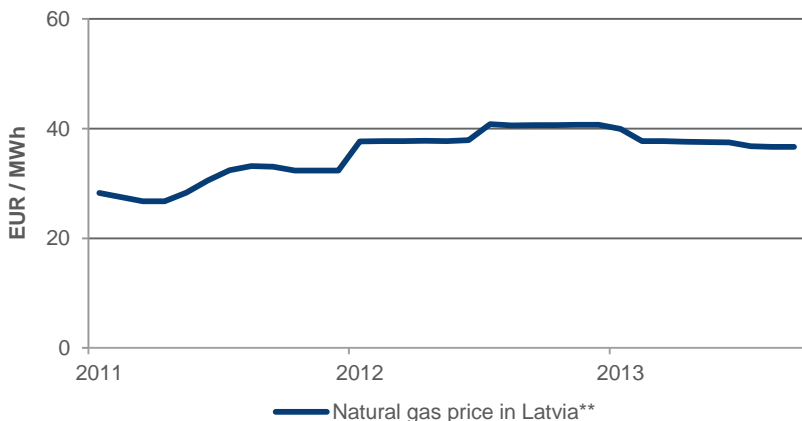
This presentation is not directed to, or intended for distribution to or use by, any person or entity that is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would require any registration or licensing within such jurisdiction.

# Electricity Nord Pool Spot price increase in the Baltic and Nordic countries

## Shortage of transmission capacity determines price differences



## Natural gas price at the level of the previous year



## Main facts – 9 months of 2013

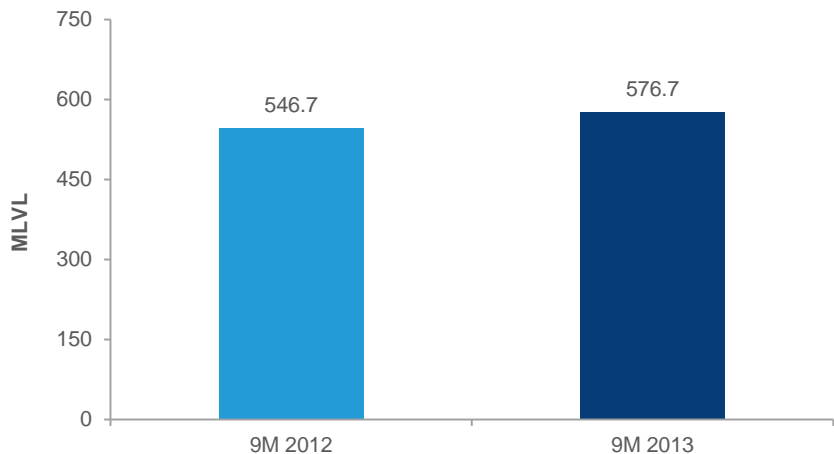
- ▲ Nord Pool Spot electricity price increased by 18% (41.6 EUR/MWh) in Finland and by 7% (48.7 EUR/MWh) in Latvia and Lithuania
- ▲ Electricity price increase is due to a lower water level in Nordic hydropower plant reservoirs
- ▲ Shortage of transmission capacity determines price differences between Latvia/Lithuania and Finland bidding areas
- ▲ In 2013, natural gas price in Latvia remains at the level of the previous year (37.6 EUR/MWh)
- ▲ Macroeconomic indicators in the Baltics continue to improve, Latvia shows the fastest GDP growth in the Baltics
- ▲ Latvia will join the European Economic and Monetary Union on 1 January 2014

\* Nord Pool Spot Latvia bidding area was opened on 3 June 2013

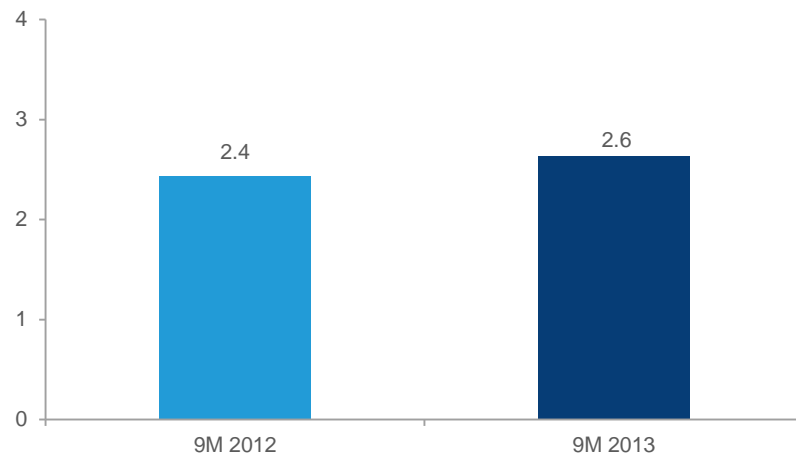
\*\*price of natural gas in Latvia, including the excise tax, for users with gas consumption above 100,000 thousands m<sup>3</sup> (source: <http://www.lg.lv/>)

# Increase in revenue and EBITDA of the Group

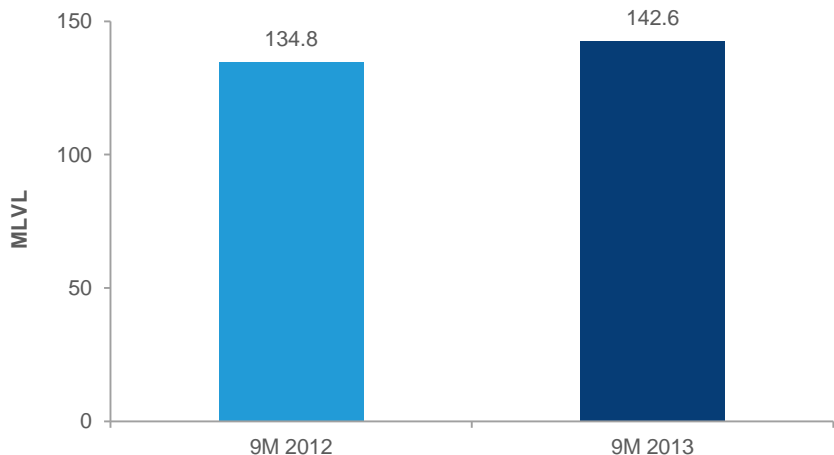
## Revenue



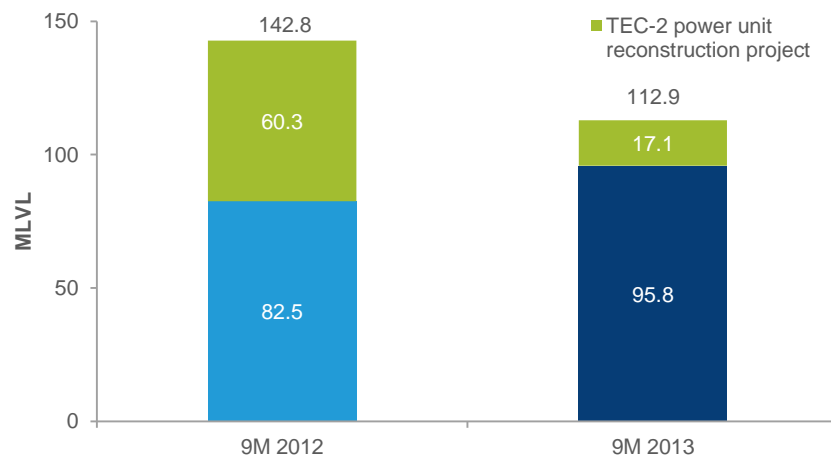
## Net Debt / EBITDA



## EBITDA

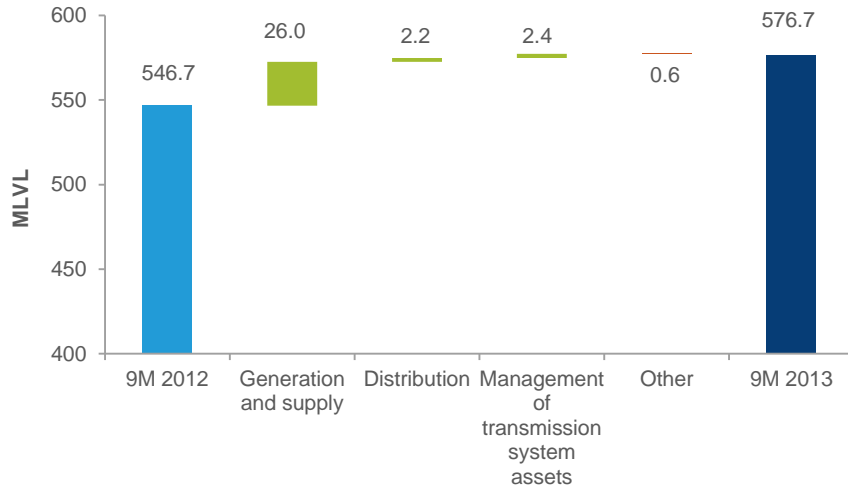


## Investments



# Revenue and EBITDA growth by 6%

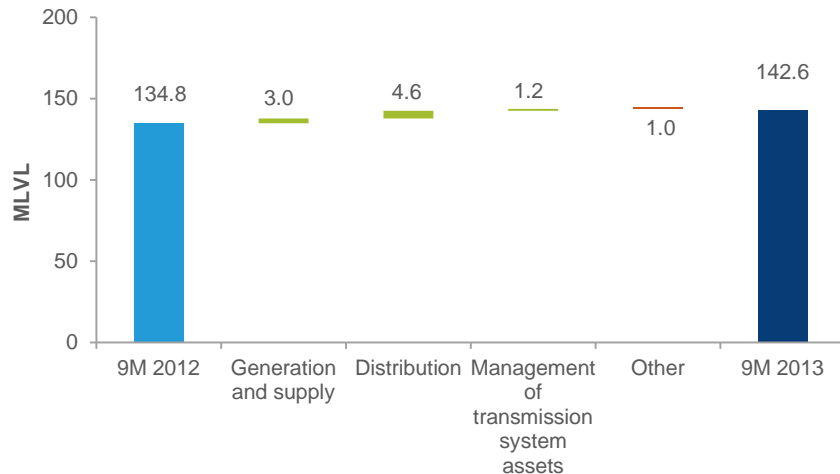
## Revenue dynamics by segments



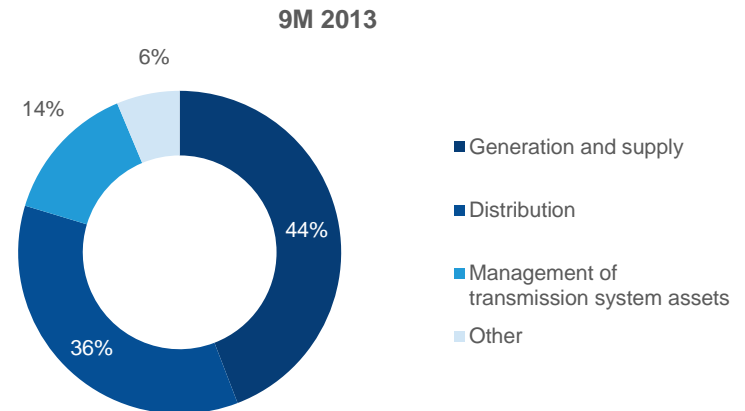
## Revenue and EBITDA growth in all operating segments

- ▲ Revenue and EBITDA increased by 6% reaching 576.7 MLVL and 142.6 MLVL respectively
- ▲ EBITDA margin at the prior-year level – 23%
- ▲ EBITDA improved due to a change of mandatory procurement public service obligation fee on 1 April 2013 and recognition of mandatory procurement revenues

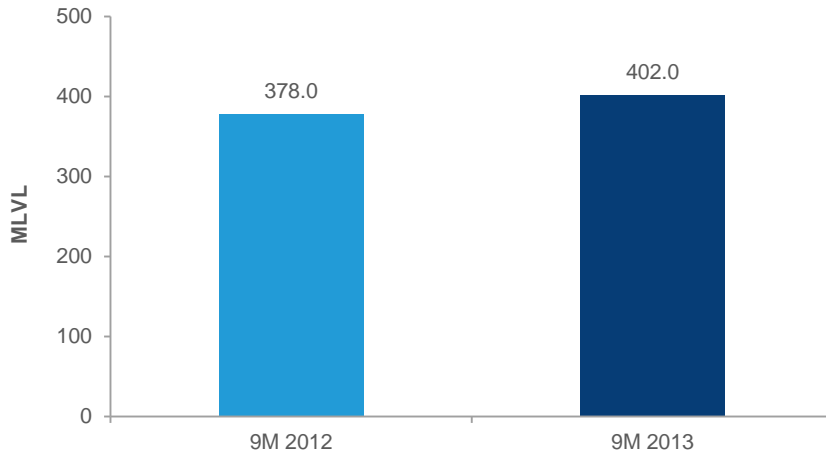
## EBITDA dynamics by segments



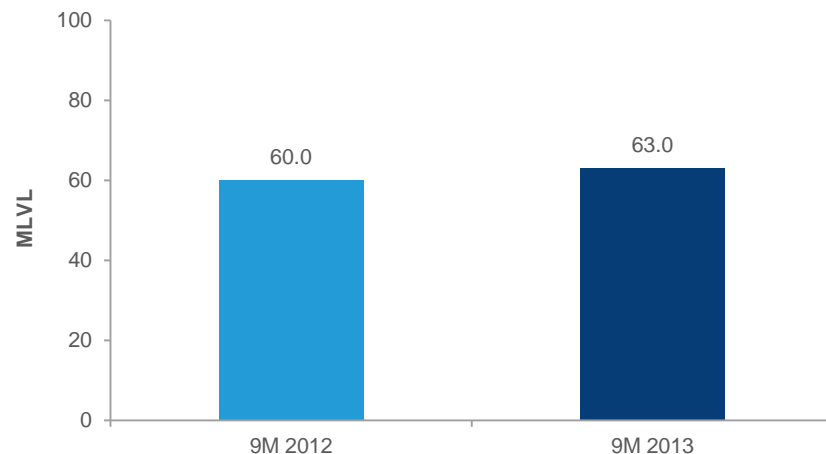
## EBITDA weight by segments



## Segment revenue



## Segment EBITDA

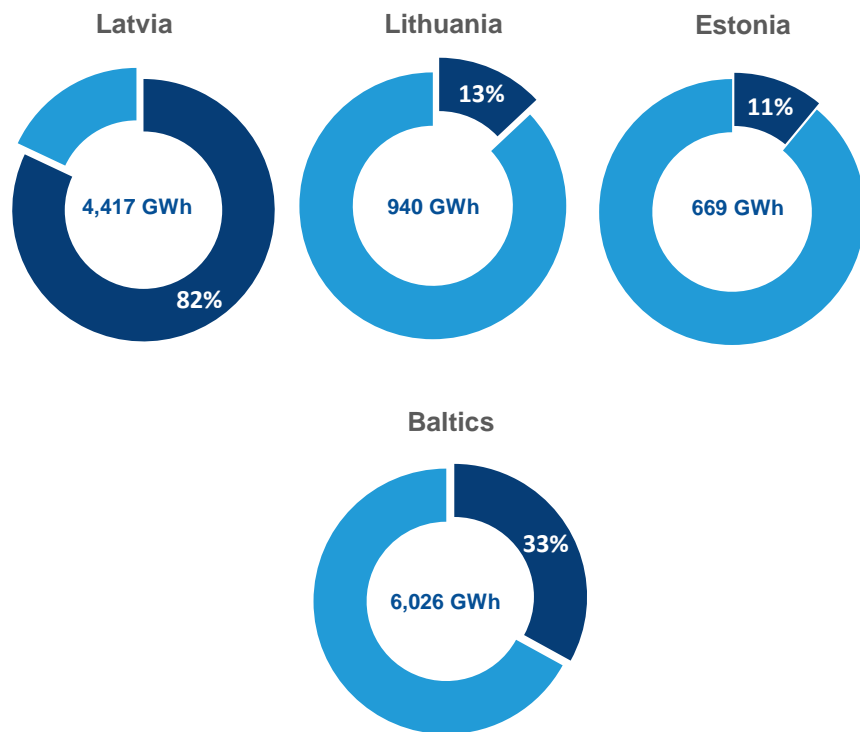


## The largest segment of the Group

- ▲ Improvement of segment EBITDA due to a change of mandatory procurement public service obligation fee on 1 April 2013 and recognition of mandatory procurement revenues
- ▲ Negative impact on EBITDA of the segment:
  - ▲ increase of electricity purchase price for electricity supply to retail customers due to a lower water level in Nordic hydropower plant reservoirs and transmission system capacity limitations
  - ▲ lower generation at Daugava HPPs (-7%)
  - ▲ decrease of industrial sector electricity consumption in Latvia
  - ▲ losses due to electricity supply at regulated tariff in Latvia



## Market share in the Baltics – 33%



## Focused and successful operations in the market

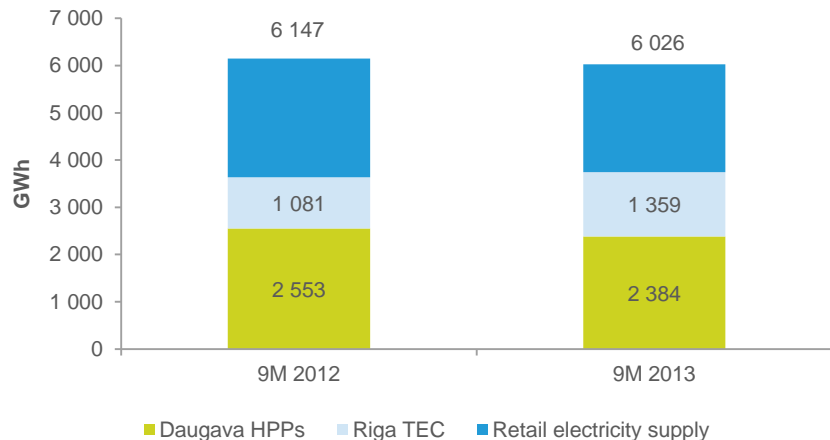
- ▲ Supplied electricity volume in Lithuania and Estonia increased by 35%
- ▲ Since the beginning of 2013, the amount of customers outside Latvia has been raised by more than 10 times
- ▲ The Group focuses on SMEs and households. Purposeful promotion of *Elektrum* brand awareness is carried out
- ▲ Market liberalisation facilitates growth of electricity supply – we supplied 640 GWh more outside Latvia than competing suppliers provided in Latvia

## Future events

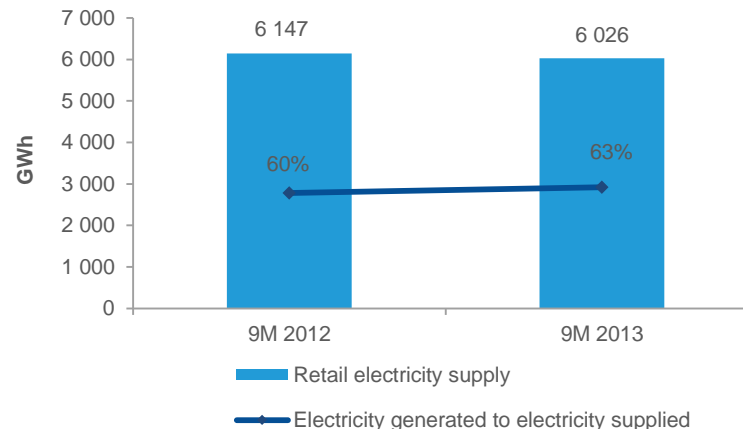
- ▲ Amendments to the Electricity Market Law prescribe electricity market opening also for households in Latvia on 1 April 2014



## 3,775 GWh electricity generated



## Increased weight of generated electricity



## Effective and balanced generation sources

- ▲ Higher electricity output at Riga TEC due to testing of Riga TEC-2 second power unit and more favourable market conditions
- ▲ 40% of electricity supply volume are generated from renewable energy resources
- ▲ Thermal energy generation remained at the prior-year level (1,806 GWh), half of it is generated in cogeneration mode

## Future events

- ▲ A subsidised energy tax will be introduced on 1 January 2014, thus decreasing revenues of the following years. In 9 months of 2013, a one-off impairment of Riga TEC assets (-21.7 MLVL) has been made



# Mandatory procurement does not affect the results

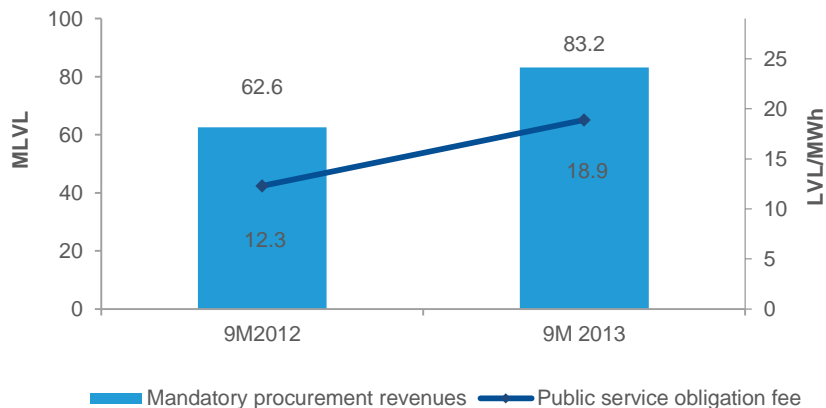
## Recognised 21.1 MLVL mandatory procurement revenues

		9M 2013	9M 2012
Mandatory procurement revenues	MLVL	83.2	62.6
Compensable mandatory procurement revenues	MLVL	21.1	0.0
Mandatory procurement costs above the market price	MLVL	(104.3)	(94.1)
<i>Latvenergo AS</i>	MLVL	(39.5)	(41.2)
<i>other generators</i>	MLVL	(64.8)	(52.9)
<b>Difference</b>	<b>MLVL</b>	<b>0.0</b>	<b>(31.5)</b>

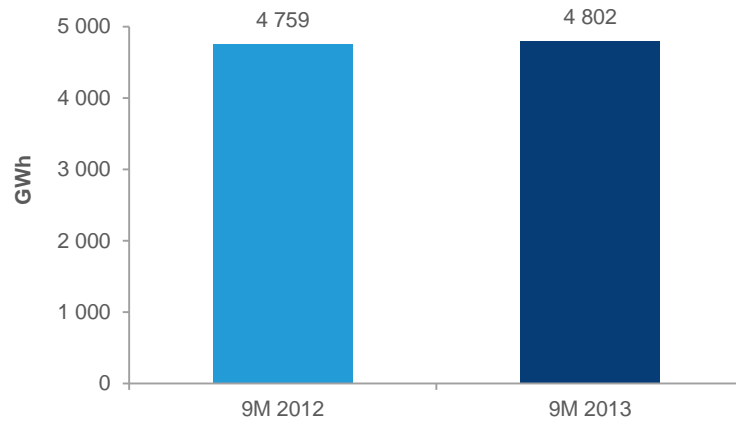
## Balanced mandatory procurement revenues and costs

- ▲ Latvenergo AS is obliged to purchase electricity from generators in Latvia that qualify for support plans within the mandatory procurement process
- ▲ In 9 months of 2013, amendments to the mandatory procurement administration allow recognition of 21.1 MLVL mandatory procurement revenues
- ▲ Increase of electricity volume purchased from other generators within the mandatory procurement process (+27%) and costs
- ▲ Latvenergo AS weight in the eligible costs of mandatory procurement decreased to 38%

## Increase of public service obligation fee on 1 April



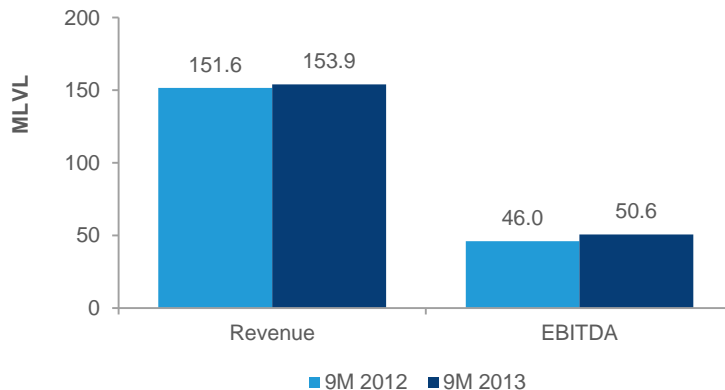
## Distributed electricity



## Increased volume of distributed electricity

- ▲ Increase of distributed electricity by 1%
- ▲ Electricity losses are 223 GWh (-41 GWh)

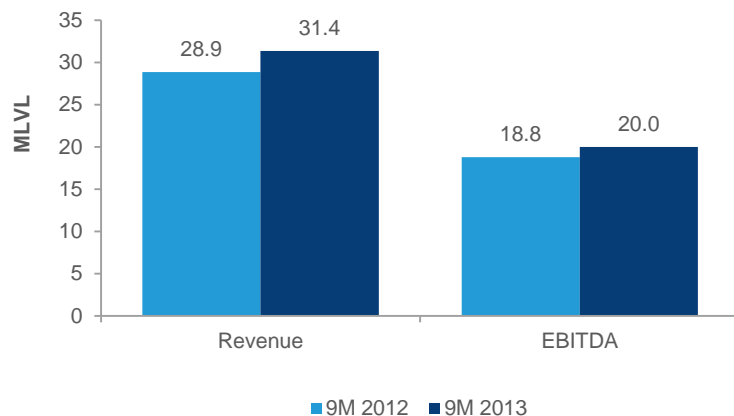
## Financial highlights



## EBITDA growth in distribution segment

- ▲ Positive impact on profitability:
  - ▲ higher volume of distributed electricity
  - ▲ lower electricity losses
- ▲ Negative impact – increase of transmission service costs (-1.3 MLVL)

## Growth of revenue improves EBITDA



## Return of transmission system assets – 3.1%

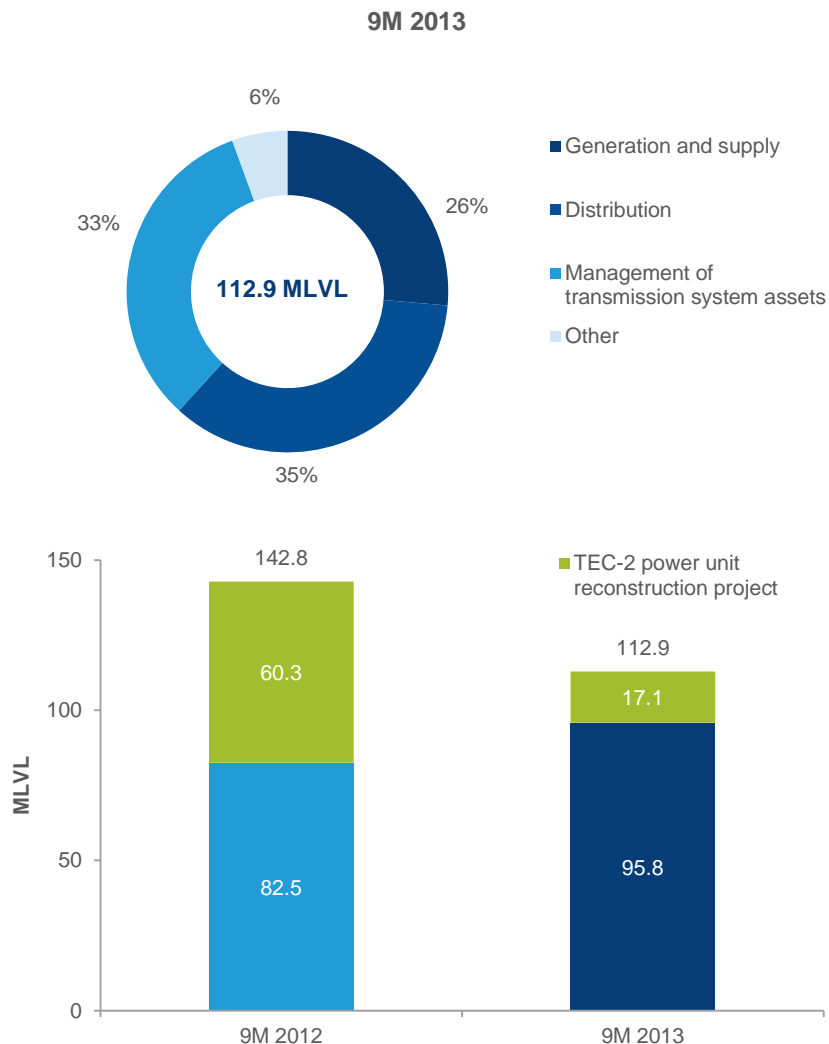
- ▲ Positive impact on profitability due to a gradual inclusion of the value of regulatory asset revaluation reserve into the lease
- ▲ Value of transmission system assets increased by 10% due to investments

## Future events

- ▲ The PUC decision on certification of the TSO provides a takeover of transmission system construction and maintenance functions by TSO, while Latvijas elektriskie tīkli AS retains ownership of transmission system assets

# Riga TEC-2 second power unit is commissioned

## Investments in network assets – 68%



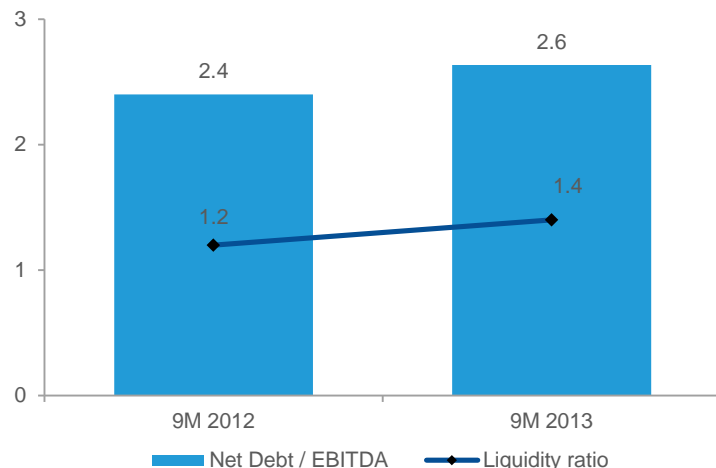
## Customers as investment priority

- ▲ We increase investments in network assets (+41%) to improve the service quality and technical parameters
- ▲ Riga TEC-2 second power unit was commissioned replacing more than 30-year serviced power units
- ▲ NordBalt 02 - 330kV, *Kurzeme Ring\** – the major investment project of the following years
  - ▲ Total investments – 66 MLVL
  - ▲ Completion in 2014
- ▲ Latvenergo Group responsibly plans future investments without committing to significant irrevocable long-term liabilities prior to ensure the necessary funding

\* first and second stage of the project

# Total amount of bonds issued exceeds 10% of total borrowings

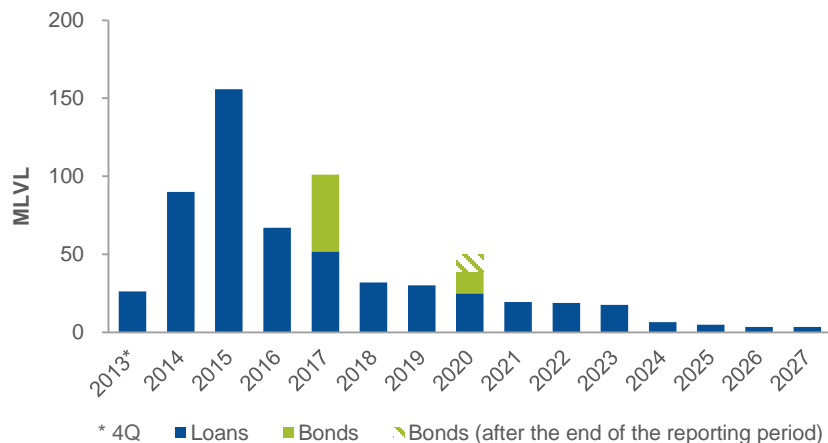
## Stable liquidity ratios



## In total – 105 MEUR bonds issued

- ▲ In 9 months of 2013, 50 MEUR bonds with 5-year maturity and 20 MEUR bonds with 7-year maturity were issued
- ▲ On 2 October 2013, additional issue – 15 MEUR, increasing the total amount to 105 MEUR
- ▲ Increase in net debt / EBITDA ratio was determined by investments in reconstruction of Riga TEC-2
- ▲ Equity – 58% of the total assets
- ▲ Moody's Investors Service credit rating Baa3 (stable)

## Debt repayment schedule



## Contacts

E-mail: [investor.relations@latvenergo.lv](mailto:investor.relations@latvenergo.lv)

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

Latvenergo AS

Pulkveža Brieža iela 12

Rīga, LV-1230

Latvia

# Consolidated income statement\*

	01.01.-30.09.2013	01.01.-30.09.2012	01.01.-30.09.2013	01.01.-30.09.2012
	LVL'000	LVL'000	EUR'000	EUR'000
Revenue	576,747	546,663	820,637	777,831
Other income	9,320	2,456	13,261	3,495
Materials, consumables and supplies	(362,828)	(341,854)	(516,257)	(486,414)
Personnel expenses	(49,584)	(47,786)	(70,552)	(67,993)
Depreciation, amortisation and impairment	(110,199)	(86,911)	(156,799)	(123,663)
Other operating expenses	(31,009)	(24,697)	(44,122)	(35,141)
<b>Operating profit</b>	<b>32,447</b>	<b>47,871</b>	<b>46,168</b>	<b>68,114</b>
Finance income	2,439	3,298	3,470	4,693
Finance costs	(8,774)	(8,645)	(12,484)	(12,301)
Share of profit of an associate	248	267	353	380
<b>Profit before income tax</b>	<b>26,360</b>	<b>42,791</b>	<b>37,507</b>	<b>60,886</b>
Income tax	(3,254)	(6,089)	(4,631)	(8,664)
<b>Profit for the period</b>	<b>23,106</b>	<b>36,702</b>	<b>32,876</b>	<b>52,222</b>

\* Unaudited financial results

# Consolidated statement of financial position\*

	30.09.2013	31.12.2012	30.09.2013	31.12.2012
	LVL'000	LVL'000	EUR'000	EUR'000
<b>ASSETS</b>				
<b>Non-current assets</b>				
Intangible assets and PPE	2,154,118	2,153,881	3,065,034	3,064,697
Investment property	1,092	1,116	1,554	1,588
Investments in associates and other financial investments	28	4,948	40	7,040
Held-to-maturity financial assets	20,103	20,134	28,604	28,649
Other non-current assets	38	32	54	45
<b>Total non-current assets</b>	<b>2,175,379</b>	<b>2,180,111</b>	<b>3,095,286</b>	<b>3,102,019</b>
<b>Current assets</b>				
Inventories	17,601	15,604	25,044	22,203
Trade and other receivables	102,922	101,913	146,445	145,008
Current financial investments	5,167	-	7,352	-
Financial assets	360	4,237	512	6,029
Cash and cash equivalents	140,879	170,425	200,453	242,493
<b>Total current assets</b>	<b>266,929</b>	<b>292,179</b>	<b>379,806</b>	<b>415,733</b>
<b>TOTAL ASSETS</b>	<b>2,442,308</b>	<b>2,472,290</b>	<b>3,475,092</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	465,685	465,738	662,610	662,685
Hedge reserve	(7,824)	(13,130)	(11,132)	(18,682)
Other reserves	80	77	114	110
<b>Total reserves</b>	<b>457,941</b>	<b>452,685</b>	<b>651,592</b>	<b>644,113</b>
Retained earnings	43,628	49,761	62,077	70,803
Non-controlling interest	3,991	3,459	5,678	4,922
<b>Total equity</b>	<b>1,410,165</b>	<b>1,410,510</b>	<b>2,006,484</b>	<b>2,006,975</b>
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Borrowings	467,910	506,797	665,776	721,107
Issued debt securities (bonds)	63,411	14,033	90,226	19,967
Deferred income tax liabilities	187,243	187,822	266,423	267,246
Provisions	10,469	10,508	14,896	14,952
Derivative financial instruments	5,508	12,555	7,837	17,864
Other liabilities and deferred income	108,928	105,425	154,991	150,007
<b>Total non-current liabilities</b>	<b>843,469</b>	<b>837,140</b>	<b>1,200,149</b>	<b>1,191,143</b>
<b>Current liabilities</b>				
Borrowings	83,011	74,405	118,114	105,869
Derivative financial instruments	6,838	12,144	9,729	17,279
Trade and other current liabilities, deferred income	96,648	135,999	137,518	193,509
Current income tax liabilities	2,047	1,892	2,913	2,692
Issued guarantees	130	200	185	285
<b>Total current liabilities</b>	<b>188,674</b>	<b>224,640</b>	<b>268,459</b>	<b>319,634</b>
<b>Total liabilities</b>	<b>1,032,143</b>	<b>1,061,780</b>	<b>1,468,608</b>	<b>1,510,777</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>2,442,308</b>	<b>2,472,290</b>	<b>3,475,092</b>	<b>3,517,752</b>

\* Unaudited financial results



# Consolidated statement of cash flows\*

	01.01.-30.09.2013	01.01.-30.09.2012	01.01.-30.09.2013	01.01.-30.09.2012
	LVL'000	LVL'000	EUR'000	EUR'000
<b>Cash flows from operating activities</b>				
Profit before income tax	26,360	42,791	37,507	60,886
<b>Adjustments for:</b>				
- Amortisation, depreciation, impairment loss of non-current assets	111,922	88,803	159,251	126,355
- Net financial adjustments	6,607	7,413	9,401	10,548
- Other adjustments	(100)	(737)	(143)	(1,048)
(Increase) / decrease in current assets	(2,689)	17,048	(3,826)	24,257
Decrease in payables, accrued expense, deferred income and other liabilities	(43,631)	(28,458)	(62,082)	(40,492)
<b>Cash generated from operations</b>	<b>98,469</b>	<b>126,860</b>	<b>140,108</b>	<b>180,506</b>
Interest paid	(12,316)	(7,051)	(17,524)	(10,033)
Interest received	1,716	1,592	2,442	2,265
Income tax paid	(10,562)	(11,916)	(15,029)	(16,955)
<b>Net cash generated from operating activities</b>	<b>77,307</b>	<b>109,485</b>	<b>109,997</b>	<b>155,783</b>
<b>Cash flows from investing activities</b>				
Purchase of intangible assets and PPE	(103,419)	(117,556)	(147,152)	(167,267)
Proceeds on financing from EU funds	593	281	844	400
Net investments in held-to-maturity assets	32	40,296	45	57,336
<b>Net cash used in investing activities</b>	<b>(102,794)</b>	<b>(76,979)</b>	<b>(146,263)</b>	<b>(109,531)</b>
<b>Cash flows from financing activities</b>				
Proceeds on issued debt securities (bonds)	49,378	-	70,259	-
Proceeds on borrowings from credit institutions	19,447	66,063	27,671	93,999
Repayment of borrowings	(51,127)	(29,731)	(72,747)	(42,303)
Dividends paid to non-controlling interests	(220)	-	(313)	-
Dividends paid*	(21,537)	(39,900)	(30,644)	(56,773)
<b>Net cash used in financing activities</b>	<b>(4,059)</b>	<b>(3,568)</b>	<b>(5,774)</b>	<b>(5,077)</b>
<b>Net (decrease) / increase in cash and cash equivalents</b>	<b>(29,546)</b>	<b>28,938</b>	<b>(42,040)</b>	<b>41,175</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>140,879</b>	<b>137,815</b>	<b>200,453</b>	<b>196,093</b>

\* Unaudited financial results