

2013 Annual Unaudited Condensed Consolidated Financial Statements

21 February 2014



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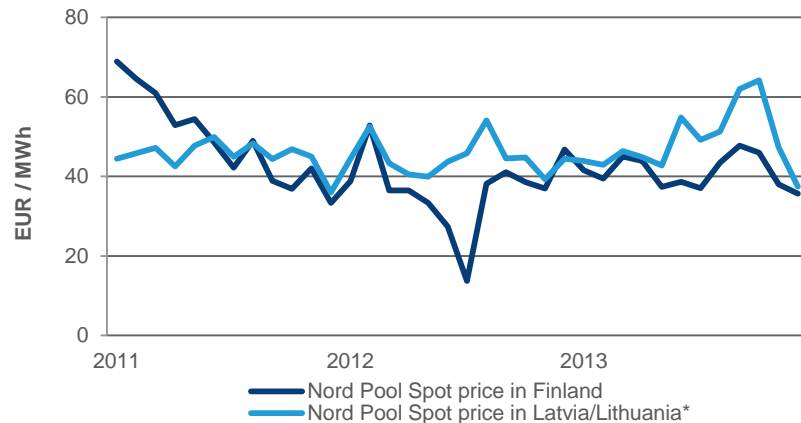
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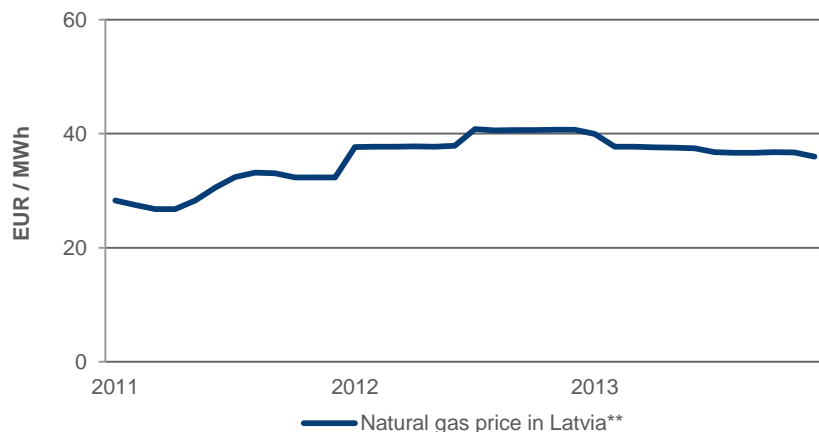
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Electricity Nord Pool Spot price increase in the Baltic and Nordic countries

Transmission capacity deficit determines electricity price differences



Natural gas price remains high



Main facts – 2013

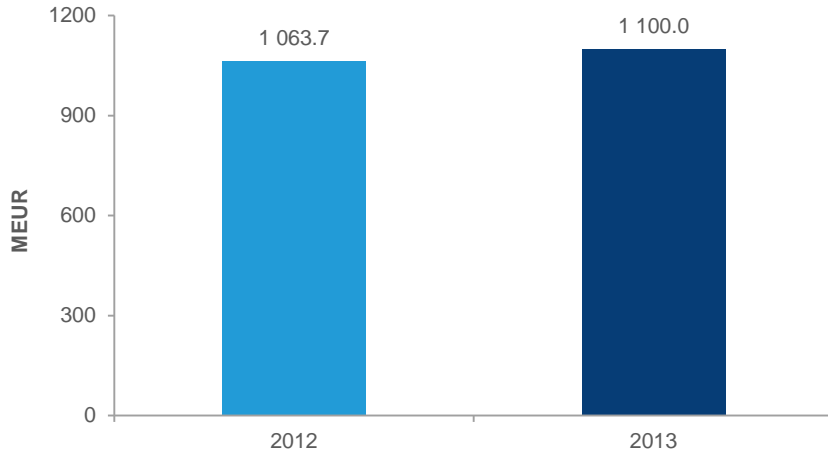
- ▲ Nord Pool Spot electricity price increased by 12% (41.2 EUR/MWh) in Finland and by 9% (48.9 EUR/MWh) in Latvia and Lithuania
- ▲ Electricity price increase due to a lower water level in Nordic hydropower plant reservoirs
- ▲ Transmission capacity deficit determines price differences between the Latvia/Lithuania and Finland bidding areas
- ▲ In 2013, natural gas price in Latvia remains high (37.3 EUR/MWh)
- ▲ Economic growth in the Baltics continues, GDP growth in Latvia – one of the fastest in the EU
- ▲ Latvia joins the European Economic and Monetary Union on 1 January 2014

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

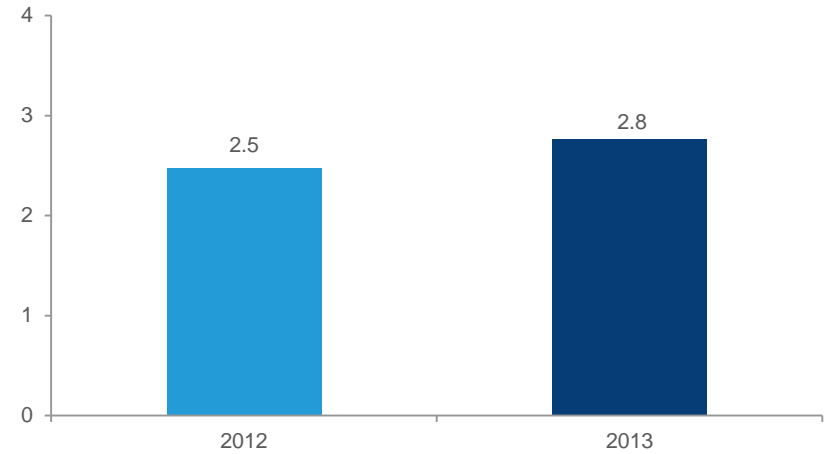
**price of natural gas in Latvia, including the excise tax, for users with gas consumption above 100,000 thousands nm³ (source: <http://www.lg.lv/>)

Increase in revenue and EBITDA of the Group

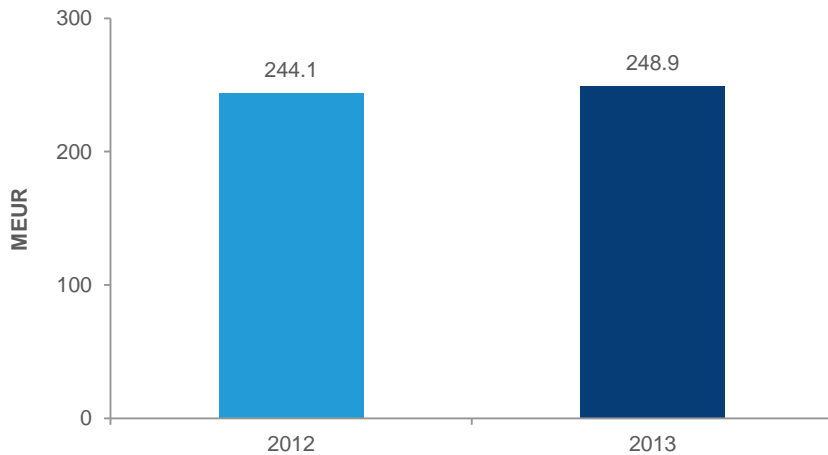
Revenue



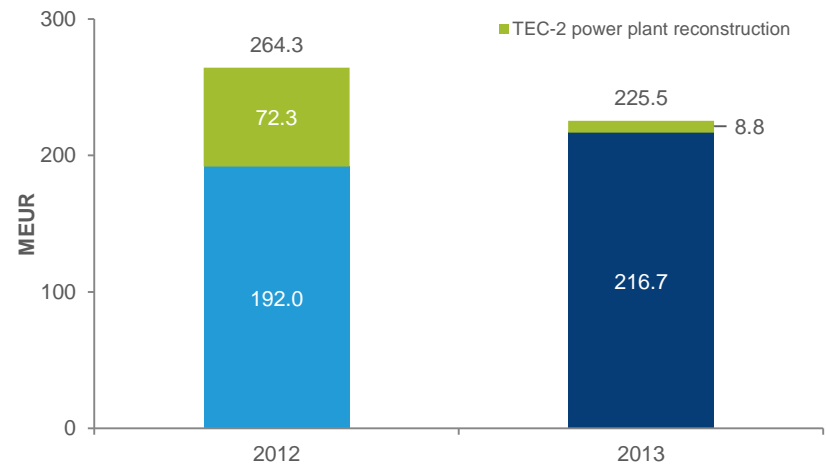
Net Debt / EBITDA



EBITDA

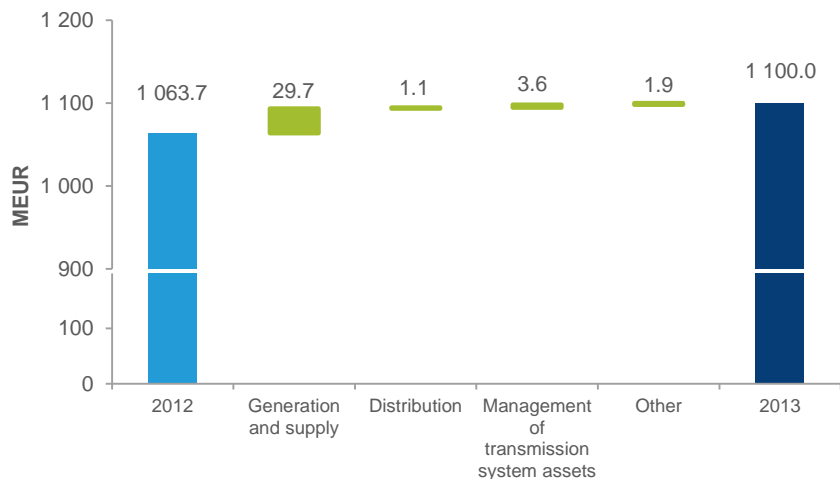


Investments



Revenue of the Group grew by 3%, EBITDA – by 2%

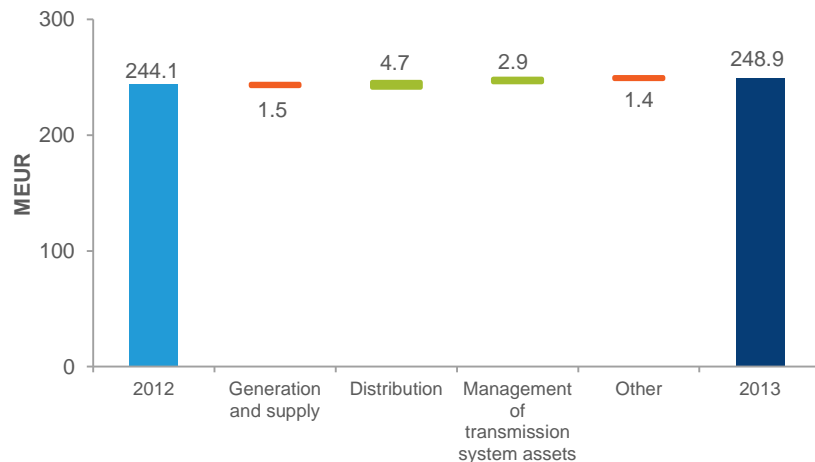
Revenue dynamics by segments



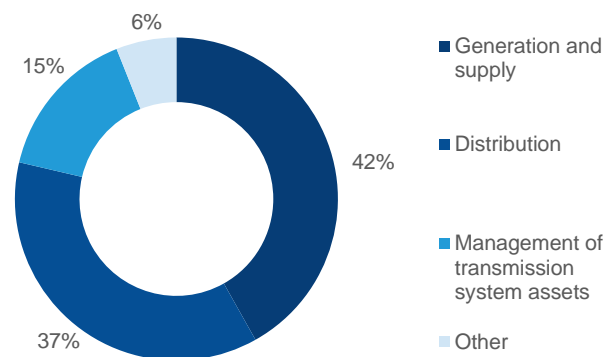
Revenue growth in all operating segments

- ▲ Revenue grew by 3% reaching 1,100.0 MEUR and EBITDA increased by 2% to 248.9 MEUR
- ▲ EBITDA margin at the prior-year level – 23%
- ▲ Higher losses from electricity supply at the regulated tariff in Latvia decreased EBITDA of the generation and supply segment

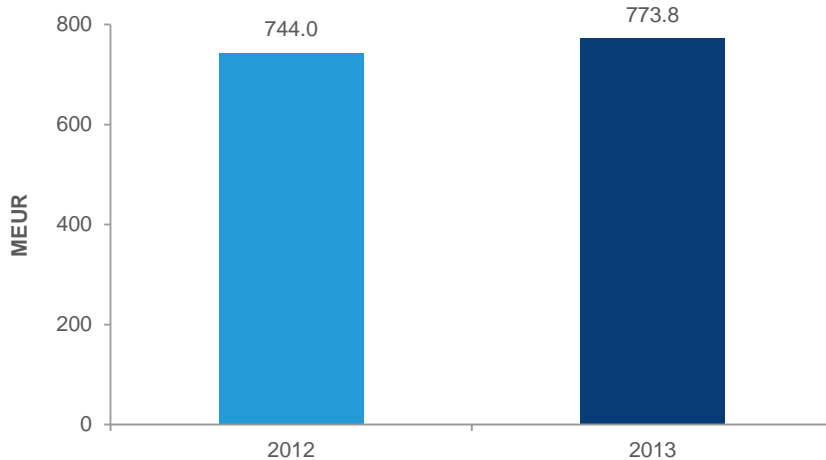
EBITDA dynamics by segments



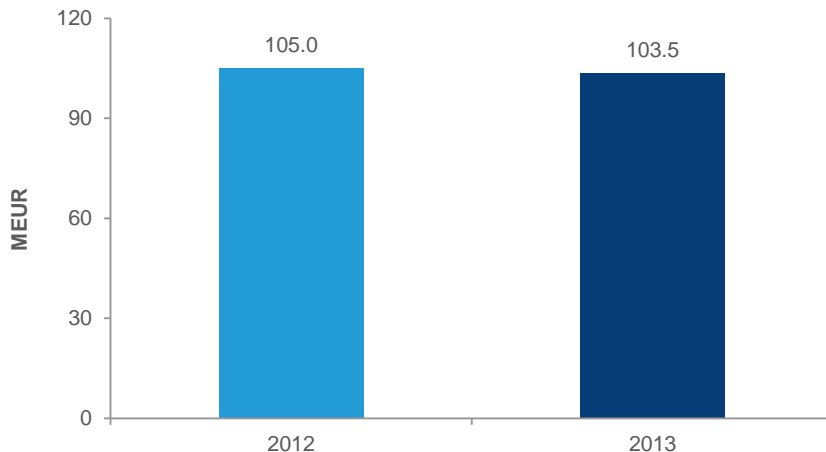
EBITDA weight by segments



Segment revenue



Segment EBITDA

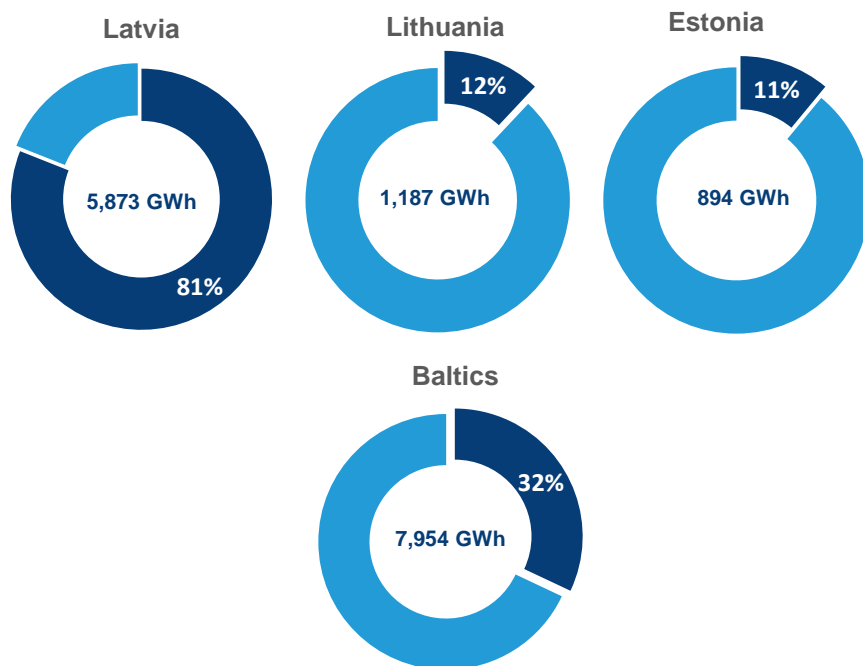


The largest segment of the Group

- ▲ Positive impact on EBITDA due to a change of mandatory procurement public service obligation fee on 1 April 2013 and balanced mandatory procurement revenues and costs recognised
- ▲ Negative impact on EBITDA:
 - ▲ losses due to electricity supply at the regulated tariff in Latvia
 - ▲ lower water inflow in the Daugava River
 - ▲ higher electricity purchase costs for electricity supply to retail customers
 - ▲ decline in industrial sector electricity consumption in Latvia



Retail electricity supply (GWh) and market share (%)



Focused and successful operations in the market

- ▲ Electricity supply outside Latvia exceeds $\frac{1}{4}$ of the retail electricity supply
- ▲ Number of customers in Lithuania and Estonia exceeds 20 thousands and retail electricity supply increased by 32%
- ▲ Focus on SMEs and households and purposeful promotion of *Elektrum* brand awareness
- ▲ 674 GWh supplied more outside Latvia than competing suppliers provided in Latvia

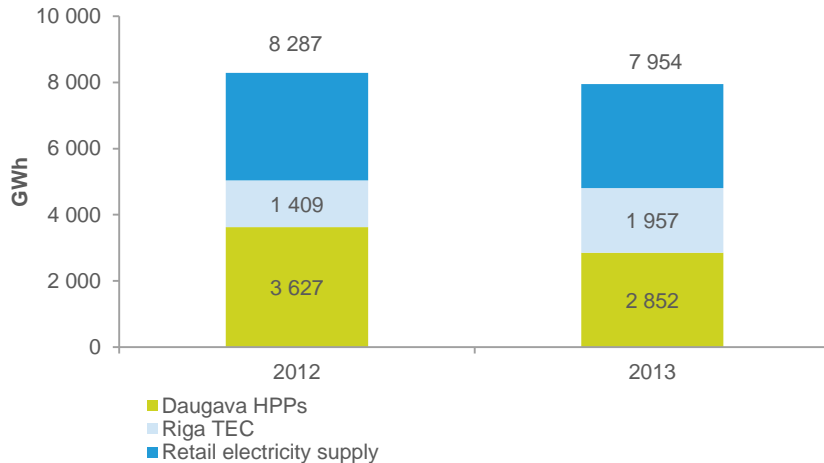
Future events

- ▲ Electricity market opening for households in Latvia on 1 April 2014

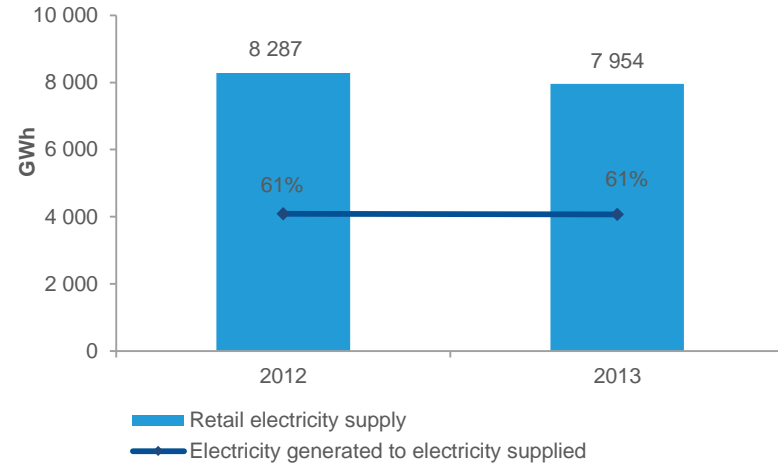
Electricity output at Riga TEC increased by 39%



4,854 GWh electricity generated



Stable weight of generated electricity



Effective and balanced generation sources

- ▲ By 39% higher electricity output at Riga TEC due to commissioning of the Riga TEC-2 second power unit and higher electricity prices
- ▲ Lower water inflow in the Daugava River decreased electricity generation at Daugava HES by 21%
- ▲ 36% of retail electricity supply are generated from renewable energy resources
- ▲ Due to warmer weather conditions thermal energy generation decreased by 5% (2,566 GWh)

Future events

- ▲ The subsidised energy tax, introduced on 1 January 2014, will decrease revenues of the following years. In 2013, a one-off impairment loss of Riga TEC assets (-17.7 EUR) has been recognised

Mandatory procurement does not affect the results

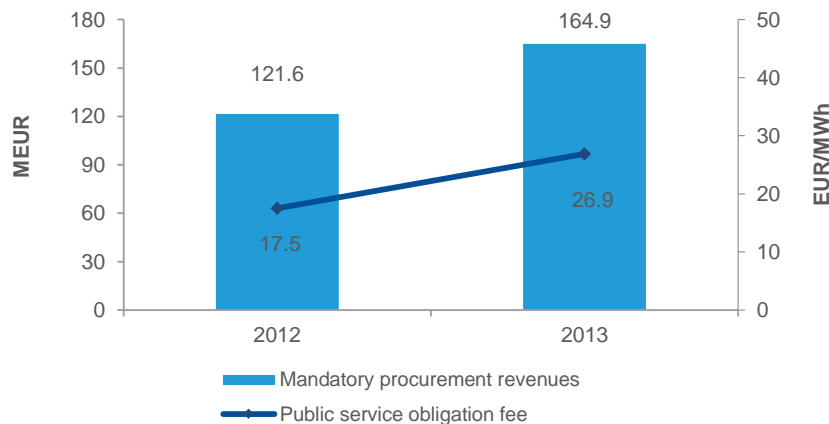
Recognised 45.0 MEUR public service obligation fee revenues

		2013	2012
Mandatory procurement revenues	MEUR	164.9	121.6
Accrued public service obligation fee revenues	MEUR	45.0	0.0
Mandatory procurement costs above the market price	MEUR	(209.9)	(189.0)
<i>Latvenergo AS</i>	MEUR	(79.6)	(79.5)
<i>other generators</i>	MEUR	(130.3)	(109.4)
Difference	MEUR	0.0	(67.3)

Balanced mandatory procurement revenues and costs

- ▲ Latvenergo AS is obliged to purchase electricity from generators that qualify for support plans within the mandatory procurement process
- ▲ In 2013, amendments to the mandatory procurement administration allow recognition of 45.0 MEUR accrued public service obligation fee revenues
- ▲ Increased electricity volume procured from other generators under the mandatory procurement process (+22%) and costs
- ▲ Latvenergo AS weight in the eligible costs of mandatory procurement decreased to 38%

Increase of public service obligation fee on 1 April



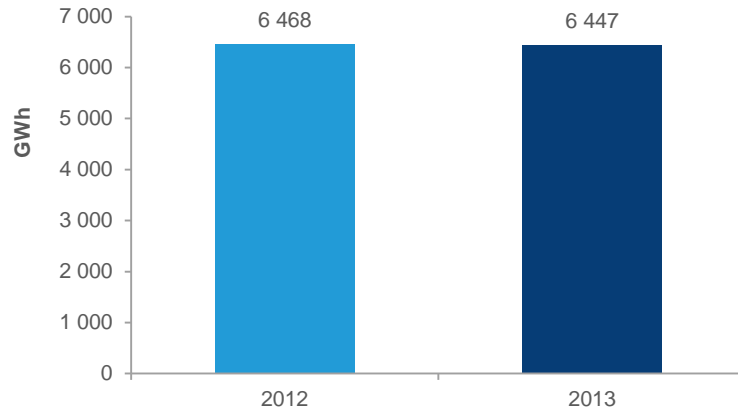
Future events

- ▲ On 1 April 2014 Enerģijas publiskais tirgotājs AS, a newly established subsidiary, will take over the public trader functions from Latvenergo AS

Total distribution asset value exceeds 1,250 MEUR



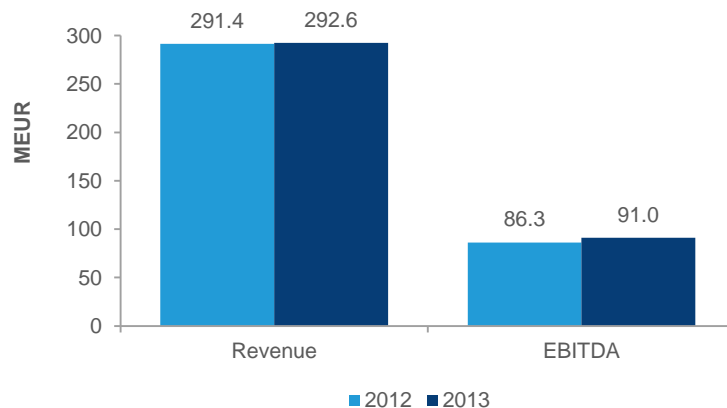
Distributed electricity



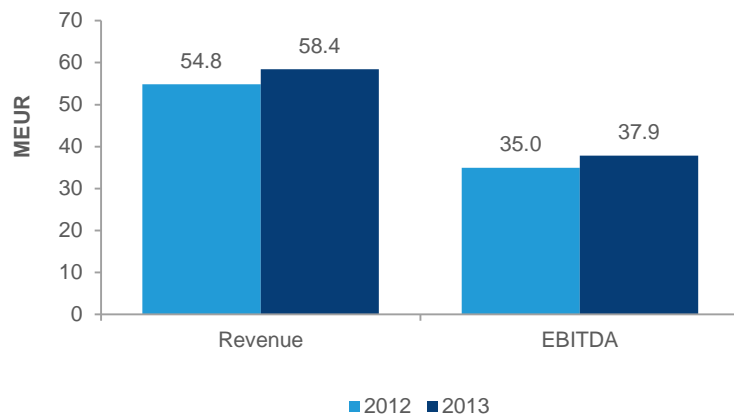
Increased value of distribution assets

- ▲ Due to investments value of distribution assets reached 1,252 MEUR
- ▲ Distributed electricity volume has not changed significantly
- ▲ Electricity losses decreased to 361 GWh (-71 GWh)
- ▲ Growth in distribution segment EBITDA
 - ▲ positive impact on results due to 3.5 MEUR lower costs, also including distribution losses
 - ▲ negative impact – increase of transmission service costs (-1.4 MEUR)

Financial highlights



Growth of revenue improves EBITDA



Return of transmission system assets* – 3,5%

- ▲ Positive impact on profitability due to a gradual inclusion of the value of regulatory asset revaluation reserve into the lease
- ▲ Transmission system assets value increased by 12% due to investments

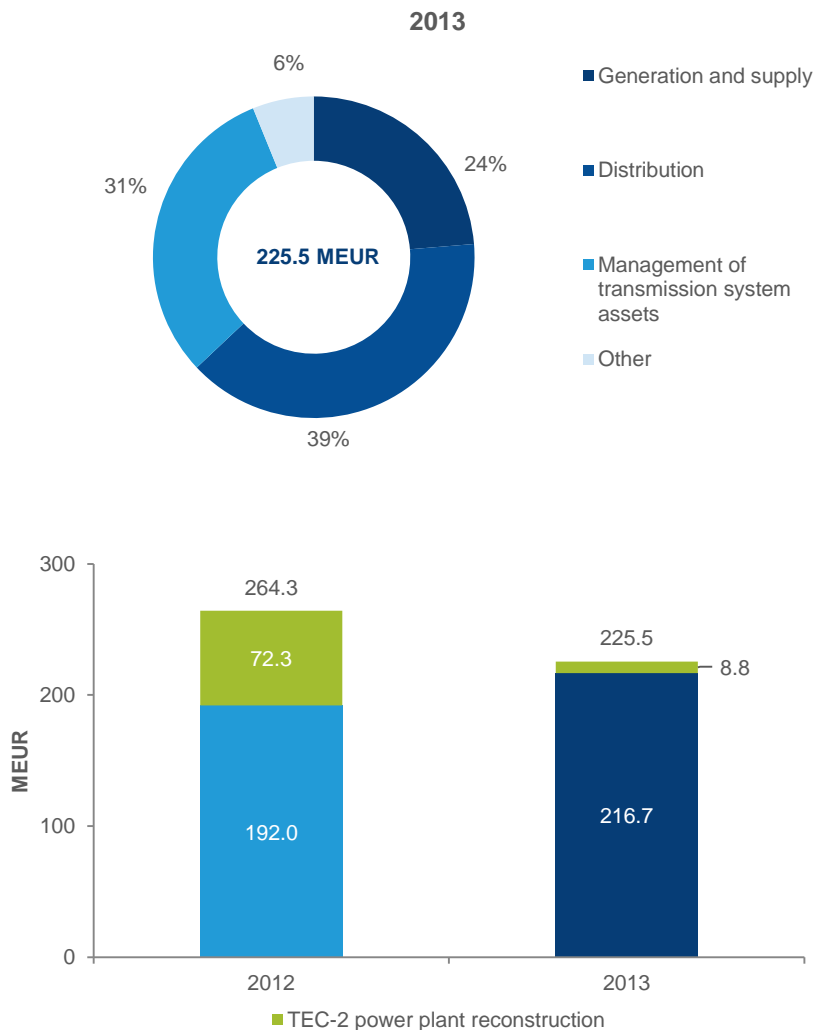
Future events

- ▲ The PUC decision on certification of the TSO provides a takeover of transmission system construction and maintenance functions by TSO as from 2015, while Latvijas elektriskie tīkli AS retains ownership of transmission system assets

* Return on segment assets – operating profit of the segment / average segment assets ((assets at the beginning of the year + assets at the end of the year) / 2)

Riga TEC-2 second power unit is commissioned

Investments in network assets – 70%



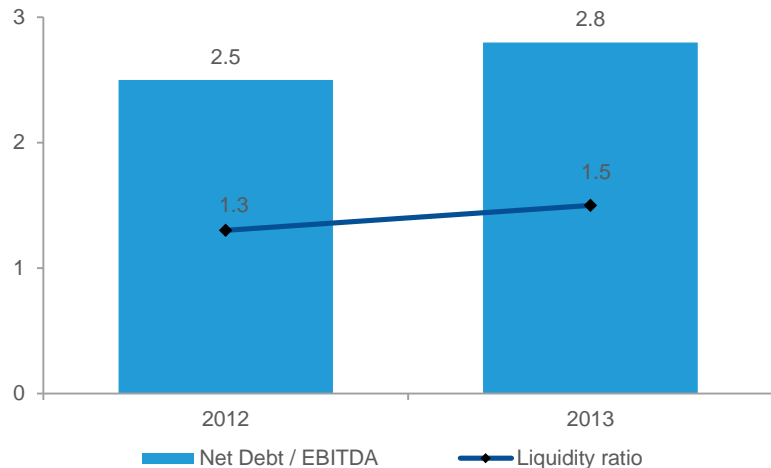
Customers as investment priority

- ▲ Increased investments in network assets (+36%) to improve the service quality and technical parameters
- ▲ After reconstruction Riga TEC-2 has become the most efficient and up-to-date CHPP in the Baltics
- ▲ Major investment projects of the following years:
 - ▲ NordBalt 02 - 330kV, *Kurzeme Ring**
 - ▲ total costs – 94.2 MEUR
 - ▲ completion in 2014
 - ▲ Daugava HPPs hydropower unit reconstruction
 - ▲ estimated costs > 200 MEUR
 - ▲ completion in 2022
- ▲ 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 reaches 105 MEUR

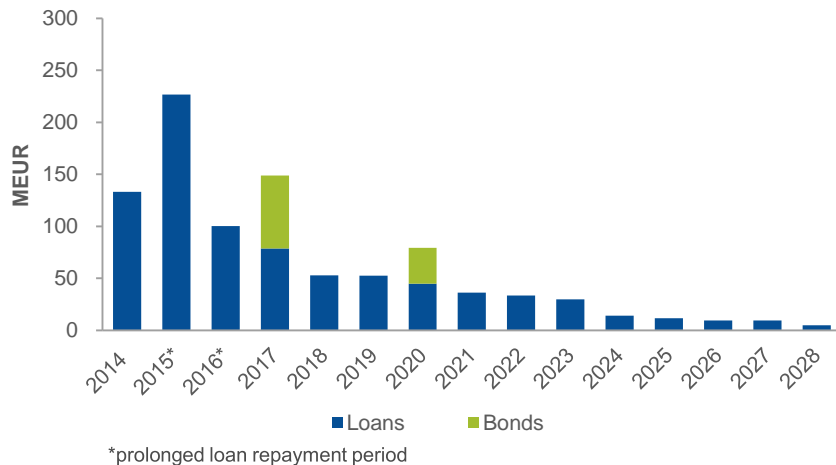
Stable liquidity ratios



Diversified borrowing sources

- ▲ In 2013, 50 MEUR bonds with 5-year maturity and 35 MEUR bonds with 7-year maturity were issued
- ▲ Increased net debt / EBITDA ratio determined by investments in reconstruction of Riga TEC-2
- ▲ Equity – 57% of the total assets
- ▲ Moody's Investors Service credit rating Baa3 (stable)

Debt repayment schedule



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Consolidated income statement*

	2013	2012	2013	2012
	LVL'000	LVL'000	EUR'000	EUR'000
Revenue	773,112	747,566	1,100,039	1,063,691
Other income	9,957	2,271	14,168	3,231
Materials, consumables and supplies	(499,707)	(472,031)	(711,019)	(671,640)
Personnel expenses	(67,053)	(64,152)	(95,408)	(91,280)
Depreciation, amortisation and impairment	(131,848)	(122,196)	(187,603)	(173,869)
Other operating expenses	(41,416)	(42,097)	(58,930)	(59,899)
Operating profit	43,045	49,361	61,247	70,234
Finance income	3,173	3,705	4,515	5,272
Finance costs	(12,515)	(11,250)	(17,807)	(16,007)
Share of profit of an associate	680	253	968	360
Profit before income tax	34,383	42,069	48,923	59,859
Income tax	(4,647)	(6,328)	(6,612)	(9,003)
Profit for the year	29,736	35,741	42,311	50,856

* Unaudited financial results

Consolidated statement of financial position*

	31/12/2013	31/12/2012	31/12/2013	31/12/2012
	LVL'000	LVL'000	EUR'000	EUR'000
ASSETS				
Non-current assets				
Intangible assets and PPE	2,177,220	2,153,881	3,097,905	3,064,697
Investment property	1,035	1,116	1,473	1,588
Investments in associates and other financial investments	29	4,948	41	7,040
Held-to-maturity financial assets	20,092	20,134	28,588	28,649
Other non-current assets	40	32	57	45
Total non-current assets	2,198,416	2,180,111	3,128,064	3,102,019
Current assets				
Inventories	15,210	15,604	21,642	22,203
Trade and other receivables	110,016	101,913	156,538	145,008
Current financial investments	5,598	-	7,965	-
Financial assets	434	4,237	618	6,029
Cash and cash equivalents	179,512	170,425	255,423	242,493
Total current assets	310,770	292,179	442,186	415,733
TOTAL ASSETS	2,509,186	2,472,290	3,570,250	3,517,752
EQUITY				
Share capital	905,219	904,605	1,288,011	1,287,137
Non-current assets revaluation reserve	465,349	465,738	662,132	662,685
Hedge reserve	(6,914)	(13,130)	(9,838)	(18,682)
Other reserves	88	77	125	110
Total reserves	458,523	452,685	652,419	644,113
Retained earnings	49,893	49,761	70,991	70,803
Non-controlling interest	4,536	3,459	6,454	4,922
Total equity	1,418,171	1,410,510	2,017,875	2,006,975
LIABILITIES				
Non-current liabilities				
Borrowings	492,237	506,797	700,390	721,107
Issued debt securities (bonds)	73,655	14,033	104,802	19,967
Deferred income tax liabilities	189,153	187,822	269,140	267,246
Provisions	10,962	10,508	15,598	14,952
Derivative financial instruments	4,384	12,555	6,238	17,864
Other liabilities and deferred income	119,476	105,425	169,999	150,007
Total non-current liabilities	889,867	837,140	1,266,167	1,191,143
Current liabilities				
Borrowings	97,528	74,405	138,770	105,869
Issued debt securities (bonds)	488	13	694	18
Derivative financial instruments	12,085	12,144	17,196	17,279
Trade and other current liabilities, deferred income	90,590	135,986	128,898	193,491
Current income tax liabilities	457	1,892	650	2,692
Issued guarantees	-	200	-	285
Total current liabilities	201,148	224,640	286,208	319,634
Total liabilities	1,091,015	1,061,780	1,552,375	1,510,777
TOTAL EQUITY AND LIABILITIES	2,509,186	2,472,290	3,570,250	3,517,752

* Unaudited financial results

Consolidated statement of cash flows*

	2013	2012	2013	2012
	LVL'000	LVL'000	EUR'000	EUR'000
Cash flows from operating activities				
Profit before income tax	34,383	42,069	48,923	59,859
Adjustments for:				
- Amortisation, depreciation, impairment loss of non-current assets	134,004	122,885	190,671	174,849
- Net financial adjustments	14,482	6,383	20,606	9,082
- Other adjustments	162	150	231	214
Increase in current assets	(6,440)	(5,473)	(9,164)	(7,787)
(Decrease) / increase in payables, accrued expense, deferred income and other liabilities	(45,660)	18,520	(64,969)	26,352
Cash generated from operations	130,931	184,534	186,298	262,569
Interest paid	(17,113)	(19,141)	(24,350)	(27,235)
Interest received	1,659	1,515	2,361	2,156
Income tax paid	(12,488)	(16,139)	(17,769)	(22,964)
Net cash generated from operating activities	102,989	150,769	146,540	214,526
Cash flows from investing activities				
Purchase of intangible assets and PPE	(147,456)	(175,996)	(209,811)	(250,420)
Proceeds on financing from EU funds	7,125	2,416	10,138	3,438
Net investments in held-to-maturity assets	42	41,348	60	58,832
Net cash used in investing activities	(140,289)	(132,232)	(199,613)	(188,150)
Cash flows from financing activities				
Proceeds on issued debt securities (bonds)	59,621	14,020	84,833	19,949
Proceeds on borrowings from credit institutions	82,439	116,947	117,300	166,401
Repayment of borrowings	(73,916)	(48,056)	(105,173)	(68,378)
Dividends paid to non-controlling interests	(220)	-	(313)	-
Dividends paid*	(21,537)	(39,900)	(30,644)	(56,773)
Net cash used in financing activities	46,387	43,011	66,003	61,199
Net increase in cash and cash equivalents	9,087	61,548	12,930	87,575
Cash and cash equivalents at the end of the year	170,425	108,877	242,493	154,918
Cash flows from investing activities	179,512	170,425	255,423	242,493

* Unaudited financial results