

# 2013 Annual Audited Consolidated Financial Statements

16 April 2014



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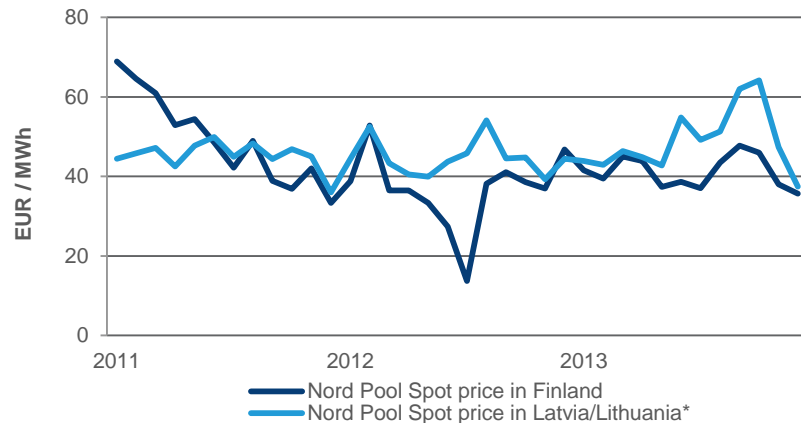
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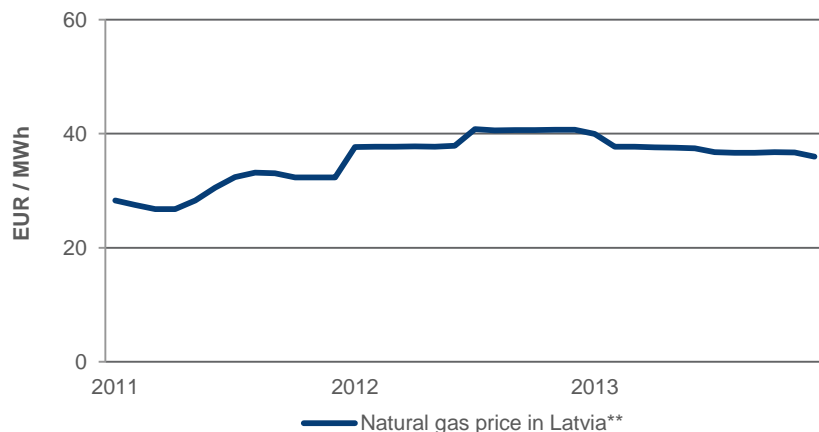
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# Electricity Nord Pool Spot price increase in the Baltic and Nordic countries

## Transmission capacity deficit determines electricity price differences



## Natural gas price remains high



## Main facts – 2013

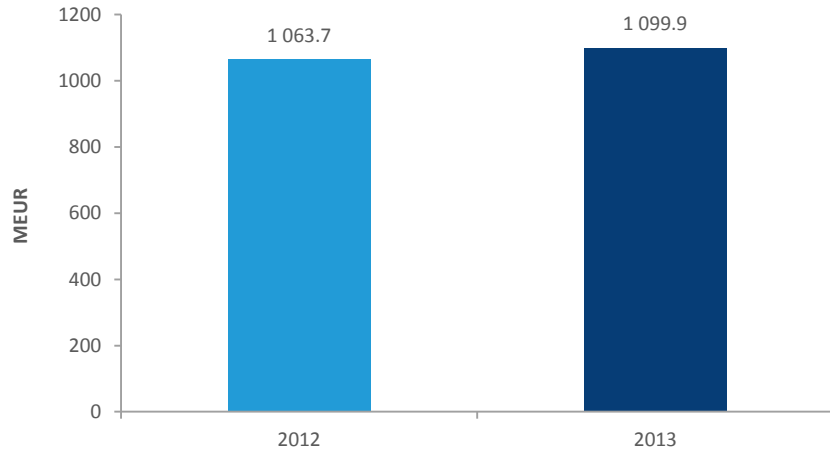
- ▲ Nord Pool Spot electricity price increased by 12% (41.2 EUR/MWh) in Finland and by 9% (48.9 EUR/MWh) in Latvia and Lithuania
- ▲ Electricity price increase due to a lower water level in Nordic hydropower plant reservoirs
- ▲ Transmission capacity deficit determines price differences between the Latvia/Lithuania 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 – 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

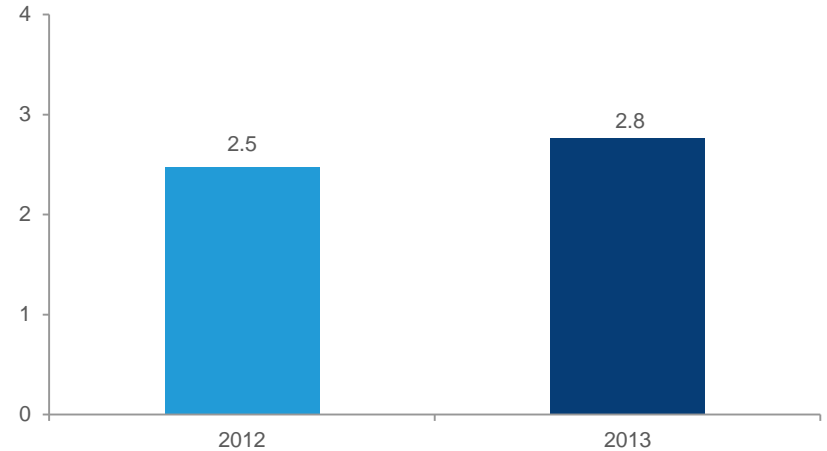
\*\*price of natural gas in Latvia, including the excise tax, for users with gas consumption above 100,000 thousands nm<sup>3</sup> (source: <http://www.lg.lv/>)

# Increase in revenue and EBITDA of the Group

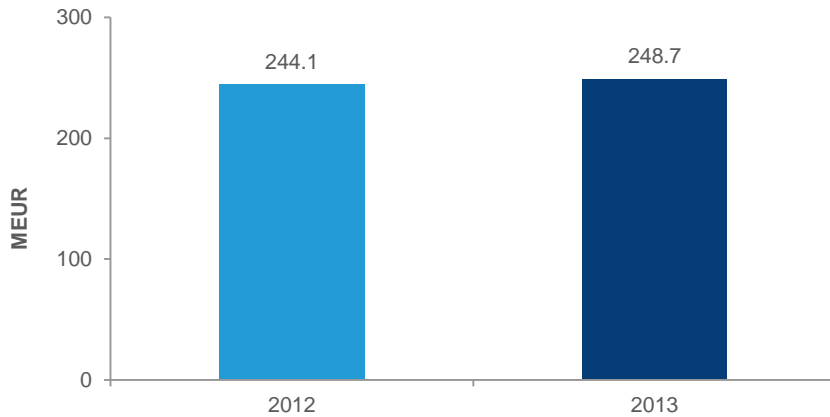
## Revenue



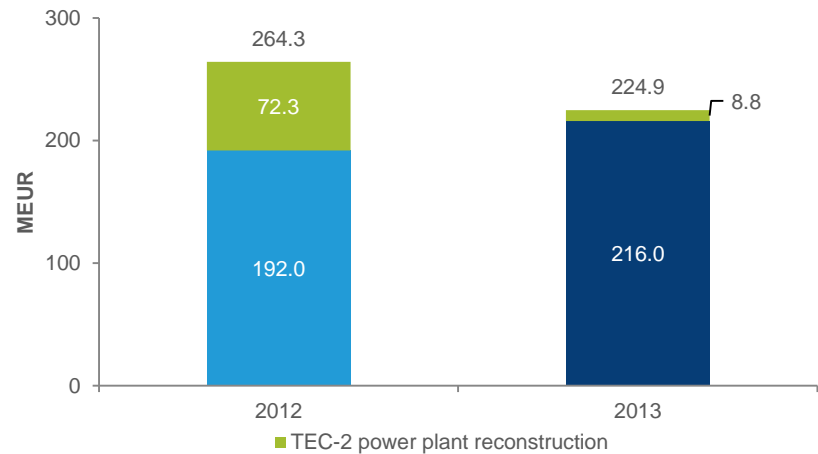
## Net Debt / EBITDA



## EBITDA

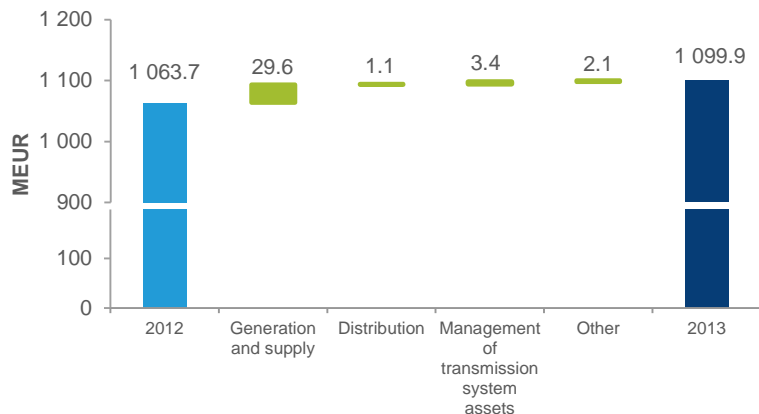


## Investments



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

## Revenue dynamics by segments



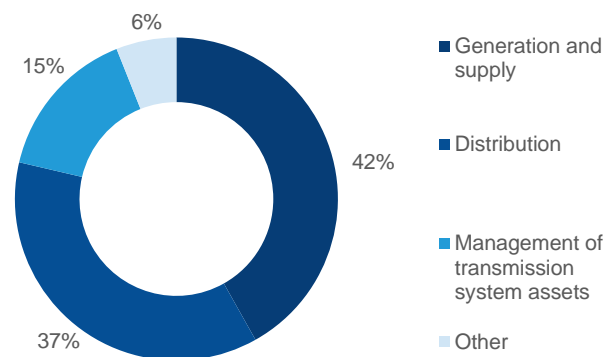
## Revenue growth in all operating segments

- ▲ Revenue grew by 3% reaching 1,099.9 MEUR and EBITDA increased by 2% to 248.7 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

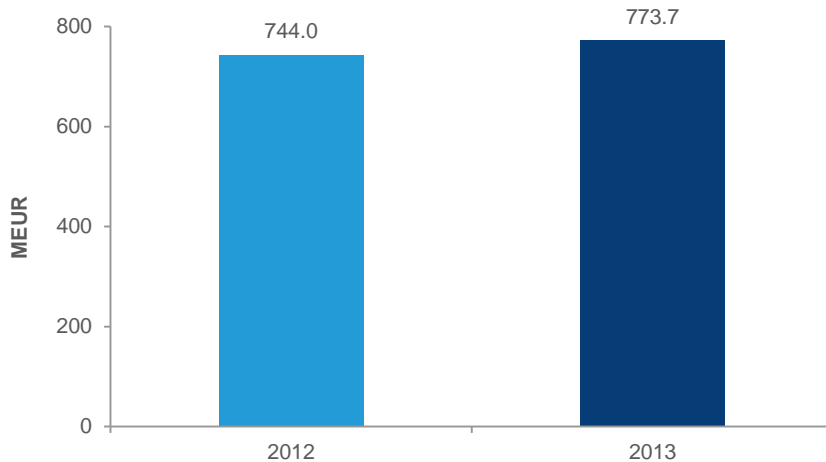
## EBITDA dynamics by segments



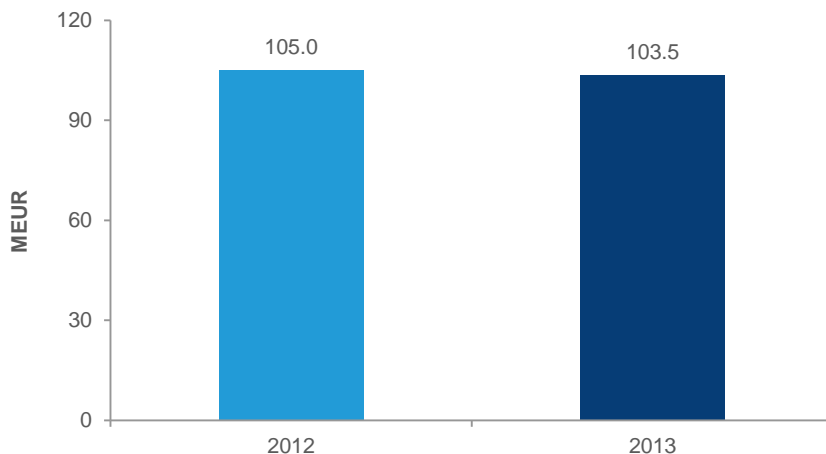
## EBITDA weight by segments



## Segment revenue



## Segment EBITDA

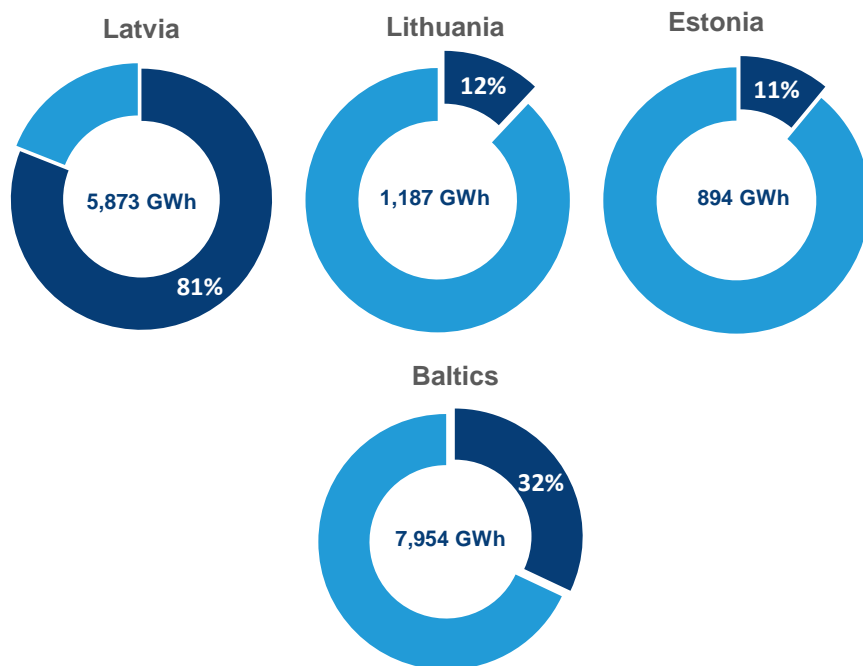


## The largest segment of the Group

- ▲ 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:
  - ▲ lost revenues due to electricity supply at the regulated tariff in Latvia (44 MEUR)
  - ▲ 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
- ▲ 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 MEUR) has been recognised



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



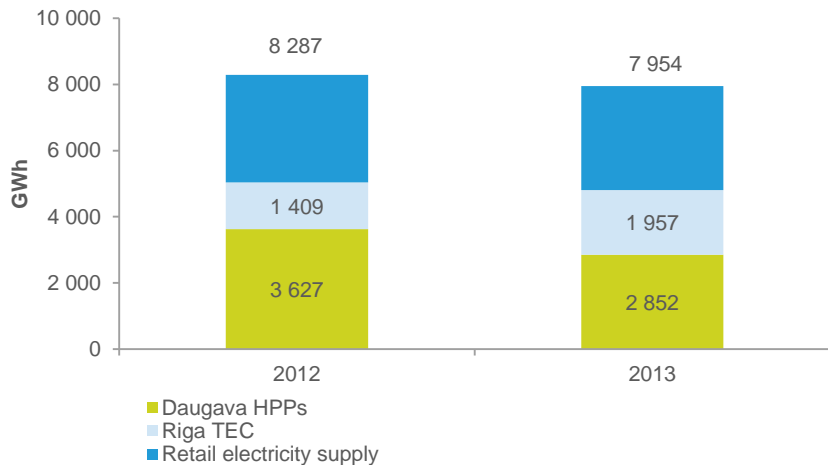
## Focused and successful operations in the market

- ▲ Electricity supply outside Latvia exceeds ¼ 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

# Electricity output at Riga TEC increased by 39%



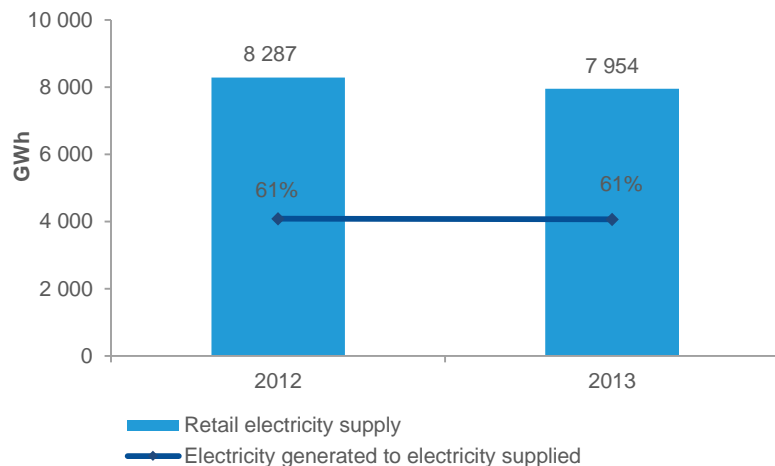
## 4,854 GWh electricity generated



## 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)

## Stable weight of generated electricity





# Mandatory procurement does not affect the results

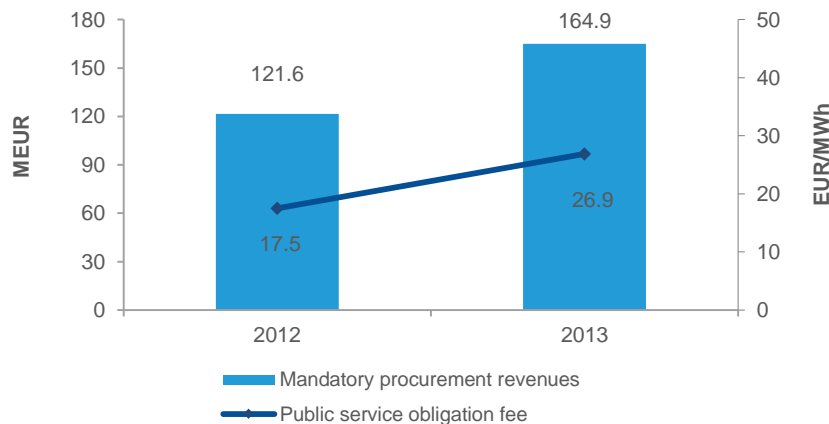
## Recognised 45.0 MEUR public service obligation fee revenues

		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)
<b>Difference</b>	<b>MEUR</b>	<b>0.0</b>	<b>(67.3)</b>

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

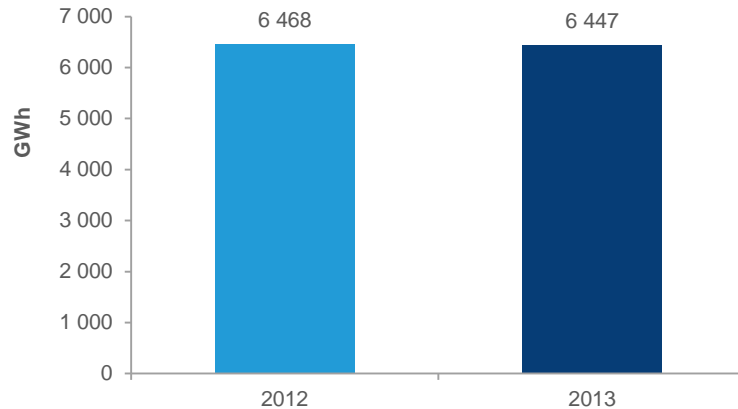
## Increase of public service obligation fee on 1 April



# Total distribution asset value exceeds 1,250 MEUR



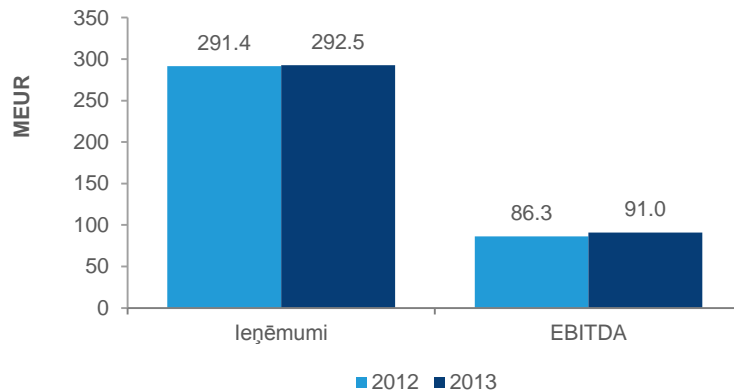
## Distributed electricity



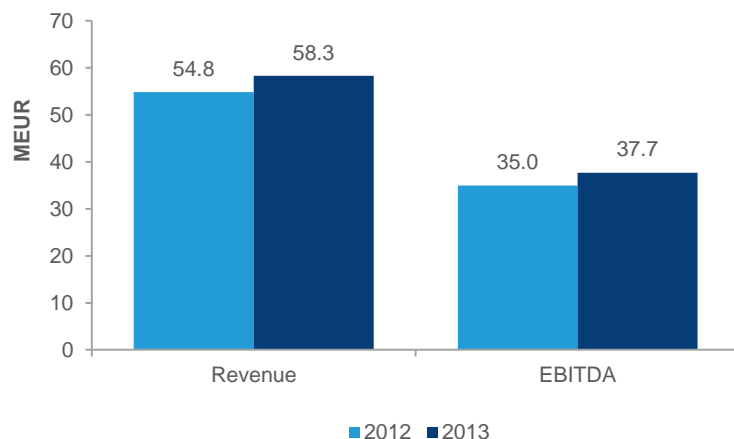
## Increased value of distribution assets

- ▲ 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\* – 3,4%

- ▲ 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

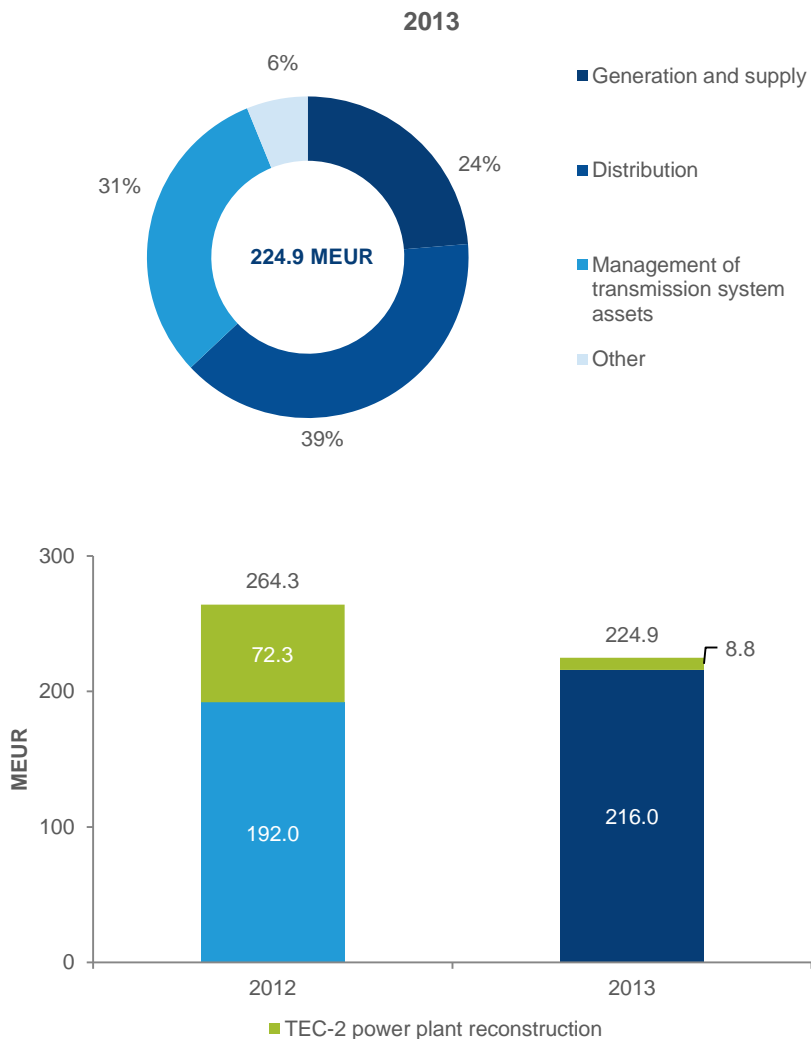
## Future events

- ▲ 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%



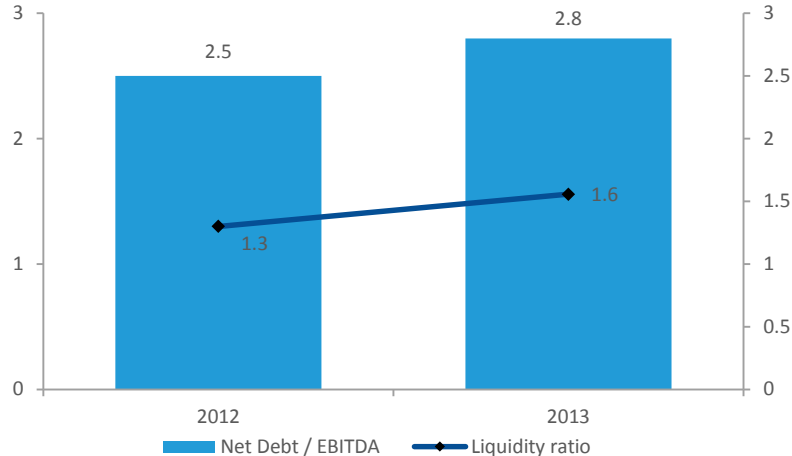
## Customers as investment priority

- ▲ Increased investments in network assets (+35%) to improve the service quality and technical parameters
- ▲ After reconstruction Riga TEC-2 has become a state-of-art and the most efficient 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

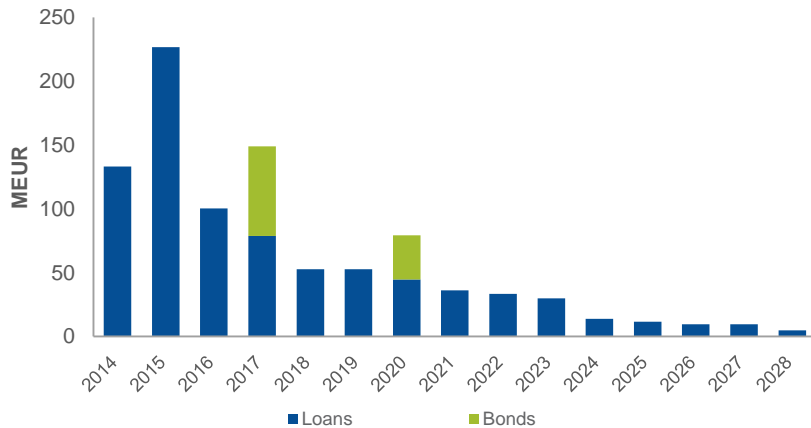
## Stable liquidity ratios



## 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



## Contacts

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# Consolidated income statement

	2013	2012	2013	2012
	LVL'000	LVL'000	EUR'000	EUR'000
Revenue	773,009	747,566	1,099,893	1,063,691
Other income	2,846	1,809	4,050	2,574
Raw materials and consumables used	(492,984)	(472,031)	(701,453)	(671,640)
Personnel expenses	(66,818)	(63,904)	(95,074)	(90,927)
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	(131,848)	(122,196)	(187,603)	(173,869)
Other operating expenses	(41,270)	(41,883)	(58,722)	(59,595)
<b>Operating profit</b>	<b>42,935</b>	<b>49,361</b>	<b>61,091</b>	<b>70,234</b>
Finance income	3,183	3,705	4,529	5,272
Finance costs	(12,538)	(11,250)	(17,840)	(16,007)
Share of profit of associates	746	253	1,061	360
<b>Profit before taxes</b>	<b>34,326</b>	<b>42,069</b>	<b>48,841</b>	<b>59,859</b>
Income tax	(1,892)	(6,328)	(2,692)	(9,003)
<b>Profit for the year</b>	<b>32,434</b>	<b>35,741</b>	<b>46,149</b>	<b>50,856</b>
<b>Profit attributable to:</b>				
- Equity holders of the Parent Company	31,138	35,302	44,305	50,231
- Non-controlling interests	1,296	439	1,844	625

# 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
<b>ASSETS</b>				
<b>Non-current assets</b>				
Intangible assets	7,822	5,804	11,130	8,258
Property, plant and equipment	2,169,398	2,148,077	3,086,775	3,056,439
Investment property	1,035	1,116	1,473	1,588
Investments in associates	29	4,948	41	7,040
Other non-current receivables	40	32	57	45
Investments in held-to-maturity financial assets	20,092	20,134	28,588	28,649
<b>Total non-current assets</b>	<b>2,198,416</b>	<b>2,180,111</b>	<b>3,128,064</b>	<b>3,102,019</b>
<b>Current assets</b>				
Inventories	15,204	15,604	21,634	22,203
Trade receivables and other receivables	113,545	101,913	161,560	145,009
Current financial investments	5,665	-	8,060	-
Derivative financial instruments	434	4,237	617	6,028
Cash and cash equivalents	179,512	170,425	255,423	242,493
<b>Total current assets</b>	<b>314,360</b>	<b>292,179</b>	<b>447,294</b>	<b>415,733</b>
<b>TOTAL ASSETS</b>	<b>2,512,776</b>	<b>2,472,290</b>	<b>3,575,358</b>	<b>3,517,752</b>
<b>EQUITY</b>				
Share capital	905,219	904,605	1,288,011	1,287,137
Reserves	458,522	452,685	652,418	644,113
Retained earnings	52,593	49,761	74,832	70,803
<b>Equity attributable to equity holders of the parent</b>	<b>1,416,334</b>	<b>1,407,051</b>	<b>2,015,261</b>	<b>2,002,053</b>
Non-controlling interest	4,535	3,459	6,453	4,922
<b>Total equity</b>	<b>1,420,869</b>	<b>1,410,510</b>	<b>2,021,714</b>	<b>2,006,975</b>
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Borrowings	565,892	520,830	805,192	741,074
Deferred income tax liabilities	189,136	187,822	269,116	267,246
Provisions	10,962	10,508	15,597	14,952
Derivative financial instruments	4,384	12,555	6,238	17,864
Other liabilities and deferred income	119,584	108,407	170,152	154,250
<b>Total non-current liabilities</b>	<b>889,958</b>	<b>840,122</b>	<b>1,266,295</b>	<b>1,195,386</b>
<b>Current liabilities</b>				
Trade and other payables	91,833	133,004	130,667	189,248
Income tax payable	2	1,892	3	2,692
Borrowings	98,029	74,418	139,483	105,887
Derivative financial instruments	12,085	12,144	17,196	17,279
Issued guarantees	-	200	-	285
<b>Total current liabilities</b>	<b>201,949</b>	<b>221,658</b>	<b>287,349</b>	<b>315,391</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>2,512,776</b>	<b>2,472,290</b>	<b>3,575,358</b>	<b>3,517,752</b>



# Consolidated statement of cash flows

	2013	2012	2013	2012
	LVL'000	LVL'000	EUR'000	EUR'000
<b>Cash flows from operating activities</b>				
Profit before tax	34,326	42,069	48,841	59,859
<b>Adjustments:</b>				
- Amortisation, depreciation and impairment of non-current assets	131,848	122,196	187,603	173,869
- Loss from disposal of non-current assets	2,156	689	3,068	980
- Investments accounting at equity method	(746)	(252)	(1,061)	(359)
- Interest costs	15,110	15,008	21,500	21,354
- Interest income	(1,525)	(2,502)	(2,170)	(3,560)
- Fair value losses / (gains) on derivative financial instruments	1,589	(5,871)	2,261	(8,353)
- Increase in provisions	238	991	339	1,411
- Unrealised gains on currency translation differences	(86)	(841)	(122)	(1,197)
<b>Operating profit before working capital adjustments</b>	<b>182,910</b>	<b>171,487</b>	<b>260,259</b>	<b>244,004</b>
Decrease / (increase) in inventories	929	(1,655)	1,322	(2,355)
Increase in trade and other receivables	(7,369)	(3,818)	(10,486)	(5,432)
(Decrease) / increase in trade and other payables	(45,541)	18,520	(64,800)	26,352
<b>Cash generated from operating activities</b>	<b>130,929</b>	<b>184,534</b>	<b>186,295</b>	<b>262,569</b>
Interest paid	(17,113)	(19,141)	(24,350)	(27,235)
Interest received	1,659	1,515	2,361	2,156
Income tax paid	(12,486)	(16,139)	(17,766)	(22,964)
<b>Net cash flows from operating activities</b>	<b>102,989</b>	<b>150,769</b>	<b>146,540</b>	<b>214,526</b>
<b>Cash flows from investing activities</b>				
Purchase of intangible assets and PPE	(147,456)	(175,996)	(209,812)	(250,420)
Proceeds on financing from EU funds and other financing	7,125	2,416	10,138	3,438
Purchase of held-to-maturity assets	-	(3,626)	-	(5,160)
Proceeds from redemption of held-to-maturity assets	42	44,974	60	63,992
<b>Net cash flows used in investing activities</b>	<b>(140,289)</b>	<b>(132,232)</b>	<b>(199,614)</b>	<b>(188,150)</b>
<b>Cash flows from financing activities</b>				
Proceeds from issued debt securities (bonds)	59,622	14,020	84,835	19,949
Proceeds from borrowings from financial institutions	82,439	116,947	117,300	166,401
Repayment of borrowings	(73,917)	(48,056)	(105,174)	(68,378)
Dividends paid to non-controlling interests	(220)	-	(313)	-
Dividends paid to equity holders of the Parent Company	(21,537)	(39,900)	(30,644)	(56,773)
<b>Net cash flows from financing activities</b>	<b>46,387</b>	<b>43,011</b>	<b>66,004</b>	<b>61,199</b>
<b>Net increase in cash and cash equivalents</b>	<b>9,087</b>	<b>61,548</b>	<b>12,930</b>	<b>87,575</b>
Cash and cash equivalents at the beginning of the year	170,425	108,877	242,493	154,918
<b>Cash and cash equivalents at the end of the year</b>	<b>179,512</b>	<b>170,425</b>	<b>255,423</b>	<b>242,493</b>