



2014

Annual Unaudited Condensed
Consolidated Financial Statements

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.

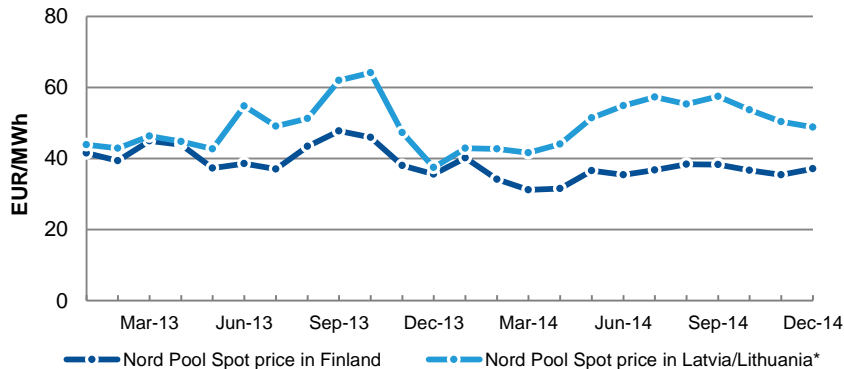
The information in this presentation is subject to verification, completion and change without notice and the Company is not under any obligation to update or keep current the information contained herein. Accordingly, no representation or warranty, express or implied, is made or given by or on behalf 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.

Due to cross-border transmission capacity constraints, decrease of Nord Pool Spot prices in the Nordic countries does not foster price decline in Latvia

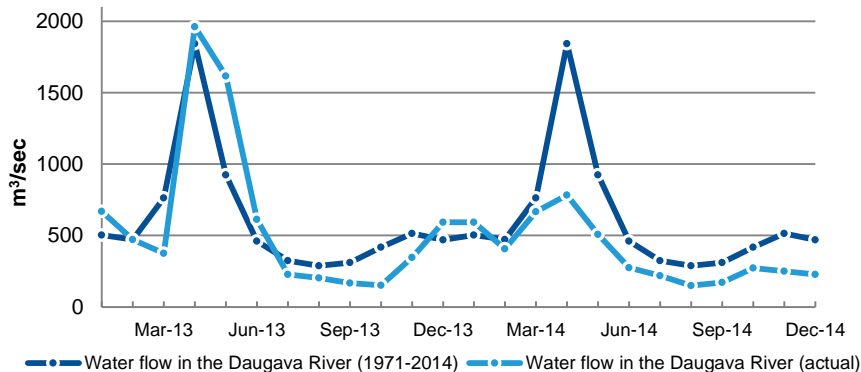
Low electricity price in the Nordic countries



Main facts - 2014

- Nord Pool Spot price decreased by 13% in Finland and Estonia (36.0 EUR/MWh and 37.6 EUR/MWh respectively), while it increased by 2% in Latvia/Lithuania (50.1 EUR/MWh)
- Launch of *EstLink-2* allayed price differences between the Nordic countries and Estonia
- The Daugava River water inflow lowest since 1976 – output at Daugava HPPs decreased by 32 %
- In 2014, natural gas price in Latvia remains high (35.7 EUR/MWh) – it gradually starts to decline
- Since mid-2014, Latvenergo Group trades all of its generated electricity on Nord Pool Spot exchange

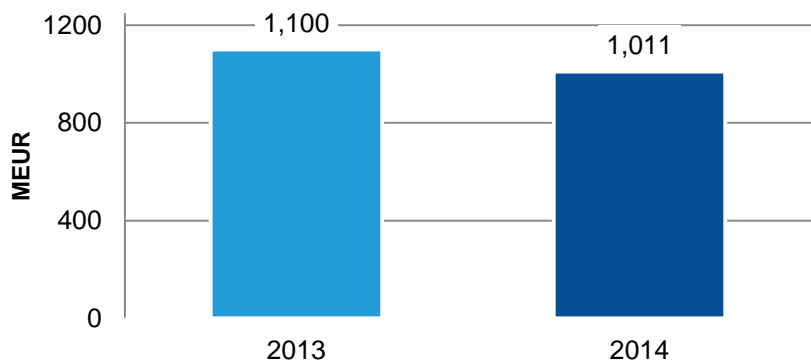
Low water inflow in the Daugava River



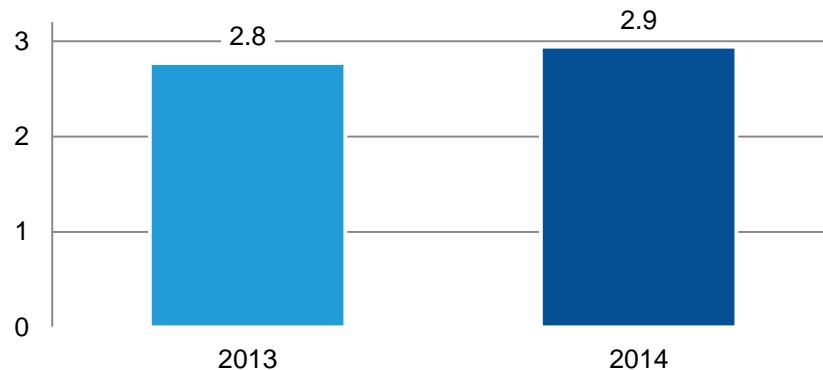
* Nord Pool Spot Latvia bidding area was opened on 3 June 2013. In 2014, electricity prices in Latvia and Lithuania bidding areas were equal 99.9% hours

Key financial figures

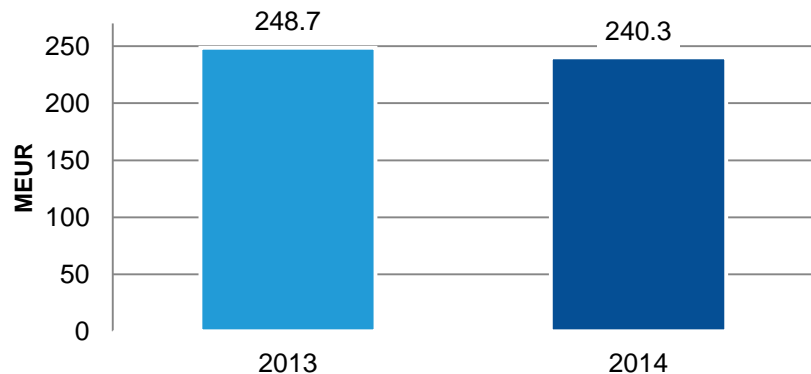
Revenue



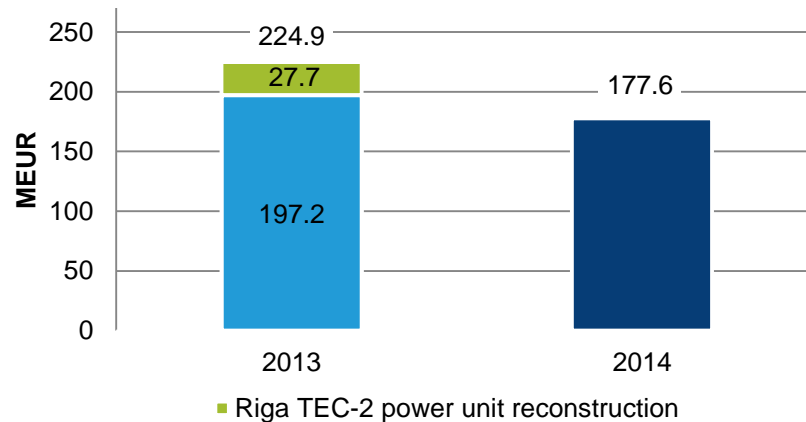
Net debt / EBITDA



EBITDA

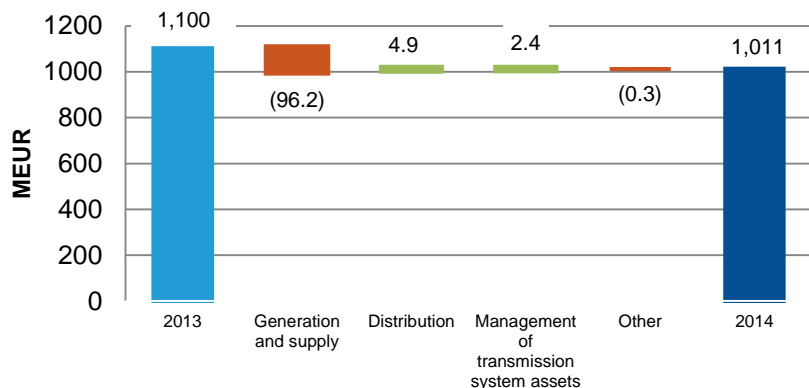


Investments



Financial results

Revenue dynamics by segment



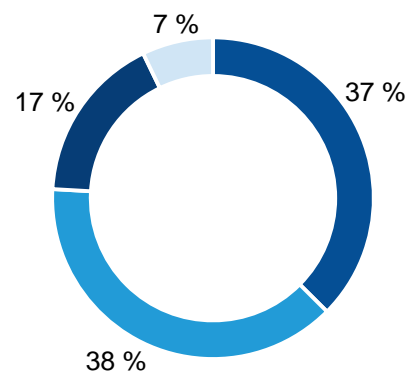
EBITDA – 240.3 MEUR

- EBITDA mainly affected by lower output at Daugava HPPs
- Lower revenues of generation and supply segment due to change in mandatory procurement accounting principles* as of 1 April 2014
- EBITDA margin – 24 % (2013: 23 %)

EBITDA dynamics by segment



Weight of EBITDA by segment



2014

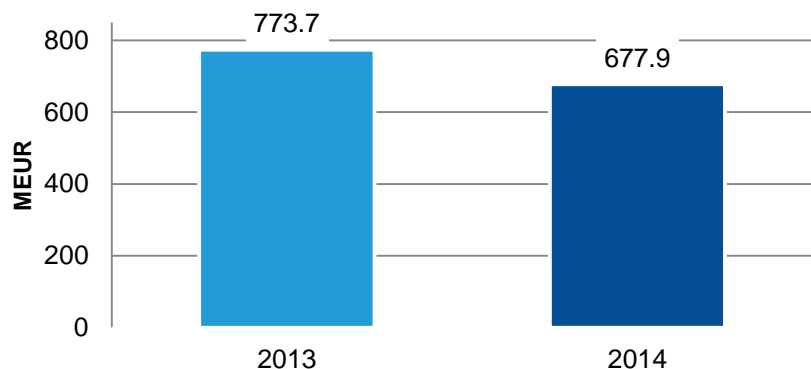
- Generation and supply
- Distribution
- Management of transmission system assets
- Other

* Along with Energijas publiskais tirgotājs AS entrance into operation as of 1 April 2014, mandatory procurement PSO fee revenues are not recognized in the revenue

Generation and supply



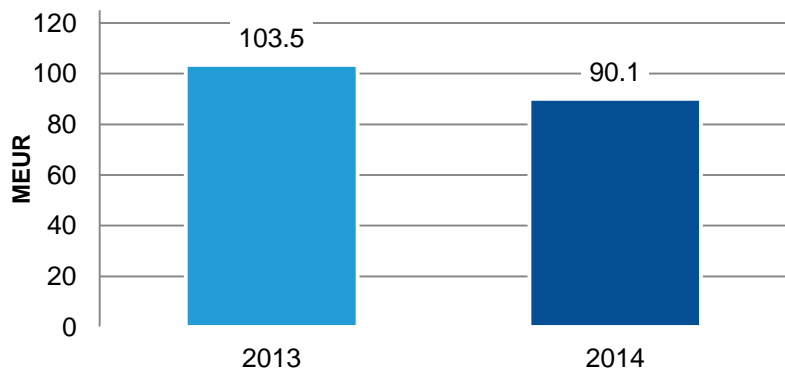
Segment revenue



The largest segment of the Group

- Decrease in revenues is determined by change in mandatory procurement accounting principles*
- EBITDA of the segment was negatively affected by lower output at Daugava HPPs
- Lost revenues due to electricity supply at the regulated tariff in Latvia (48.2 MEUR)

Segment EBITDA

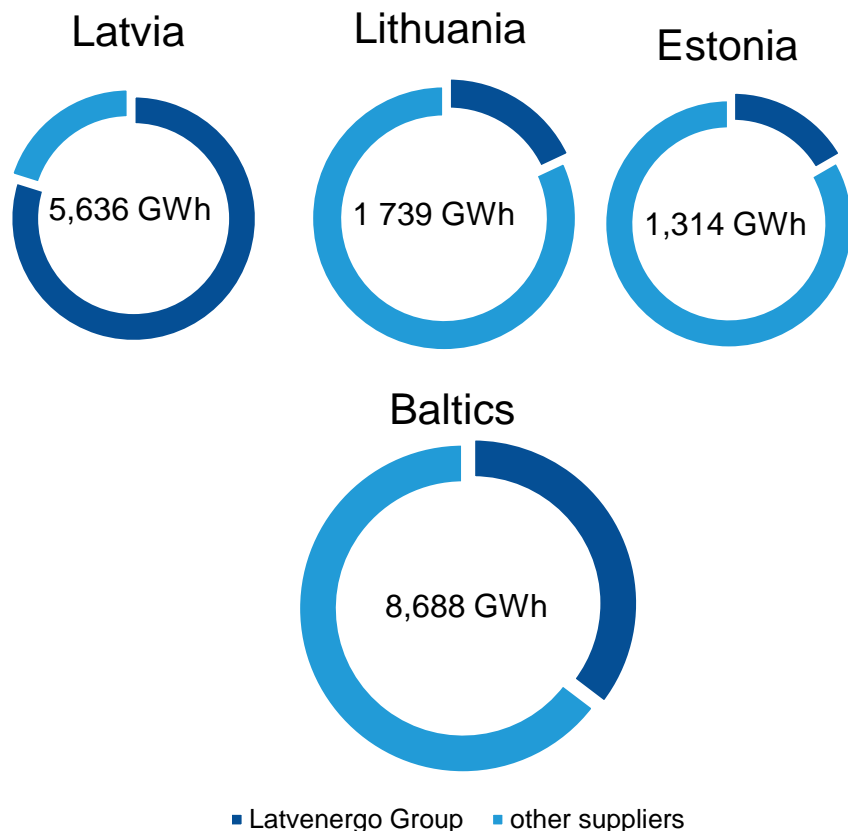


* Along with Energijas publiskais tirgotājs AS entrance into operation as of 1 April 2014, mandatory procurement PSO fee revenues are not recognized in the revenue

More than 1/3 of electricity supplied outside Latvia



Retail electricity supply



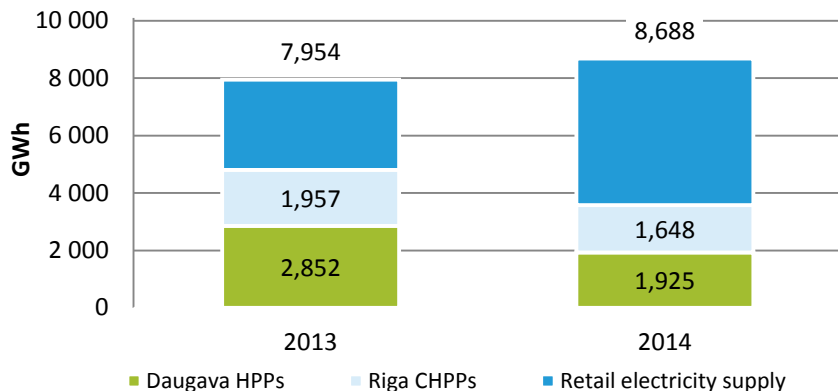
The leading electricity supplier in the Baltics

- Retail electricity supply has been increased by 9 % despite a decline in the Baltic electricity consumption by 1 %
- More than 1/3 of retail electricity supply in Lithuania and Estonia
- The number of customers in Lithuania and Estonia reached approximately 34 thousands, retail electricity supply was increased almost by a half
- 80% of the retail electricity supply were supplied on the open electricity market in the Baltics, while 20% – at the regulated tariff in Latvia
- Since 1 January 2015, the electricity market is open for households in Latvia

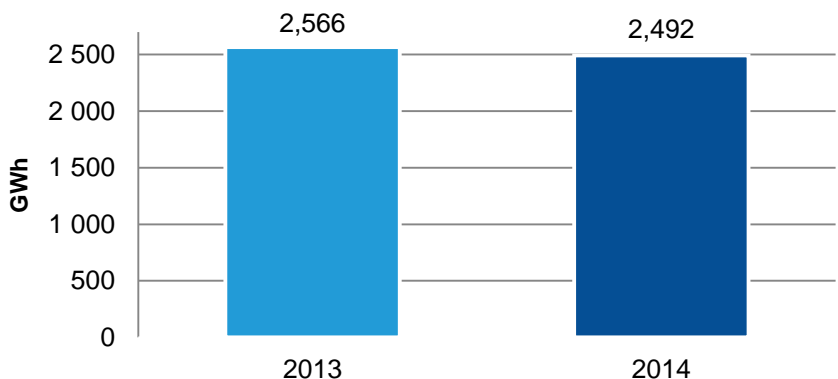
Effective and balanced generation sources



3,625 GWh of electricity generated



2,492 GWh of thermal energy generated



Uncommonly low water inflow in the Daugava River

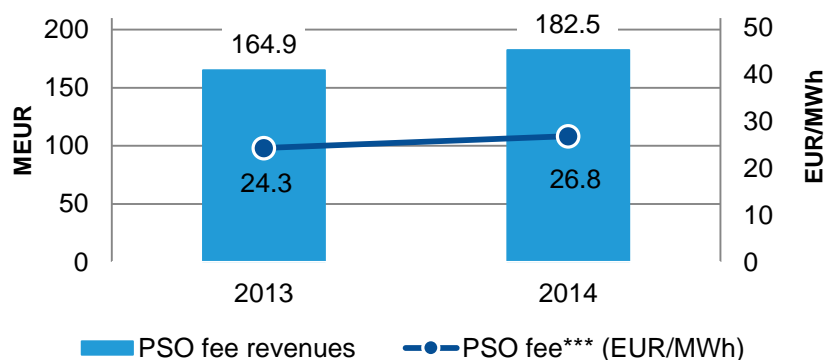
- The Daugava River water inflow was the lowest since 1976 – output at Daugava HPPs decreased by 32 %
- Along with the change in support scheme, Riga CHPPs do not receive compensation for natural gas and other variable costs
- Riga CHPPs operations adjusted to the market conjuncture effectively planning operating modes and fuel consumption
- Subsidised Energy Tax introduced in 2014 decreases support received by Latvenergo Group

Mandatory procurement does not affect the results

Uncollected PSO fee income recognised in the assets

| | | 2014 | 2013 | Δ | Δ, % |
|--------------------------------------------------------------------------------|-------------|-------------|------------|-------------|----------|
| Mandatory procurement PSO fee income (net)* | MEUR | 182.5 | 164.9 | 17.6 | 11% |
| State subsidy | MEUR | 29.3 | 0.0 | 29.3 | – |
| Mandatory procurement expenditures**: | MEUR | (245.7) | (209.9) | (35.8) | (17%) |
| <i>Cogeneration after SET</i> | MEUR | (136.7) | (135.9) | (0.8) | (1%) |
| <i>Renewable energy resources SET</i> | MEUR | (78.8) | (74.0) | (4.8) | (6%) |
| <i>SET</i> | MEUR | (30.3) | 0.0 | (30.3) | – |
| Change in liabilities of accrued compensable mandatory procurement PSO fee | MEUR | (29.1) | 45.0 | (74.1) | (165%) |
| Unsettled revenue on mandatory procurement PSO fee recognised as assets | MEUR | 63.1 | 0.0 | 63.1 | – |

PSO fee



* Mandatory procurement PSO fee income - PSO fee income subtracting mandatory procurement administrative costs

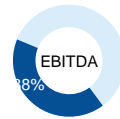
** Mandatory procurement expenditures – costs of electricity purchased within the mandatory procurement and guaranteed fee for electrical capacity installed at power plants minus revenues from sale of purchased electricity on the Nord Pool Spot exchange

*** Weighted average during the period

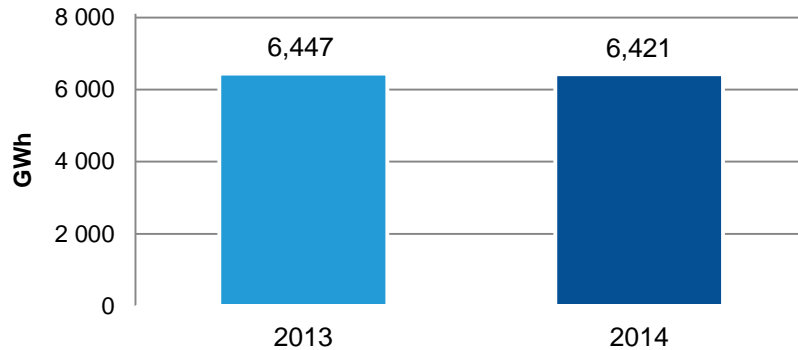
Balanced PSO fee revenues and costs

- As of 1 April 2014, the public trader functions are performed by Enerģijas publiskais tirgotājs AS
- To limit the increase of mandatory procurement PSO fee, in 2014, a grant of EUR 29.3 million has been received
- As of 1 January 2014, along with introduction of SET, EUR 30.3 million were withheld from mandatory procurement payments to generators and transferred into the State Budget
- Uncollected PSO fee income recognised in the balance sheet – 63.1 MEUR
- PSO fee revenue increase was determined by the average PSO fee increase

Investments in distribution assets reached EUR 100 million



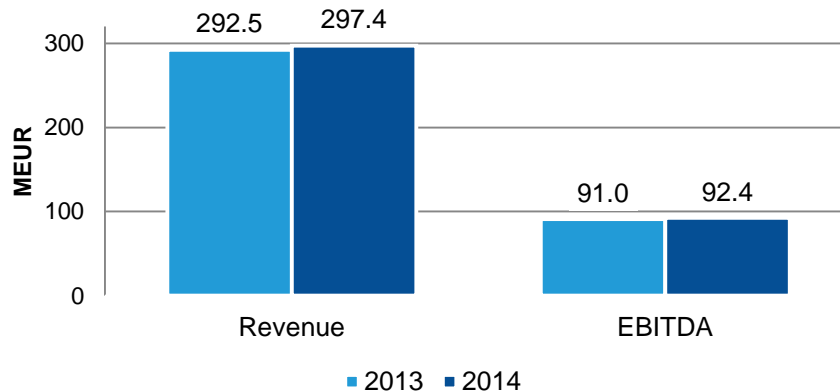
Distributed electricity has not changed significantly



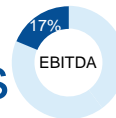
Decreased electricity losses

- Positive impact on the results due to revenue increase by 2% and lower electricity losses (-15 GWh)
- The amount of cleared electricity rights-of-way, poles replaced and wires adjusted was significantly increased
- The distribution asset value increased by 2 % due to investments

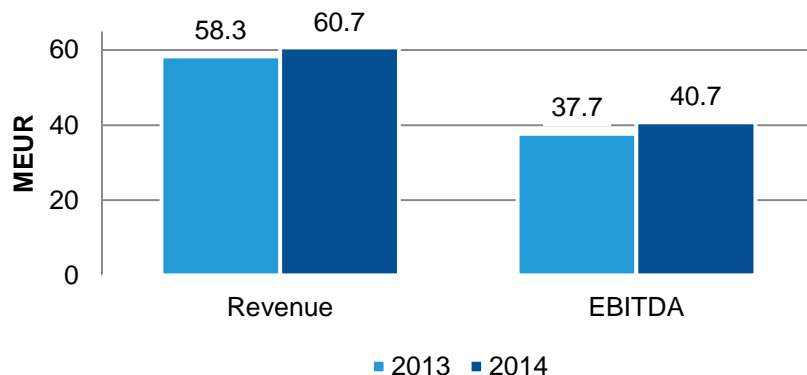
Revenue and EBITDA increase by 2 %



Transmission system assets – gradually improving returns



EBITDA increased by 8 %

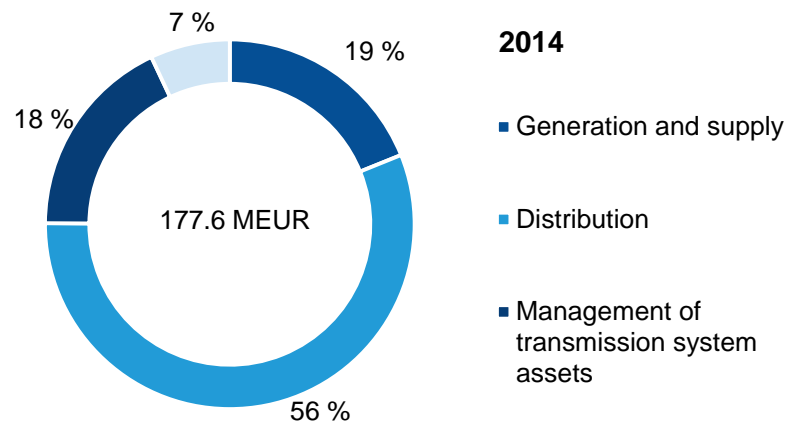


Return on transmission system assets – 3.8 %

- Positive impact on profitability due to a gradual inclusion of the value of regulatory asset revaluation reserve into the lease
- Transmission system asset value increased by 2 % due to investments
- As of 1 January 2015, the transmission system operator Augstsprieguma tīkls AS took over transmission system asset construction and maintenance functions from Latvijas elektriskie tīkli AS. The take-over has no negative impact on the profit
- As a result of Latvijas elektriskie tīkli AS restructuring, 430 employees were transferred, decreasing the total number to 13 employees

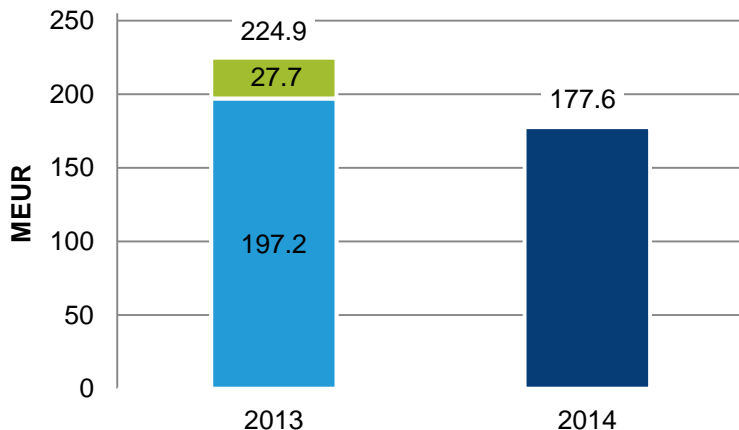
Completed construction of *Kurzeme Ring second stage*

Investments in network assets - 74 %



2014

- Generation and supply
- Distribution
- Management of transmission system assets



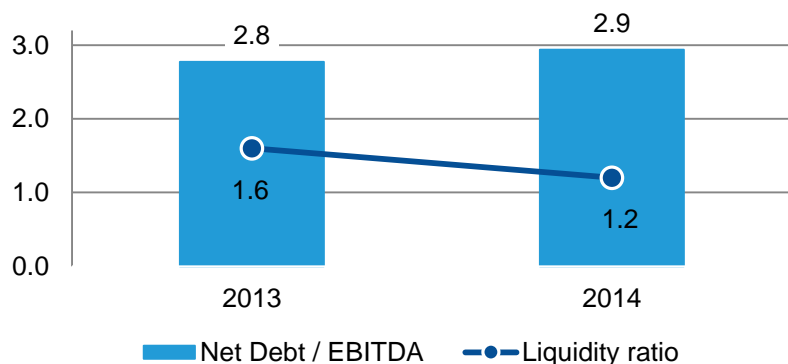
■ Riga TEC-2 power unit reconstruction

Investment projects

- NordBalt 02 -330kV, *Kurzeme Ring*:
 - total costs ~220 MEUR
 - completion in 2019
 - finished construction of 330 kV connection line *Grobiņa-Ventspils*
 - line connection *Ventspils-Tume-Rīga*, the final stage of the project, included in the indicative funding allocation list of the EC
- Daugava HPPs hydropower unit reconstruction:
 - estimated costs > 200 MEUR
 - completion in 2022
 - contracts for reconstruction of two Plavinas HPP and three Kegums HPP hydropower units have been concluded
- Along with the completion of the Riga TEC-2 second power unit reconstruction project in late 2013 and lower investments during the final stage of *Grobiņa–Ventspils* line connection construction, total investments decreased in 2014

Funding of 250 MEUR has been raised

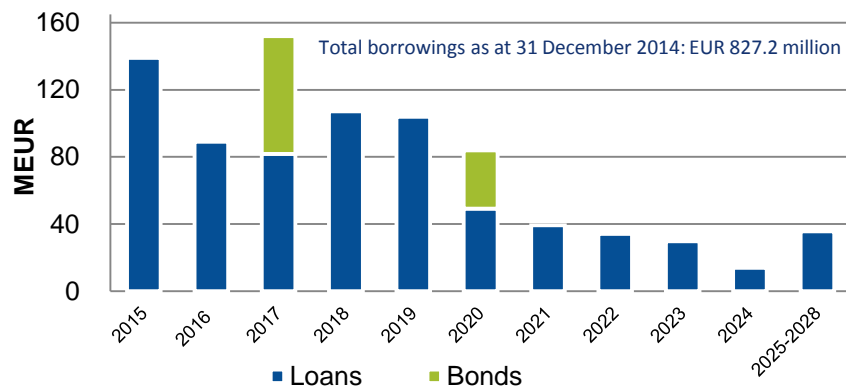
Sufficient liquidity ratios



Diversified borrowing sources

- Total amount of bonds issued exceeds 100 MEUR
- We source borrowed capital in a timely manner to ensure the required funding for investment programme of the following years and debt repayment in the due term
- In late 2014, loans from commercial banks and EIB were attracted – 150 MEUR and 100 MEUR respectively
- Equity - 58 % of total assets
- In early 2015, the rating agency Moody's Investors Service has upgraded credit rating – *Baa2* (stable)

Debt repayment schedule





Contacts

E-mail : investor.relations@latvenergo.lv

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

Latvenergo AS

Pulkveža Brieža iela 12

Rīga, LV-1230

Latvia

Izmantotie saīsinājumi



| | |
|--------------|----------------------------------------------------|
| EIB – | European Investment Bank |
| HPPs – | Hydropower plants |
| IFRS – | International Financial Reporting Standards |
| PSO fee – | Public service obligation fee |
| Riga CHPPs – | Riga combined heat and power plants |
| Riga TEC-2 – | Riga 2 nd combined heat and power plant |
| SET – | Subsidised Energy Tax |

Consolidated income statement *

| | 2014 | 2013 |
|--------------------------------------------------------------------------------------------------|---------------|---------------|
| | EUR'000 | EUR'000 |
| Revenue | 1,010,757 | 1,099,893 |
| Other income | 5,273 | 4,050 |
| Raw materials and consumables used | (617,891) | (701,453) |
| Personnel expenses | (97,983) | (95,074) |
| Depreciation, amortisation and impairment of intangible assets and property, plant and equipment | (190,989) | (187,603) |
| Other operating expenses | (59,906) | (58,722) |
| Operating profit | 49,261 | 61,091 |
| Finance income | 3,004 | 4,529 |
| Finance costs | (20,380) | (17,840) |
| Share of profit / (loss) of associates | (357) | 1,061 |
| Profit before tax | 31,528 | 48,841 |
| Income tax | (1,782) | (2,692) |
| Profit for the year | 29,746 | 46,149 |

* Unaudited Condensed Consolidated Financial Statements. Prepared in accordance with the IFRS as adopted by the EU

Consolidated statement of financial position *

| | 31/12/2014 | 31/12/2013 |
|--------------------------------------------------------------------|------------------|------------------|
| | EUR'000 | EUR'000 |
| ASSETS | | |
| <i>Non-current assets</i> | | |
| Intangible assets and property, plant and equipment | 3,079,327 | 3,097,905 |
| Investment property | 1,343 | 1,473 |
| Investments in associates and other financial investments | 41 | 41 |
| Investments in held-to-maturity financial assets | 28,528 | 28,588 |
| Other non-current receivables | 14 | 57 |
| TOTAL non-current assets | 3,109,253 | 3,128,064 |
| <i>Current assets</i> | | |
| Inventories | 22,560 | 21,634 |
| Trade receivables and other current receivables | 249,155 | 161,560 |
| Current financial investments | – | 8,060 |
| Derivative financial instruments | – | 617 |
| Cash and cash equivalents | 121,011 | 255,423 |
| TOTAL current assets | 392,727 | 447,294 |
| TOTAL ASSETS | 3,501,979 | 3,575,358 |
| EQUITY | | |
| Share capital | 1,288,446 | 1,288,011 |
| Reserves | 645,829 | 652,418 |
| Retained earnings | 79,950 | 74,832 |
| Equity attributable to equity holders of the Parent Company | 2,014,225 | 2,015,261 |
| Non-controlling interests | 6,531 | 6,453 |
| TOTAL equity | 2,020,756 | 2,021,714 |
| LIABILITIES | | |
| <i>Non-current liabilities</i> | | |
| Borrowings | 688,296 | 805,192 |
| Deferred income tax liabilities | 267,938 | 269,116 |
| Provisions | 15,588 | 15,597 |
| Derivative financial instruments | 11,698 | 6,238 |
| Other liabilities and deferred income | 177,073 | 170,152 |
| TOTAL non-current liabilities | 1,160,593 | 1,266,295 |
| <i>Current liabilities</i> | | |
| Trade and other payables | 172,850 | 130,670 |
| Borrowings | 138,925 | 139,483 |
| Derivative financial instruments | 8,855 | 17,196 |
| TOTAL current liabilities | 320,630 | 287,349 |
| TOTAL liabilities | 1,481,223 | 1,553,644 |
| TOTAL EQUITY AND LIABILITIES | 3,501,979 | 3,575,358 |

* Unaudited Condensed Consolidated Financial Statements. Prepared in accordance with the IFRS as adopted by the EU

Consolidated statement of cash flows *

| | 2014 | 2013 |
|--------------------------------------------------------------------------------------------------|------------------|------------------|
| | EUR'000 | EUR'000 |
| Cash flows from operating activities | | |
| Profit before tax | 31,528 | 48,841 |
| Adjustments: | | |
| - Amortisation, depreciation and impairment of non-current assets | 193,459 | 190,671 |
| - Net financial adjustments | 9,503 | 20,530 |
| - Other adjustments | 199 | 217 |
| Operating profit before working capital adjustments | 234,689 | 260,259 |
| Increase in current assets | (127,432) | (9,164) |
| Increase / (decrease) in trade and other payables | 52,284 | (64,800) |
| Cash generated from operating activities | 159,541 | 186,295 |
| Interest paid | (20,915) | (24,350) |
| Interest received | 2,482 | 2,361 |
| Income tax paid | (5,779) | (17,766) |
| Net cash flows from operating activities | 135,329 | 146,540 |
| Cash flows from investing activities | | |
| Purchase of intangible assets and property, plant and equipment | (177,988) | (209,812) |
| Proceeds from sales of investments | 5,779 | - |
| Proceeds on financing from EU funds and other financing | 2,161 | 10,138 |
| Proceeds from redemption of held-to-maturity assets | 60 | 60 |
| Net cash flows used in investing activities | (169,988) | (199,614) |
| Cash flows from financing activities | | |
| Proceeds from issued debt securities (bonds) | - | 84,835 |
| Proceeds from borrowings from financial institutions | 22,600 | 117,300 |
| Repayment of borrowings | (139,695) | (105,174) |
| Dividends paid to non-controlling interests | (1,197) | (313) |
| Dividends paid | (12,649) | (30,644) |
| Dividends received from associates | 1,924 | - |
| Received government grant for mandatory procurement public service obligation costs compensation | 29,264 | - |
| Net cash flows used in financing activities | (99,753) | 66,004 |
| Net decrease in cash and cash equivalents | (134,412) | 12,930 |
| Cash and cash equivalents at the beginning of the year | 255,423 | 242,493 |
| Cash and cash equivalents at the end of the year | 121,011 | 255,423 |

* Unaudited Condensed Consolidated Financial Statements. Prepared in accordance with the IFRS as adopted by the EU