

*Keguma HES*

# 2014 Annual Audited Consolidated Financial Statements

15 April 2015



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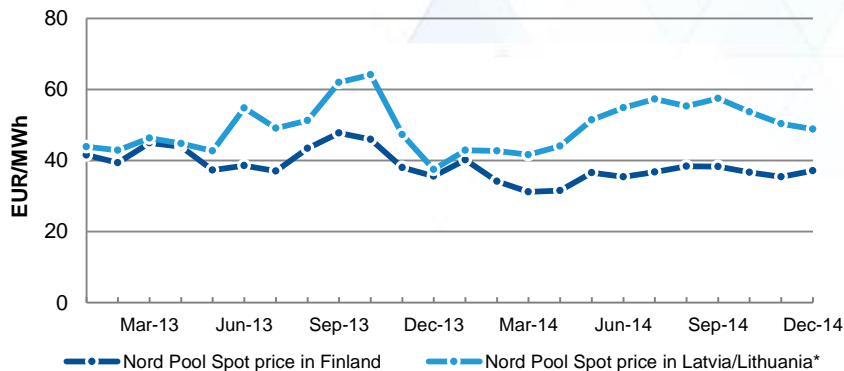
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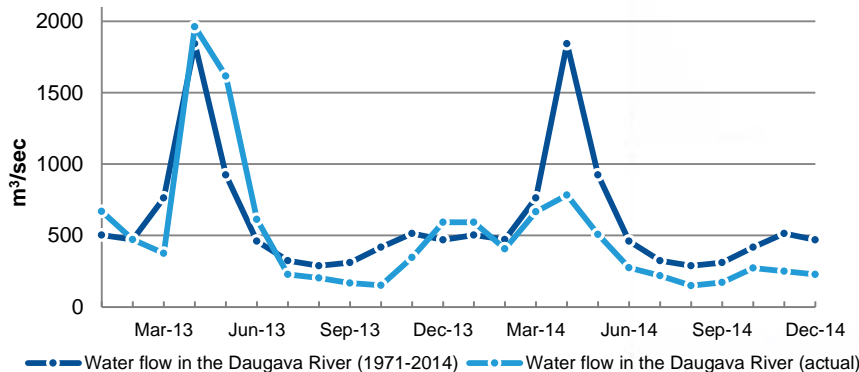
# Due to cross-border transmission capacity constraints, decrease of Nord Pool Spot prices in the Nordic countries does not foster price decline in Latvia

## 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

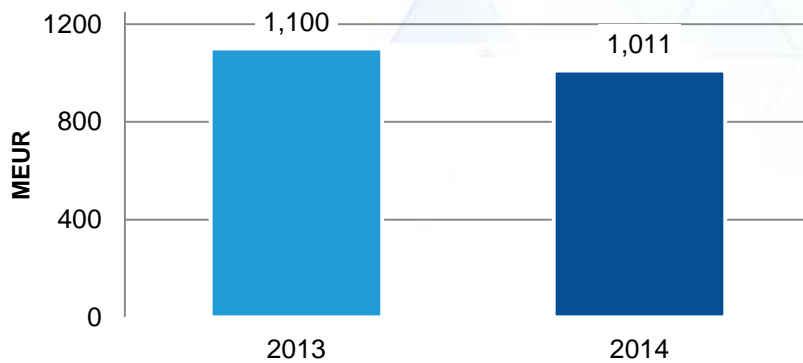
## Low water inflow in the Daugava River



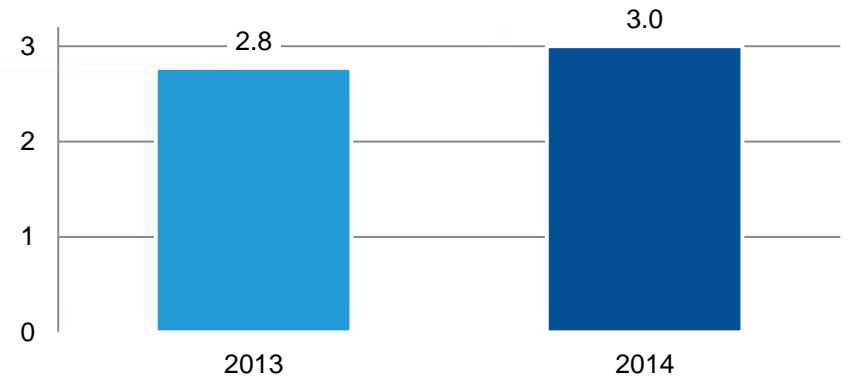
\* Nord Pool Spot Latvia bidding area was opened on 3 June 2013. In 2014, electricity prices in Latvia and Lithuania bidding areas were equal 99.9% hours

# Key financial figures

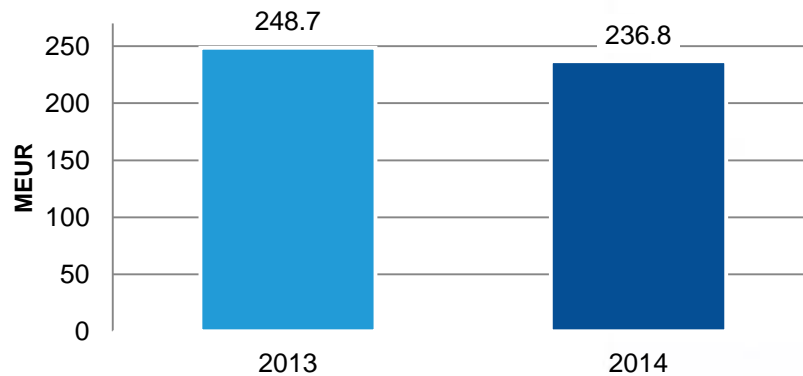
## Revenue



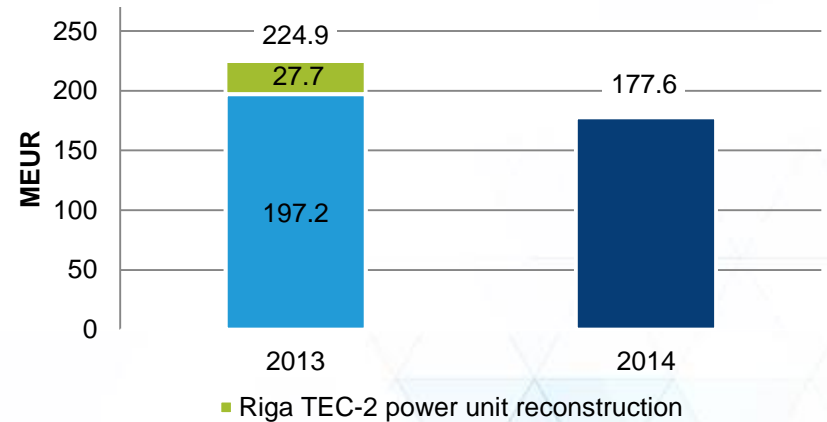
## Net debt / EBITDA



## EBITDA

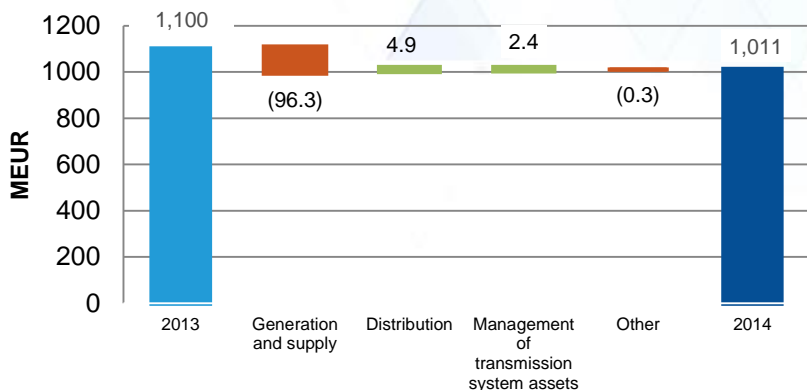


## Investments



# Financial results

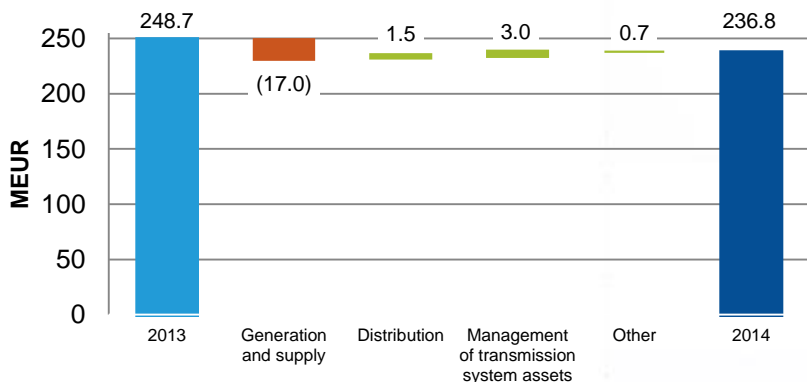
## Revenue dynamics by segment



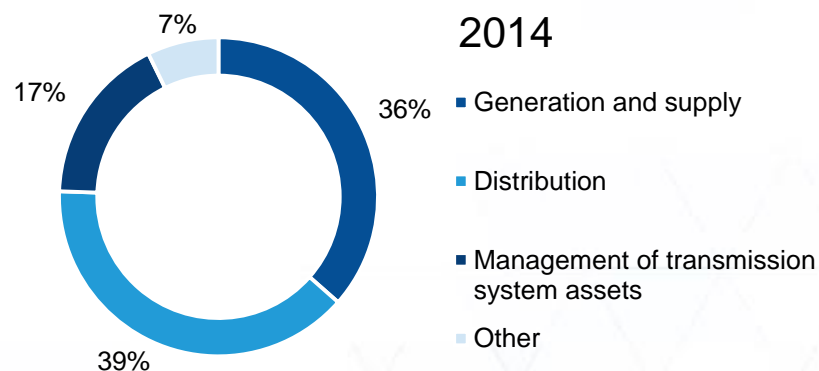
## EBITDA – 236.8 MEUR

- ▶ 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 – 23.4% (2013: 22.6%)

## EBITDA dynamics by segment



## Weight of EBITDA by segment

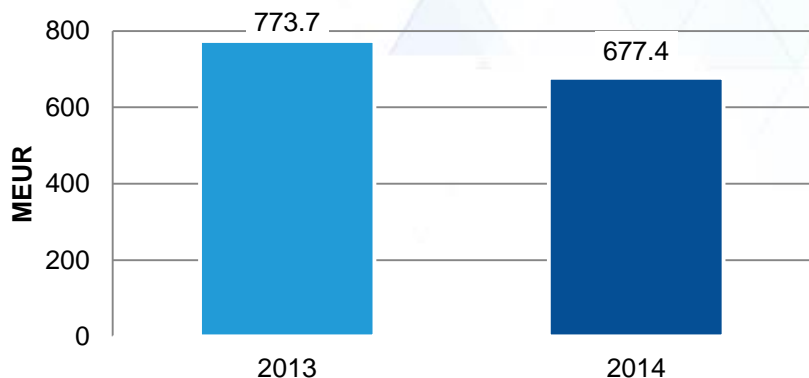


\* Along with Enerģijas publiskais tirgotājs AS entrance into operation as of 1 April 2014, mandatory procurement PSO fee revenues are not recognized in the revenue

# Generation and supply



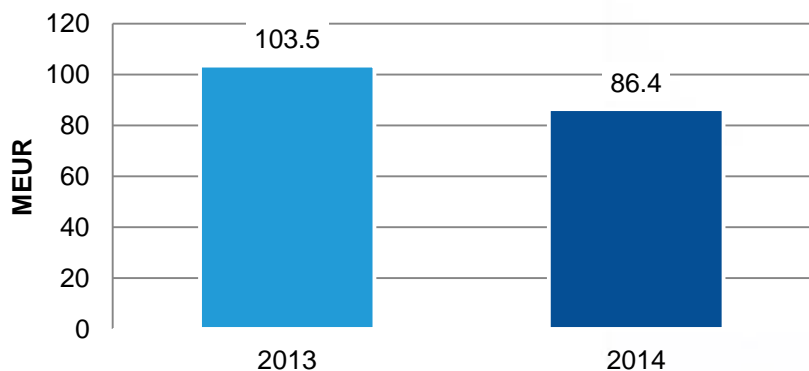
## Segment revenue



## 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)

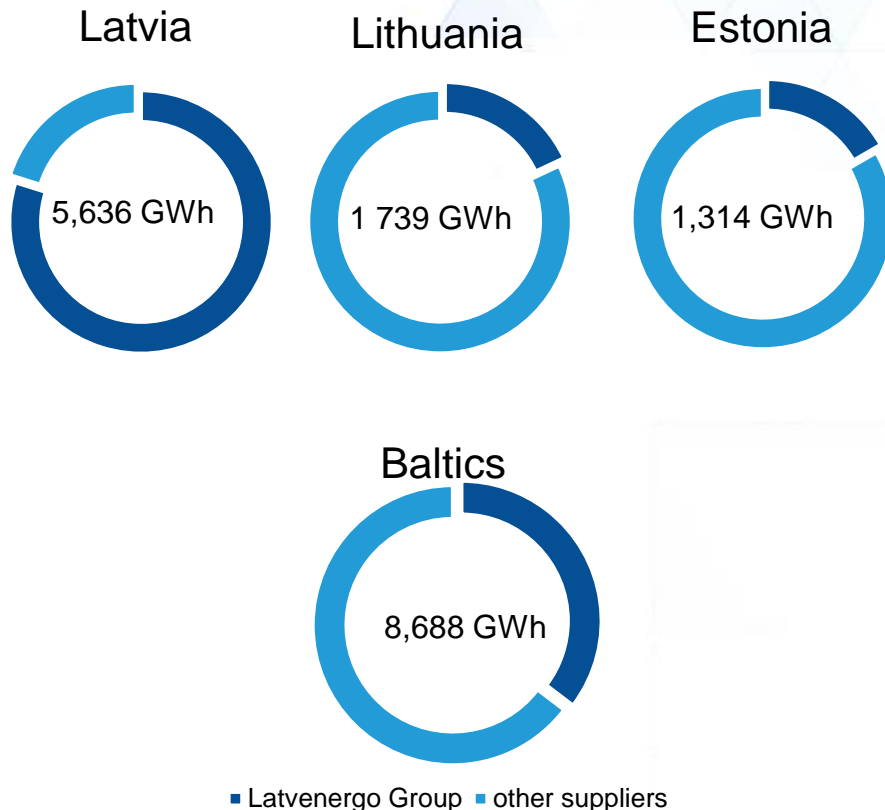
## Segment EBITDA



\* 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



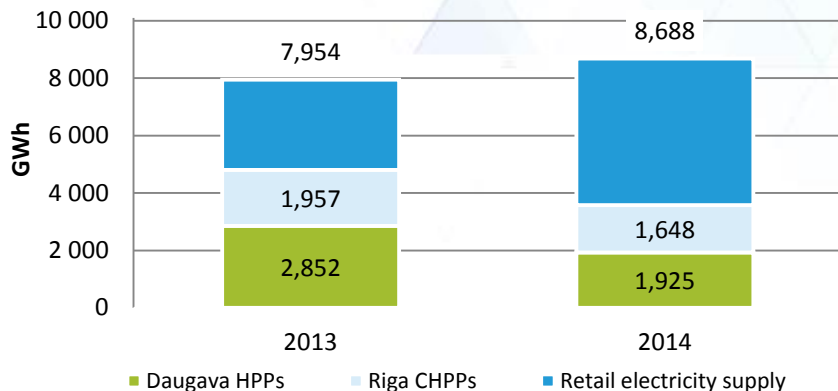
## The leading electricity supplier in the Baltics

- ▶ 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



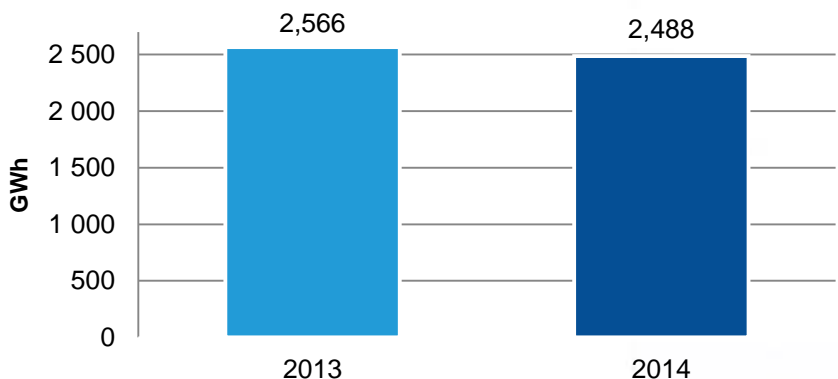
## 3,625 GWh of electricity generated



## 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

## 2,488 GWh of thermal energy generated



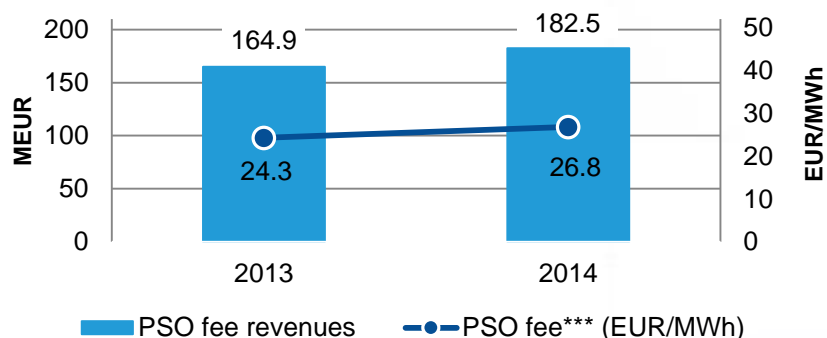


# Mandatory procurement does not affect the results

## 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%)   |
| <b>Unsettled revenue on mandatory procurement PSO fee recognised as assets</b> | <b>MEUR</b> | <b>63.1</b> | <b>0.0</b> | <b>63.1</b> | <b>–</b> |

## 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

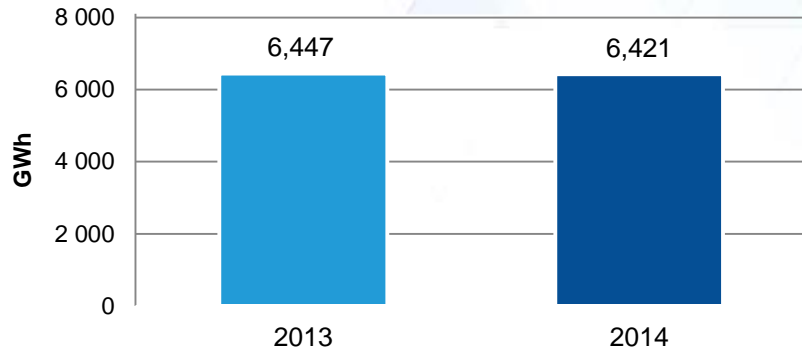
## Balanced PSO fee revenues and costs

- ▶ 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

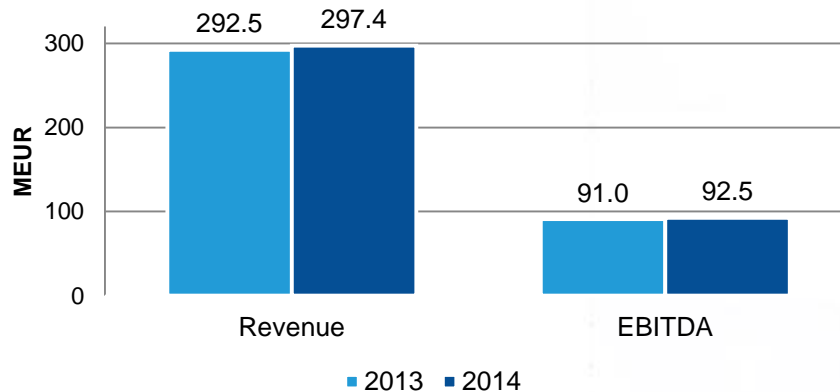


Distributed electricity has not changed significantly

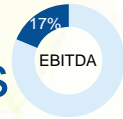


- ▶ Positive impact on the results due to revenue increase by 2% and lower electricity losses (-15 GWh)
- ▶ The amount of cleared electricity rights-of-way, poles replaced and wires adjusted was significantly increased
- ▶ The distribution asset value increased by 2% due to investments

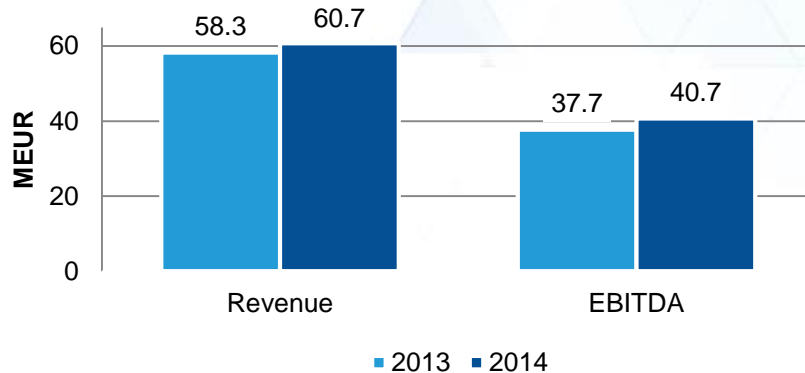
Revenue and EBITDA increase by 2%



# Transmission system assets – gradually improving returns



## EBITDA increased by 8%

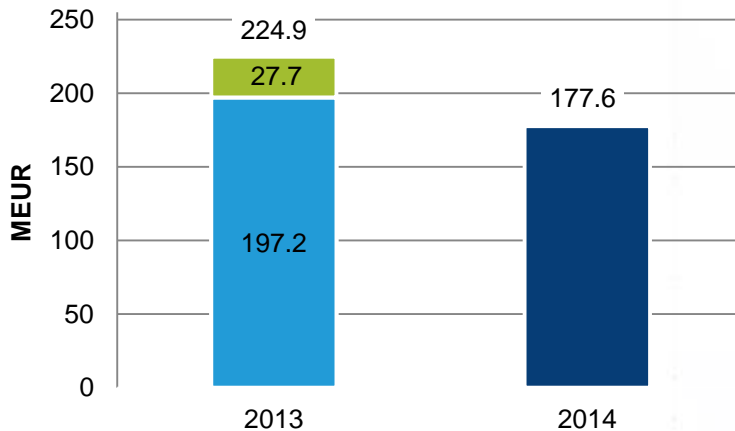
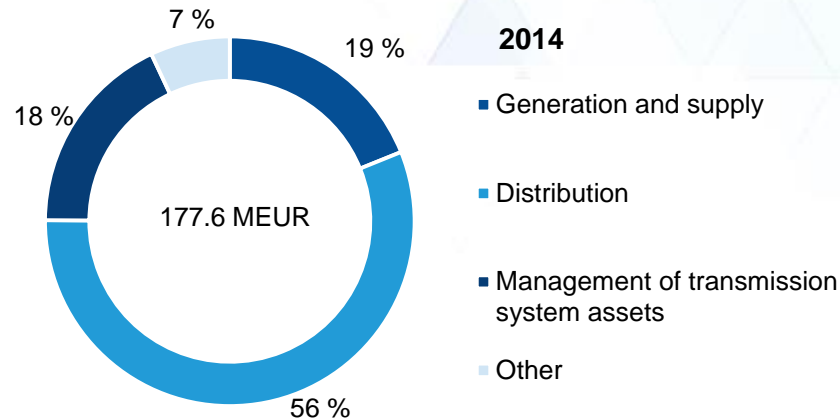


## Return on transmission system assets – 3.8%

- ▶ 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%



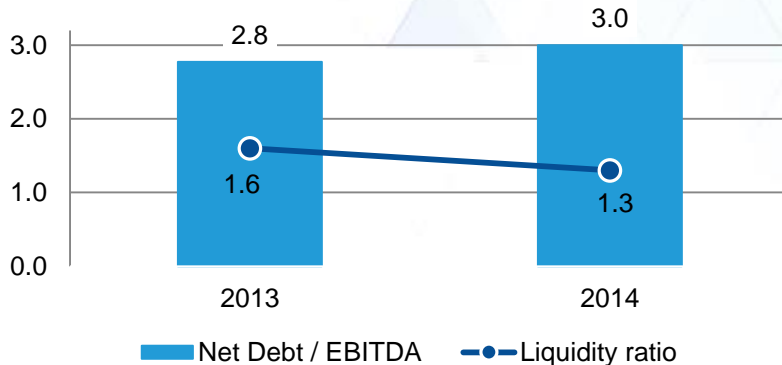
■ Riga TEC-2 power unit reconstruction

## Investment projects

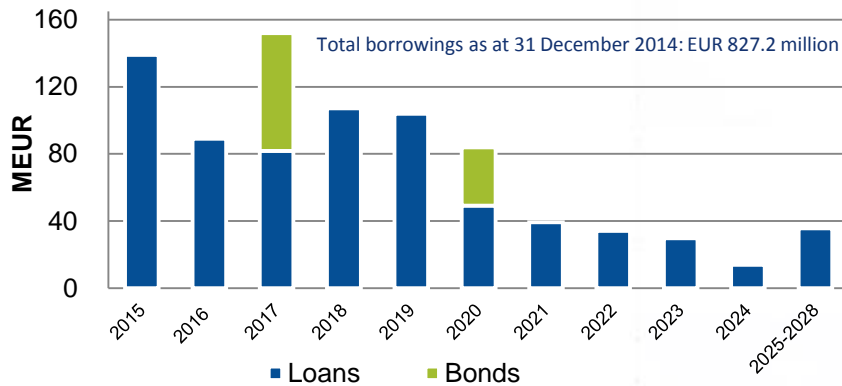
- ▶ NordBalt 02 -330 kV, *Kurzeme Ring*:
  - ▶ total costs ~220 MEUR
  - ▶ completion in 2019
  - ▶ finished construction of 330 kV connection line *Grobiņa-Ventspils*
  - ▶ line connection *Ventspils-Tume-Rīga*, the final stage of the project, included in the indicative funding allocation list of the 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



## Debt repayment schedule



## 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)

## 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

# 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 <sup>nd</sup> 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   | (621 285)     | (701 453)     |
| Personnel expenses   | (97 954)      | (95 074)      |
| Depreciation, amortisation and impairment of property, plant and equipment | (187 595)     | (187 603)     |
| Other operating expenses   | (59 953)      | (58 722)      |
| <b>Operating profit</b>  | <b>49 243</b> | <b>61 091</b> |
| Finance income   | 3 004         | 4 529         |
| Finance costs  | (20 380)      | (17 840)      |
| Share of profit / (loss) of associates                                     | (357)         | 1 061         |
| <b>Profit before tax</b>   | <b>31 510</b> | <b>48 841</b> |
| Income tax   | (1 720)       | (2 692)       |
| <b>Profit for the year</b>   | <b>29 790</b> | <b>46 149</b> |



# Consolidated statement of financial position \*

|  | 31.12.2014       | 31.12.2013       |
|--|------------------|------------------|
|  | EUR'000          | EUR'000          |
| <b>ASSETS</b>  |                  |                  |
| <b>Non-current assets</b>  |                  |                  |
| Intangible assets  | 13 011           | 11 130           |
| Property, plant and equipment                                      | 3 066 316        | 3 086 775        |
| Investment property  | 1 343            | 1 473            |
| Non-current financial investments                                  | 41               | 41               |
| Other non-current receivables                                      | 14               | 57               |
| Investments in held-to-maturity financial assets                   | 28 528           | 28 588           |
| <b>Total non-current assets</b>                                    | <b>3 109 253</b> | <b>3 128 064</b> |
| <b>Current assets</b>  |                  |                  |
| Inventories  | 22 560           | 21 634           |
| Trade receivables and other receivables                            | 233 752          | 161 560          |
| Current financial investments                                      | –                | 8 060            |
| Derivative financial instruments                                   | –                | 617              |
| Cash and cash equivalents  | 121 011          | 255 423          |
| <b>Total current assets</b>  | <b>377 323</b>   | <b>447 294</b>   |
| <b>TOTAL ASSETS</b>  | <b>3 486 576</b> | <b>3 575 358</b> |
| <b>EQUITY</b>  |                  |                  |
| Share capital  | 1 288 446        | 1 288 011        |
| Reserves   | 645 829          | 652 418          |
| Retained earnings  | 79 995           | 74 832           |
| <b>Equity attributable to equity holders of the Parent Company</b> | <b>2 014 270</b> | <b>2 015 261</b> |
| Non-controlling interests  | 6 531            | 6 453            |
| <b>Total equity</b>  | <b>2 020 801</b> | <b>2 021 714</b> |
| <b>LIABILITIES</b>   |                  |                  |
| <b>Non-current liabilities</b>                                     |                  |                  |
| Borrowings   | 688 297          | 805 192          |
| Deferred income tax liabilities                                    | 268 026          | 269 116          |
| Provisions   | 15 588           | 15 597           |
| Derivative financial instruments                                   | 11 698           | 6 238            |
| Other liabilities and deferred income                              | 194 474          | 170 152          |
| <b>Total non-current liabilities</b>                               | <b>1 178 083</b> | <b>1 266 295</b> |
| <b>Current liabilities</b>   |                  |                  |
| Trade and other payables   | 139 909          | 130 667          |
| Income tax payable   | 3                | 3                |
| Borrowings   | 138 925          | 139 483          |
| Derivative financial instruments                                   | 8 855            | 17 196           |
| <b>Total current liabilities</b>                                   | <b>287 692</b>   | <b>287 349</b>   |
| <b>TOTAL EQUITY AND LIABILITIES</b>                                | <b>3 486 576</b> | <b>3 575 358</b> |

# Consolidated statement of cash flows \*

|  | 2014             | 2013             |
|--|------------------|------------------|
|  | EUR'000          | EUR'000          |
| <b>Cash flows from operating activities</b>                                  |                  |                  |
| Profit before tax  | 31 510           | 48 841           |
| <b>Adjustments for:</b>  |                  |                  |
| – Amortisation, depreciation and impairment of property, plant and equipment | 187 595          | 187 603          |
| – Loss from disposal of non-current assets                                   | 2 470            | 3 068            |
| – Losses / (gains) on investments accounting at equity method                | 357              | (1 061)          |
| – Interest costs   | 20 351           | 21 500           |
| – Interest income  | (2 045)          | (2 170)          |
| – Fair value (gains) / losses on derivative financial instruments            | (8 759)          | 2 261            |
| – Increase in provisions   | 150              | 339              |
| – Unrealised losses / (gains) on currency translation differences            | 65               | (122)            |
| <b>Operating profit before working capital adjustments</b>                   | <b>231 694</b>   | <b>260 259</b>   |
| Decrease in inventories  | 2 468            | 1 322            |
| Increase in trade and other receivables                                      | (93 285)         | (10 486)         |
| Increase / (decrease) in trade and other payables                            | 19 062           | (64 800)         |
| <b>Cash generated from operating activities</b>                              | <b>159 939</b>   | <b>186 295</b>   |
| Interest paid  | (20 915)         | (24 350)         |
| Interest received  | 2 082            | 2 361            |
| Income tax paid  | (5 777)          | (17 766)         |
| <b>Net cash flows from operating activities</b>                              | <b>135 329</b>   | <b>146 540</b>   |
| <b>Cash flows from investing activities</b>                                  |                  |                  |
| Purchase of intangible assets and PPE  | (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               |
| <b>Net cash flows used in investing activities</b>                           | <b>(169 988)</b> | <b>(199 614)</b> |
| <b>Cash flows from financing activities</b>                                  |                  |                  |
| Proceeds from issued debt securities (bonds)                                 | –                | 84 835           |
| Proceeds on 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 received from associates   | 1 924            | –                |
| Dividends paid to equity holders of the Parent Company                       | (12 649)         | (30 644)         |
| <b>Net cash (used in) / generated from financing activities</b>              | <b>(129 017)</b> | <b>66 004</b>    |
| <b>Net (decrease) / increase in cash and cash equivalents</b>                | <b>(163 676)</b> | <b>12 930</b>    |
| Cash and cash equivalents at the beginning of the year                       | 255 423          | 242 493          |
| <b>Cash and cash equivalents at the end of the year</b>                      | <b>91 747</b>    | <b>255 423</b>   |