

Unaudited Interim Condensed Consolidated Financial Statements

Keguma HES

for the 3 month period ended
31 March 2015

22.05.2015/ RIGA



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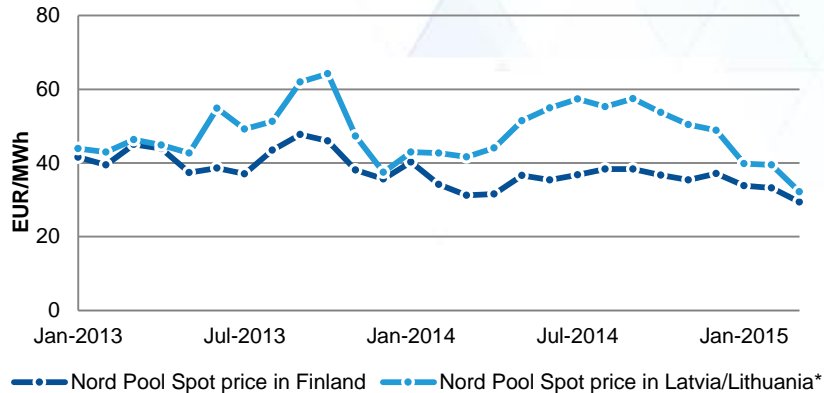
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Due to warmer weather conditions and decline in global market coal price the electricity price decrease in the Nordics and the Baltics

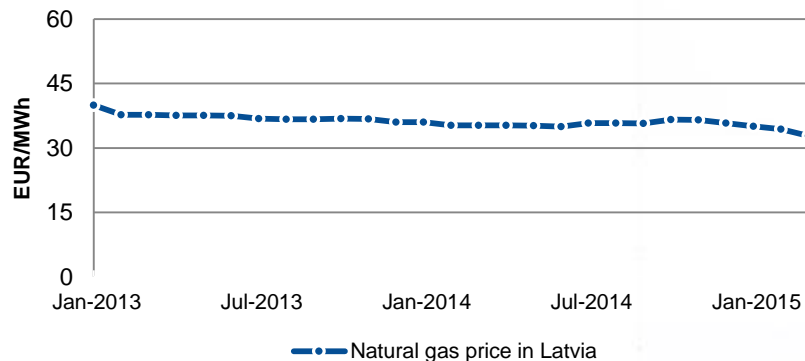
Low electricity price



Main facts – Q1 2015

- ▶ Nord Pool Spot price decreased by 9% in Finland and Estonia (32.1 EUR/MWh and 32,5 EUR/MWh respectively) and by 12 % in Latvia/Lithuania* (37.1 EUR/MWh)
- ▶ Electricity price decrease was determined by lower electricity consumption due to warmer weather conditions and decline in global market coal price by 23% (59.8 USD/t)
- ▶ Transmission system capacity shortage determines price differences between the Latvia/Lithuania and Estonia bidding areas
- ▶ In 2014, natural gas price in Latvia remains high (34.0 EUR/MWh) – it gradually starts to decline

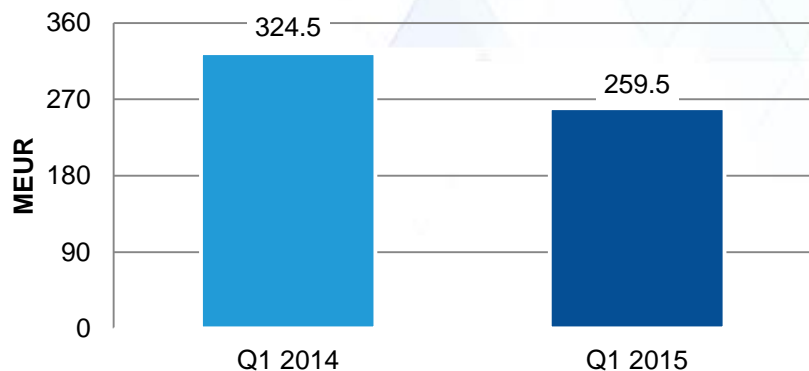
Still high natural gas price in Latvia



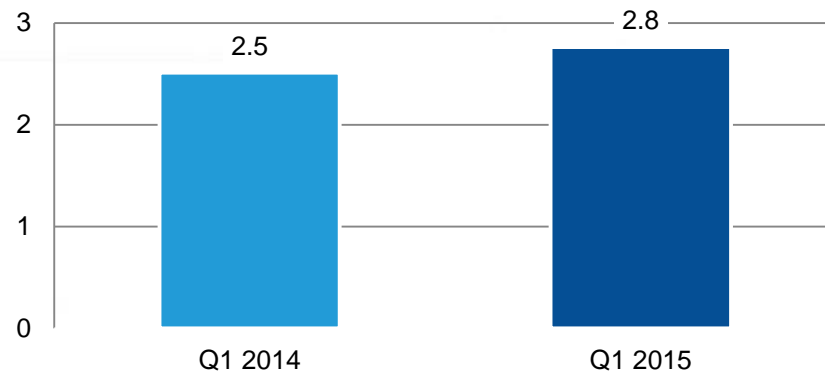
* In Q1 2015, electricity prices in the Latvia and Lithuania bidding areas were equal 99.7% hours.

Increase in EBITDA of the Group

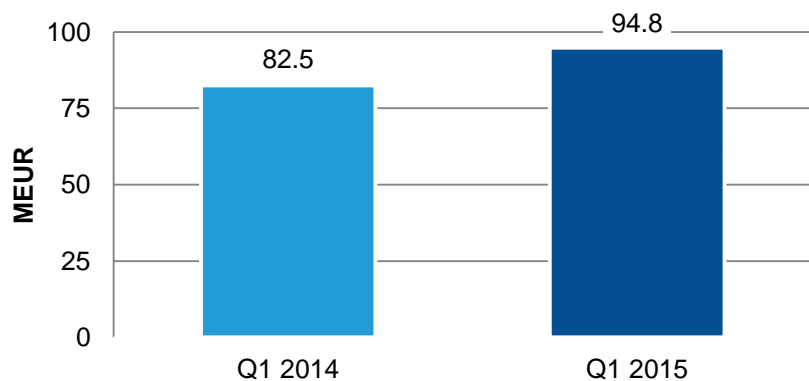
Revenue



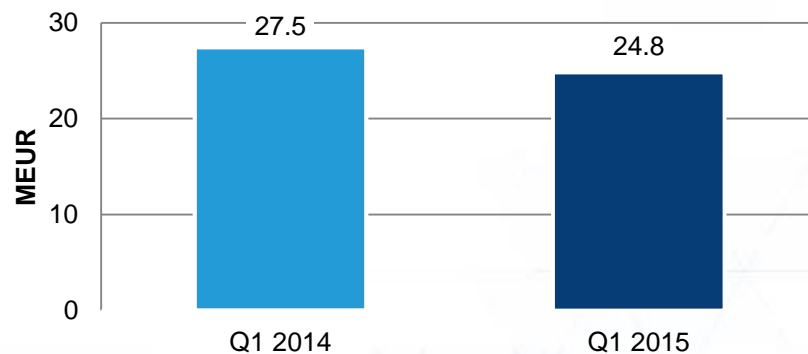
Net debt/EBITDA



EBITDA

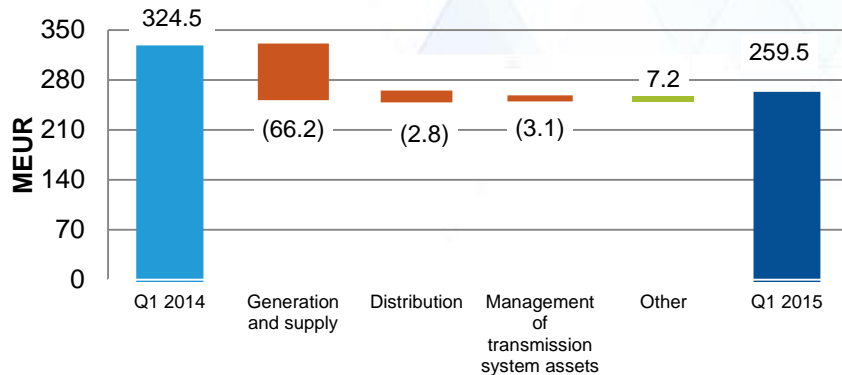


Investments



Electricity market is open for households in Latvia as of 1 January

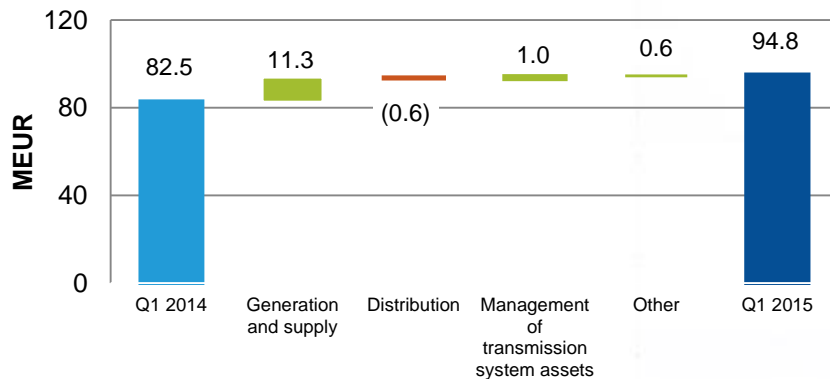
Revenue dynamics by segments



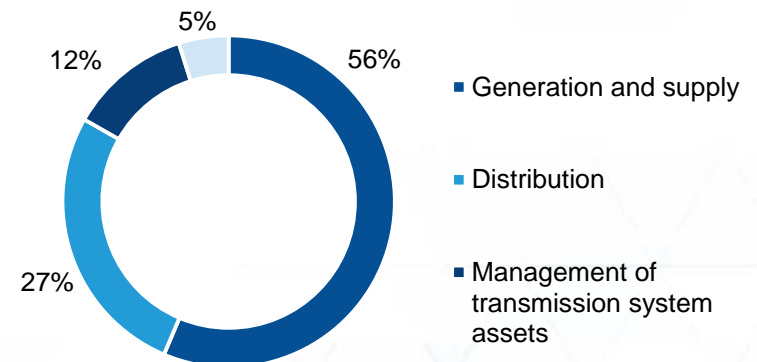
EBITDA reached 94.8 MEUR

- ▶ The results were positively impacted by electricity market opening for households in Latvia
- ▶ Lower revenue in generation and supply segment - Mandatory procurement PSO fee revenues are no longer recognised in the revenue of the Group*
- ▶ EBITDA margin – 26% (Q1 2014: 24%)

EBITDA dynamics by segments

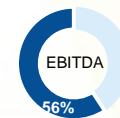


EBITDA weight by segments

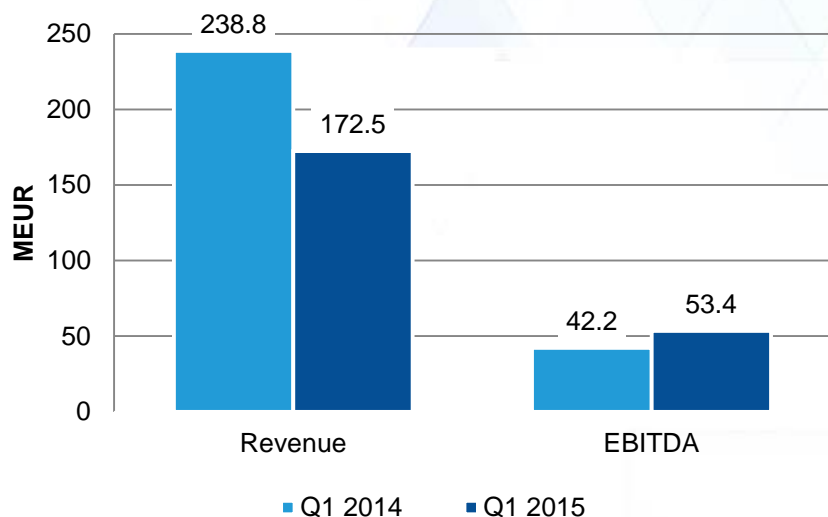


* Along with Energijas publiskais tirgotājs AS entrance into operation as of 1 April 2014, mandatory procurement PSO fee revenues are not recognised in the revenue

Generation and supply



Segment revenue and EBITDA



The largest segment of the Group

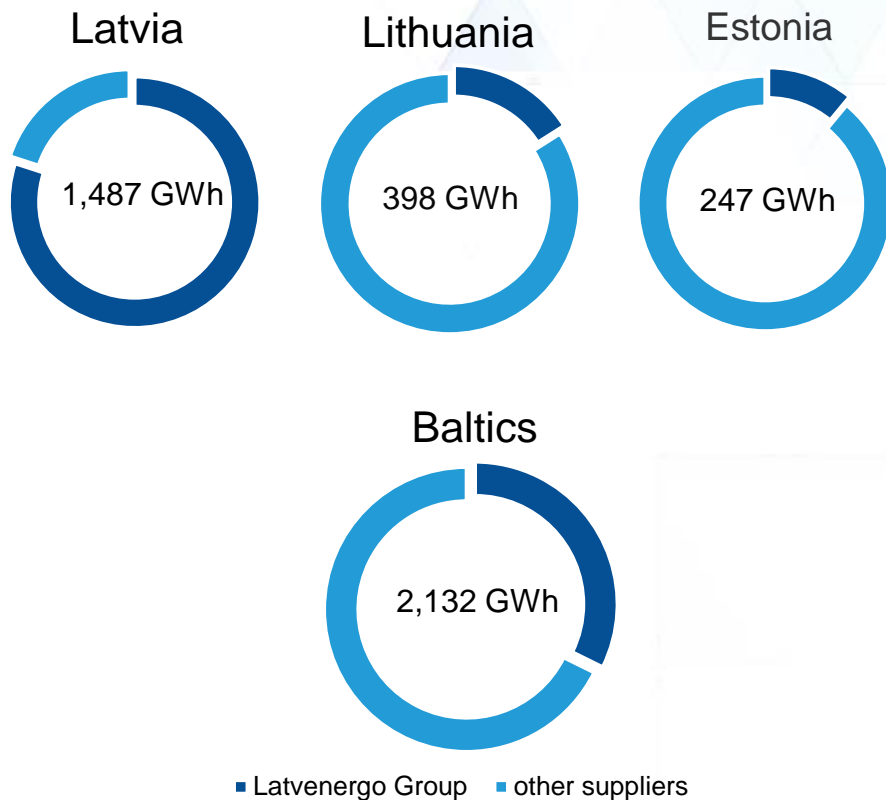
- ▶ The results of the segment were impacted by opening of electricity market in Latvia and by 5% higher generation at Daugava HPPs. In Q1 2014, lost revenues due to electricity supply at the regulated tariff were EUR 5.3 million.
- ▶ Lower revenue of the segment - Mandatory procurement PSO fee revenues are no longer recognised in the revenue of the Group*
- ▶ Lower consumption of thermal energy and electricity due to warmer weather conditions

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



Leading electricity supplier in the Baltics

Retail electricity supply



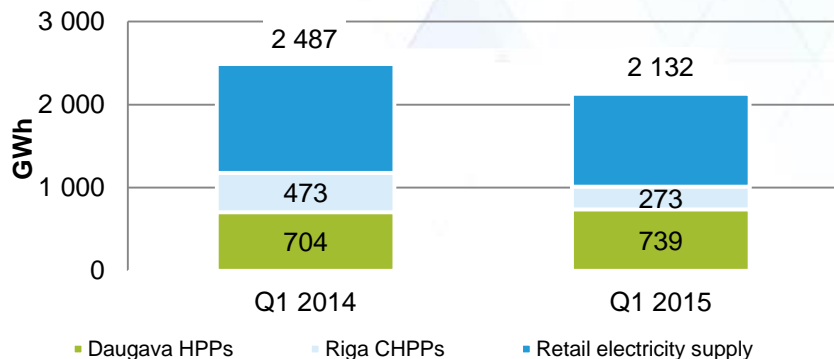
Focused and successful operations in the market

- ▶ The number of customers in Estonia and Lithuania has increased by more than 10% reaching more than 34.1 thousand
- ▶ Retail electricity supply in neighbouring countries reached 645 GWh, which is approximately 60% higher than the amount provided by competing electricity suppliers in Latvia
- ▶ Electricity market is open for households in Latvia as of 1 January 2015
- ▶ 99% household customers have chosen to keep Latvenergo as their electricity supplier.

Effective and balanced generation sources



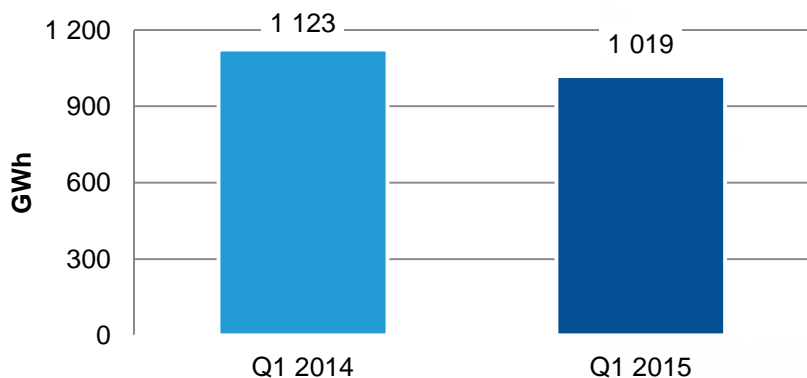
1,027 GWh of electricity generated



Riga CHPPs operation adjusted to the market conditions

- ▶ The total electricity generation volume represents 48% of retail electricity supply.
- ▶ Electricity generation at Daugava HPPs increased by 5%
- ▶ Riga CHPPs operated in market conjuncture effectively planning operating modes and fuel consumption

1,019 GWh of thermal energy generated



- ▶ Warmer weather conditions determined lower consumption of thermal energy – thermal energy generation decreased by 9%.

Mandatory procurement PSO fee remains at the previous level

Recognised accrued PSO fee revenues

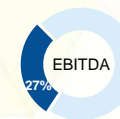
		Q1 2015	Q1 2014	Δ	Δ, %
Mandatory procurement PSO fee income	MEUR	46.1	48.1	(2.0)	(4%)
Mandatory procurement expenditures*	MEUR	(74.8)	(68.0)	(6.8)	10%
<i>Incl. cogeneration after SET</i>	MEUR	(38.7)	(37.4)	(1.3)	4%
<i>Incl. renewable energy resources after SET</i>	MEUR	(27.5)	(22.8)	(4.7)	21%
<i>Incl. SET</i>	MEUR	(8.4)	(7.7)	(0.6)	8%
Difference	MEUR	28.7	19.9	8.8	44%

Balanced mandatory procurement PSO fee revenues and costs

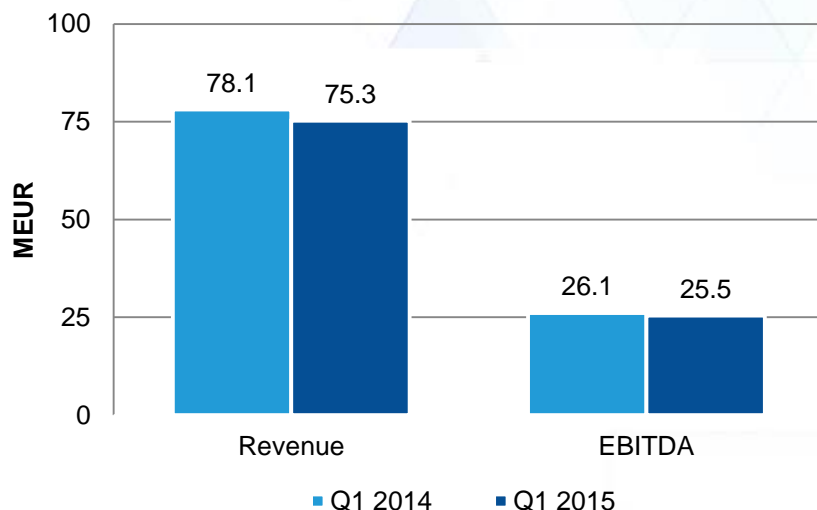
- ▶ As of 1 April 2014 the public trader functions are performed by Enerģijas publiskais tirgotājs AS
- ▶ Starting from 1 April 2015 PSO fee remains at the previous level (EUR 2.679 cents/kWh)
- ▶ The difference between PSO fee income and expenditures was EUR 28.7 million.
- ▶ PSO expenditure increase by 6.8 MEUR

* 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

Increased investments in distribution assets



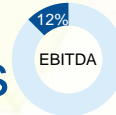
Segment revenue and EBITDA



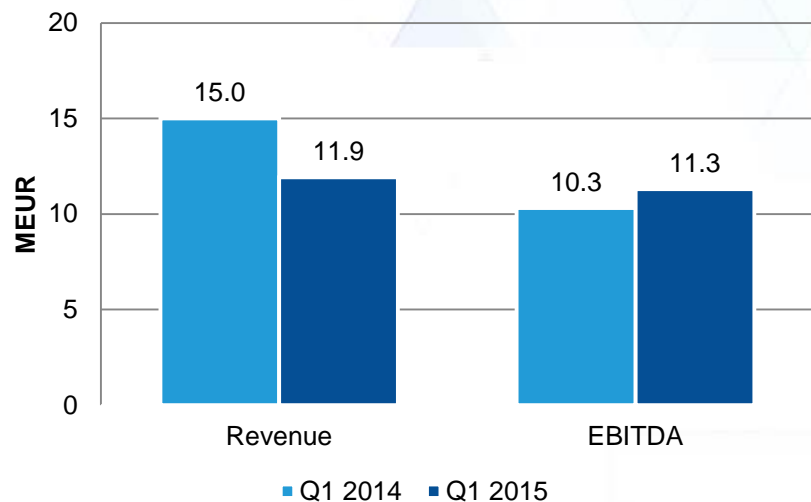
Increased investments by 52%

- ▶ Positive impact on the results was due to lower distribution losses and lower electricity price
- ▶ Negative impact on the results due to lower revenue of distribution services, which was determined by changes in settlement methods due to opening of electricity market for households
- ▶ The distribution asset value increased by 2% due to investments

Transmission system assets – gradually improving returns



Increase in EBITDA by 10%



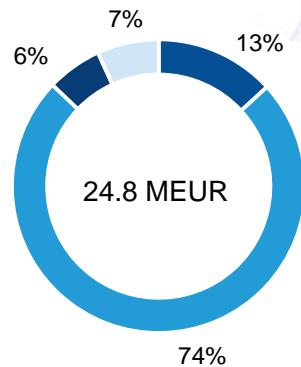
Return on transmission system assets* – 3.8%

- ▶ Positive impact on profitability due to a gradual inclusion of the value of regulatory asset revaluation reserve into the lease
- ▶ Revenue decrease was influenced by system asset construction and maintenance function transfer to TSO as of 1 January 2015
- ▶ As a result of Latvijas elektriskie tīkli AS restructuring, 430 employees were transferred, decreasing the total number to 13 employees

* Return on segment assets – operating profit of the segment (12-month rolling) / average segment assets ((assets at the beginning of the period + assets at the end of the period) / 2)

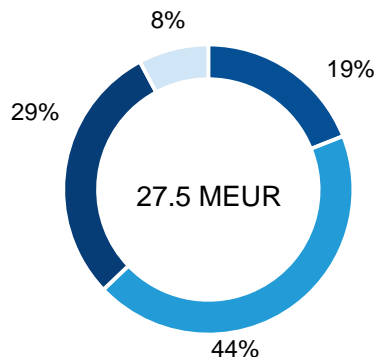
Investments in network assets - 80% of total

Investment projects



Q1 2015

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



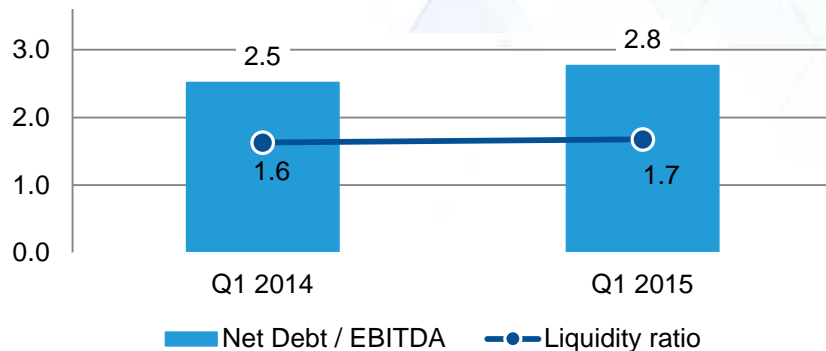
Q1 2014

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

- ▶ NordBalt 02 -330kV, *Kurzeme Ring*:
 - ▶ total costs ~220 MEUR
 - ▶ completion in 2019
 - ▶ in 2015, a contract with the EC Innovation and Networks Executive Agency was concluded providing 45% co-funding for the final stage *Ventspils–Tume–Rīga* of the project
- ▶ Daugava HPPs hydropower unit reconstruction:
 - ▶ estimated costs > 200 MEUR
 - ▶ completion in 2022
 - ▶ contracts for reconstruction of six hydropower units at Riga HPP have been concluded in 2015
- ▶ Along with the completion of the second stage of *Kurzeme Ring* in August 2014, total investments decreased in Q1 2015

We are planning to carry out a new bond offering programme

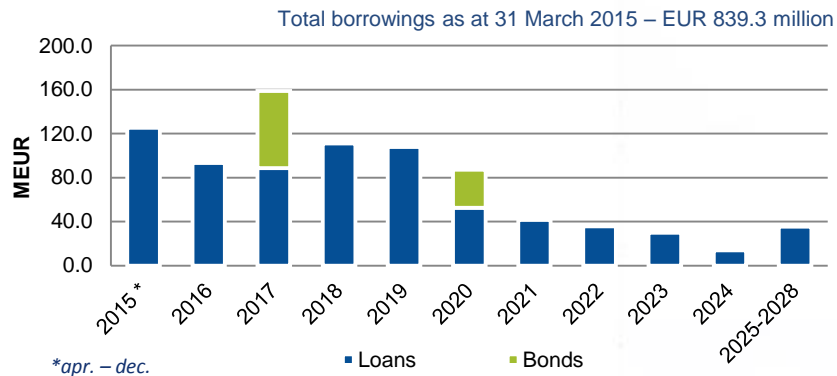
Stable liquidity ratios



Diversified borrowing sources

- ▶ 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
- ▶ We are planning to carry out a new bond offering programme in the amount of EUR 100 million
- ▶ Equity – 58 % of total assets
- ▶ In early 2015, the rating agency Moody's Investors Service has upgraded credit rating – *Baa2* (stable)

Debt repayment schedule



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Latvia

Abbreviations

EC –	European Commission
EU –	European Union
HPPs –	Hydropower plants
IFRS –	International Financial Reporting Standards
PSO fee –	Public service obligation fee
Riga CHPPs –	Riga combined heat and power plants
TSO –	Transmission system operator

Consolidated Statement of Profit or Loss*

	01/01-31/03/2015	01/01-31/03/2014
	EUR'000	EUR'000
Revenue	259,506	324,495
Other income	1,199	1,128
Raw materials and consumables used	(127,615)	(204,164)
Personnel expenses	(22,578)	(23,528)
Depreciation, amortisation and impairment of property, plant and equipment	(43,702)	(43,798)
Other operating expenses	(15,698)	(15,398)
Operating profit	51,112	38,735
Finance income	694	751
Finance costs	(4,959)	(5,132)
Share of profit / (loss) of associates	–	(329)
Profit before tax	46,847	34,025
Income tax	(7,591)	(3,251)
Profit for the period	39,256	30,774

Consolidated statement of financial position*

	31.03.2015	31.12.2014
	EUR'000	EUR'000
ASSETS		
Non-current assets		
Intangible assets and property, plant and equipment	3,059,314	3,079,327
Investment property	1,345	1,343
Non-current financial investments	41	41
Investments in held-to-maturity financial assets	28,513	28,528
Other non-current receivables	12	14
Total non-current assets	3,089,225	3,109,253
Current assets		
Inventories	25,032	22,560
Trade receivables and other receivables	261,890	233,752
Cash and cash equivalents	150,656	121,011
Total current assets	437,578	377,323
TOTAL ASSETS	3,526,803	3,486,576
EQUITY		
Share capital	1,288,446	1,288,446
Reserves	645,181	645,829
Retained earnings	118,174	79,995
Equity attributable to equity holders of the Parent Company	2,051,801	2,014,270
Non-controlling interests	7,608	6,531
Total equity	2,059,409	2,020,801
LIABILITIES		
Non-current liabilities		
Borrowings	709,719	688,297
Deferred income tax liabilities	273,884	268,026
Provisions	14,546	15,588
Derivative financial instruments	12,870	11,698
Other liabilities and deferred income	195,221	194,474
Total non-current liabilities	1,206,240	1,178,083
Current liabilities		
Trade and other payables	122,858	139,912
Borrowings	129,581	138,925
Derivative financial instruments	8,715	8,855
Total current liabilities	261,154	287,692
Total liabilities	1,467,394	1,465,775
TOTAL EQUITY AND LIABILITIES	3,526,803	3,486,576

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

Consolidated statement of cash flows*

	01/01-31/03/2015	01/01-31/03/2014
	EUR'000	EUR'000
Cash flows from operating activities		
Profit before tax	46,847	34,025
Adjustments:		
– Amortisation, depreciation and impairment of property, plant and equipment	43,702	43,798
– Net financial adjustments	5,679	4,548
– Other adjustments	(983)	183
Operating profit before working capital adjustments	95,245	82,554
Increase in current assets	(31,267)	(52,671)
(Decrease) / increase in trade and other payables	(12,529)	10,426
Cash generated from operating activities	51,449	40,309
Interest paid	(606)	(2,934)
Interest received	415	1,236
Income tax paid	(1,104)	(3,691)
Net cash flows from operating activities	50,154	34,920
Cash flows from investing activities		
Purchase of intangible assets and property, plant and equipment	(29,651)	(26,152)
Proceeds on financing from European Union funds and other financing	149	2,073
Proceeds from redemption of held-to-maturity assets	15	15
Net cash flows used in investing activities	(29,487)	(24,064)
Cash flows from financing activities		
Proceeds on borrowings from financial institutions	30,862	–
Repayment of borrowings	(21,884)	(21,208)
Dividends received from associates	–	1,924
Net cash flows generated from / (used in) financing activities	8,978	(19,284)
Net increase / (decrease) in cash and cash equivalents	29,645	(8,428)
Cash and cash equivalents at the beginning of the period	91,747	255,423
Cash and cash equivalents at the end of the period**	121,392	246,995

*Unaudited Interim Condensed Consolidated Financial Statements. Prepared in accordance with the IFRS as adopted by the EU
 ** Received government grant for mandatory procurement public service obligation costs compensation in the amount of EUR 29,264 (31/03/2014 – nil) has not been included in cash and cash equivalents as at 31st of March 2015 because it is defined as restricted cash and cash equivalents