

Unaudited Interim Condensed Consolidated Financial Statements

Keguma HES

for the 6 month period ended
30 June 2015

31.08.2015/ RIGA



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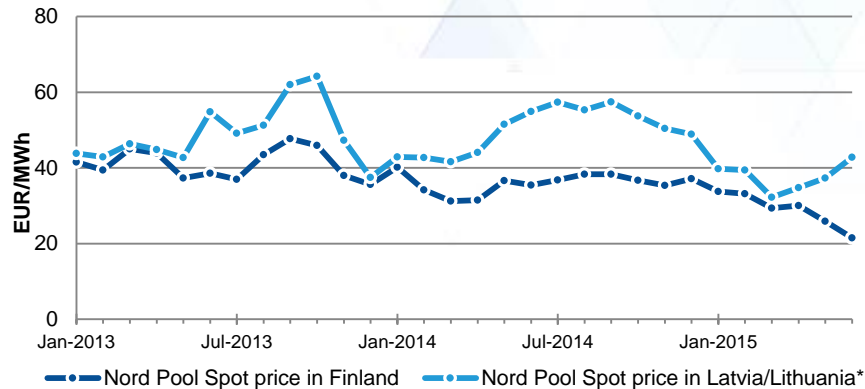
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Due to warmer weather conditions the electricity price decreased in the Nordics and the Baltics

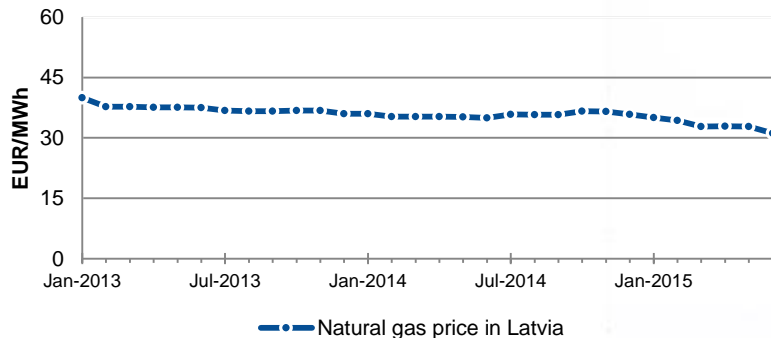
Low electricity price



Main facts – 1H 2015

- ▶ Nord Pool Spot price decreased by 17% in Finland and 11% in Estonia (30.0 EUR/MWh and 31.3 EUR/MWh respectively) and by 18 % in Latvia/Lithuania* (37.7 EUR/MWh)
- ▶ Electricity price decrease was determined by lower electricity consumption due to warmer weather conditions and increased production of hydropower in Norway and Sweden
- ▶ Transmission system capacity shortage determines price differences between the Latvia/Lithuania and Estonia bidding areas
- ▶ In 1H 2015, natural gas price in Latvia - 33.2 EUR/MWh (-6%)

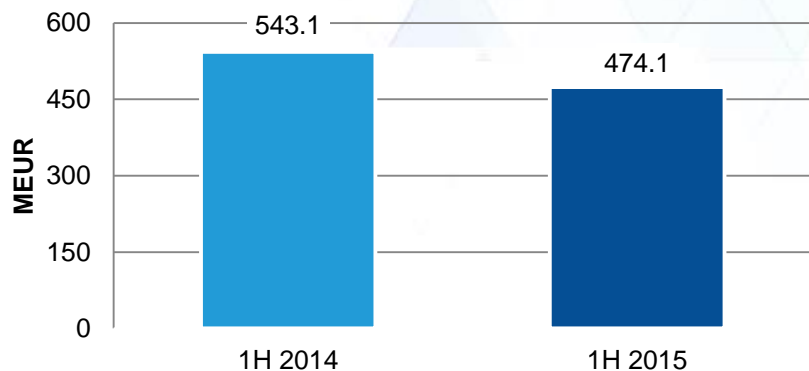
Natural gas price in Latvia is gradually decreasing



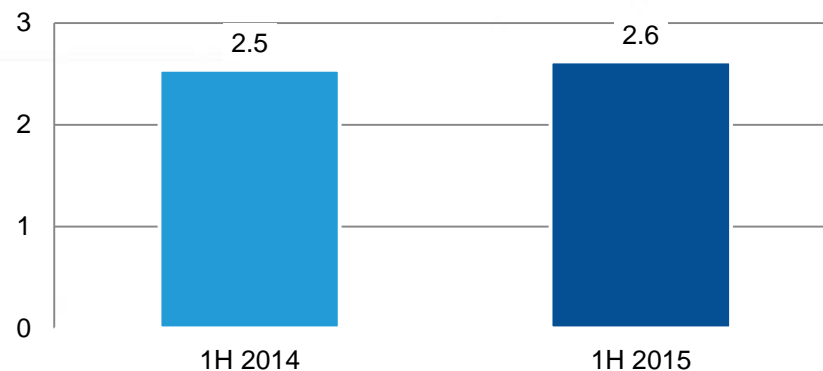
* In 1H 2015, electricity prices in the Latvia and Lithuania bidding areas were equal 99% hours.

Increase in EBITDA of the Group

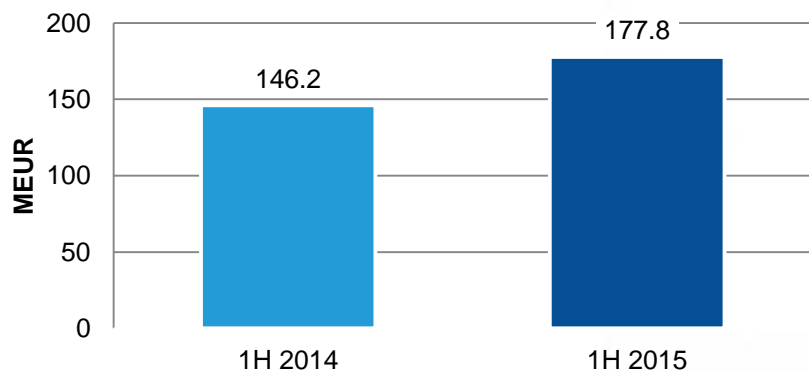
Revenue



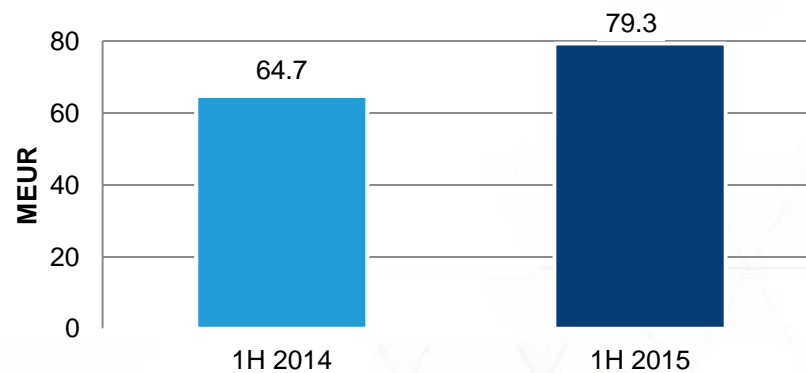
Net debt/EBITDA



EBITDA

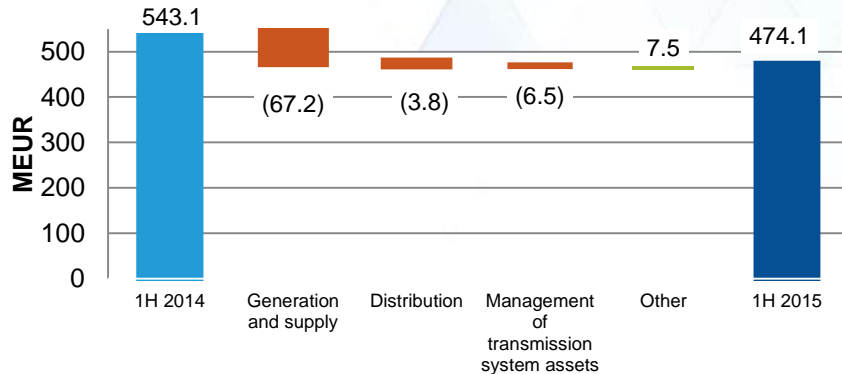


Investments



Electricity market for household in Latvia is open since 1 January 2015

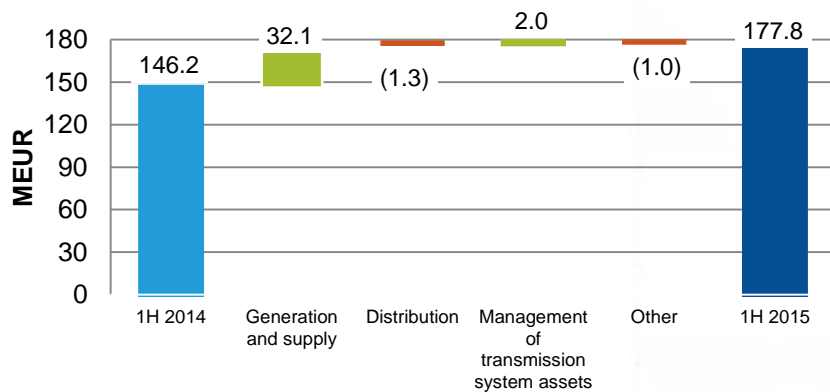
Revenue dynamics by segments



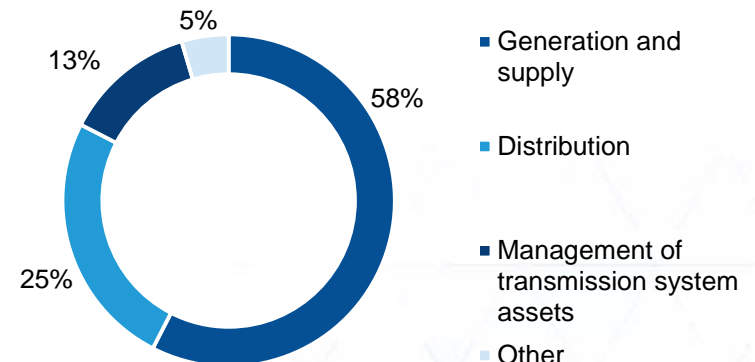
EBITDA reached 177.8 MEUR

- ▶ 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 – 29% (1H 2014: 25%)

EBITDA dynamics by segments

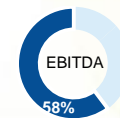


EBITDA weight by segments

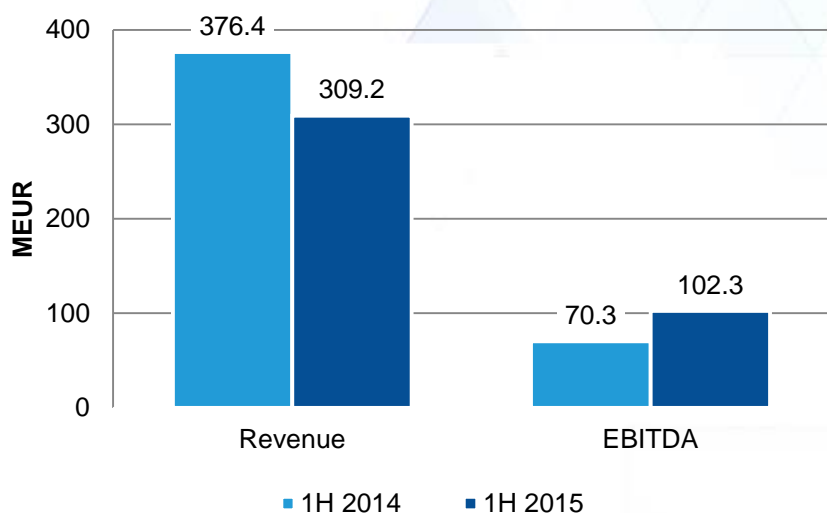


* Along with Energijas publiskais tirgotājs AS entrance into operation as of 1 April 2014, mandatory procurement PSO fee revenues are not recognised in the revenue

Generation and supply



Segment revenue and EBITDA



The largest segment of the Group

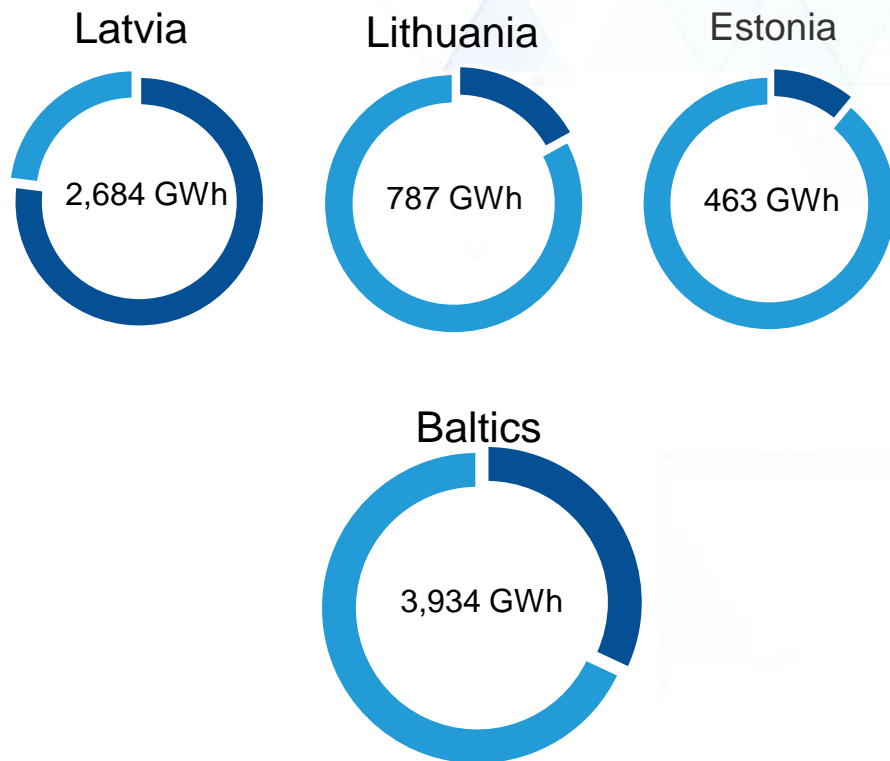
- ▶ The results of the segment were impacted by opening of electricity market in Latvia and by 7% higher generation at Daugava HPPs. In 1H 2014, lost revenues due to electricity supply at the regulated tariff were EUR 21.1 million
- ▶ Mandatory procurement PSO fee revenues are no longer recognised in the revenue of the Group*

* 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



■ Latvenergo Group ■ other suppliers

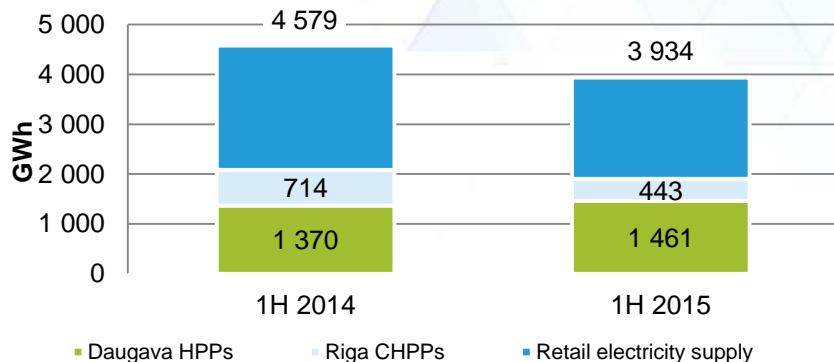
Focused and successful operations in the market

- ▶ The number of customers in Estonia and Lithuania has increased by approximately 9% reaching more than 35.1 thousand
- ▶ Retail electricity supply in neighbouring countries reached 1,250 GWh, which is approximately 50% higher than the amount provided by competing electricity suppliers in Latvia
- ▶ Electricity market is open for households in Latvia as of 1 January 2015
- ▶ Until 1 July 2015 the majority of household customers have chosen to keep Latvenergo as their electricity supplier

Effective and balanced generation sources



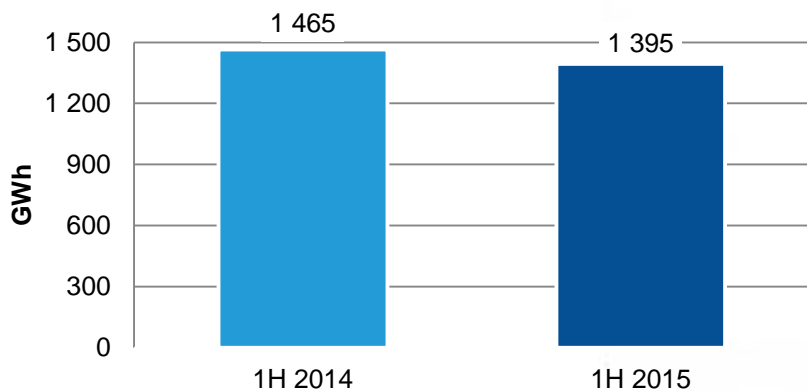
1,931 GWh of electricity generated



Riga CHPPs operation adjusted to the market conditions

- ▶ The total electricity generation volume represents 49% of retail electricity supply (1H 2014: 46%)
- ▶ Electricity generation at Daugava HPPs increased by 7%
- ▶ Riga CHPPs operated in market conjuncture effectively planning operating modes and fuel consumption
- ▶ Warmer weather conditions determined lower consumption of thermal energy – thermal energy generation decreased by 5%.

1,395 GWh of thermal energy generated



Mandatory procurement PSO fee remains at the previous level

Recognised accrued PSO fee revenues

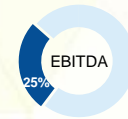
		1H 2015	1H 2014	Δ	Δ, %
Mandatory procurement PSO fee income	MEUR	87.3	89.6	(2.4)	(3%)
Mandatory procurement expenditures*	MEUR	(140.6)	(127.1)	(13.4)	11%
<i>Incl. Cogeneration</i>	MEUR	(83.6)	(80.8)	(2.8)	3%
<i>Incl. Renewable energy resources</i>	MEUR	(56.5)	(46.4)	(10.2)	22%
Difference	MEUR	(53.3)	(37.5)	(15.8)	42%

Balanced mandatory procurement PSO fee revenues and costs

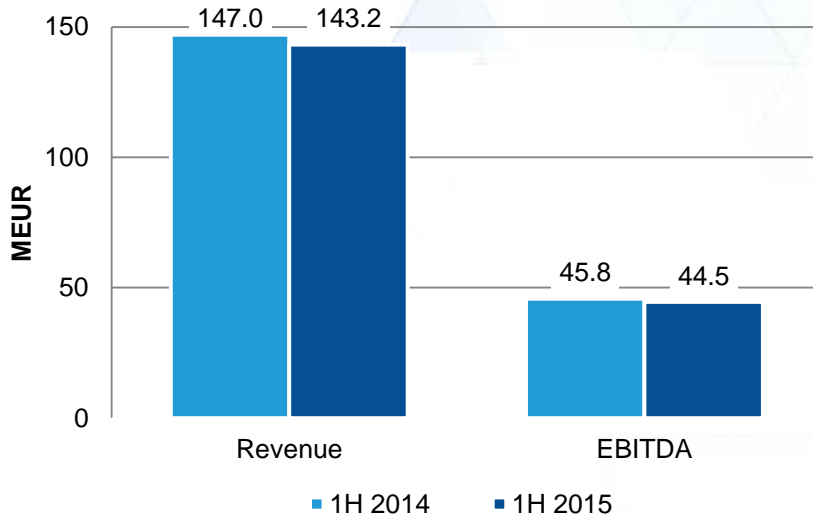
- ▶ As of 1 April 2014 the public trader functions are performed by Enerģijas publiskais tirgotājs AS
- ▶ Starting from 1 April 2015 PSO fee remains at the previous level (EUR 2.679 cents/kWh)
- ▶ The difference between PSO fee income and expenditures* was EUR 53.3 million

* 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 as well the costs of mandatory procurement balancing

Increased investments in distribution assets



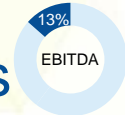
Segment revenue and EBITDA



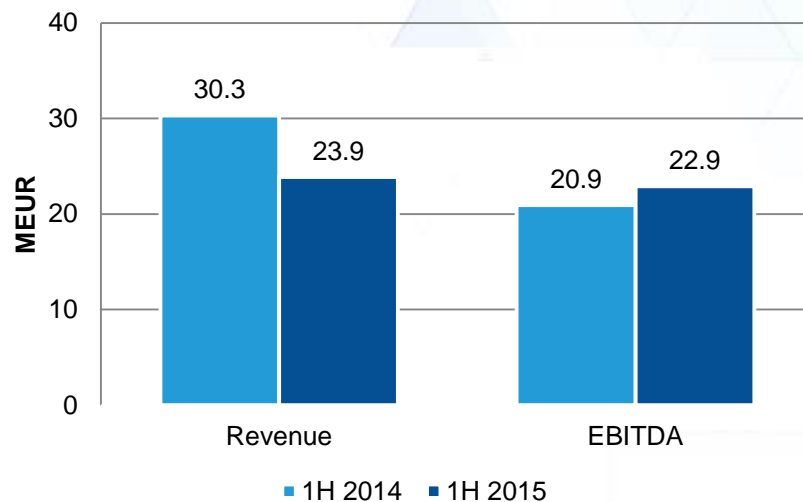
Increased investments by 1/3

- ▶ 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 9%



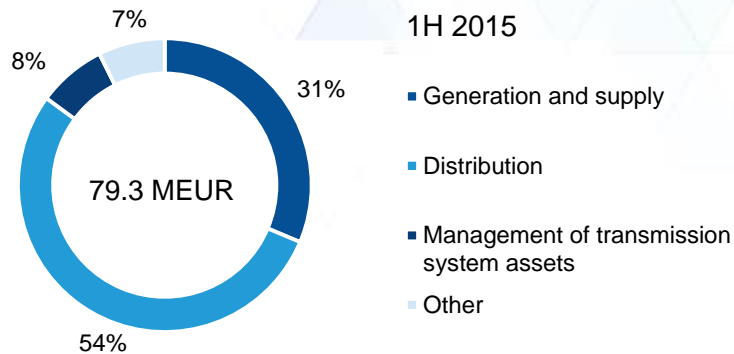
Return on transmission system assets* – 4.1%

- ▶ 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
- ▶ The value of transmission system assets has increased to 450 million, as a consequence of the *Kurzeme Ring* project investments

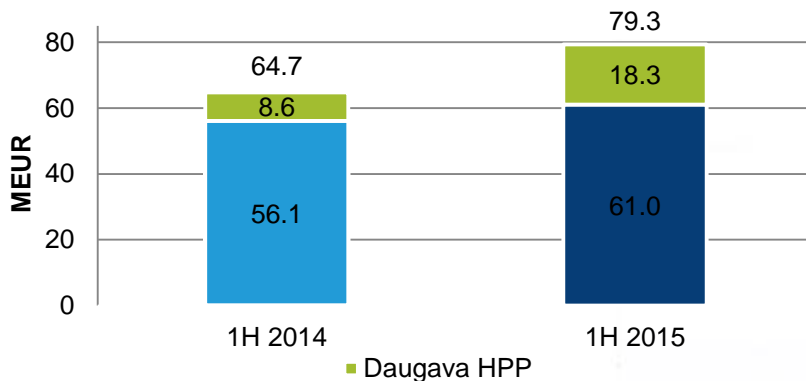
* Return on segment assets – operating profit of the segment (12-month rolling) / average segment assets ((assets at the beginning of the period + assets at the end of the period) / 2)

Investments in environmentally friendly projects

Investments in network assets - 61% of the total



Investment increase due to Daugava HPPs hydropower unit reconstruction



Investment projects

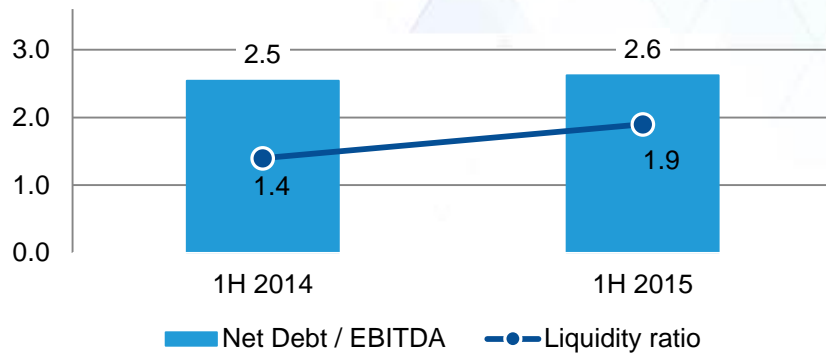
- ▶ NordBalt 02 -330kV, *Kurzeme Ring*:
 - ▶ total costs ~220 MEUR
 - ▶ completion in 2019
 - ▶ in 2015, a contract with the EC Innovation and Networks Executive Agency was concluded providing 45% EU co-funding for the final stage *Ventspils-Tume-Rīga* of the project

- ▶ Daugava HPPs hydropower unit reconstruction:
 - ▶ estimated costs > 200 MEUR
 - ▶ completion in 2022
 - ▶ reconstruction will provide for further 40-year operation of hydropower units

- ▶ Third electricity transmission interconnection between Estonia and Latvia
 - ▶ estimated costs ~ 100 MEUR
 - ▶ Completion till 2020
 - ▶ EU co-funding – 65%

Green bonds amounting to EUR 75 million were issued

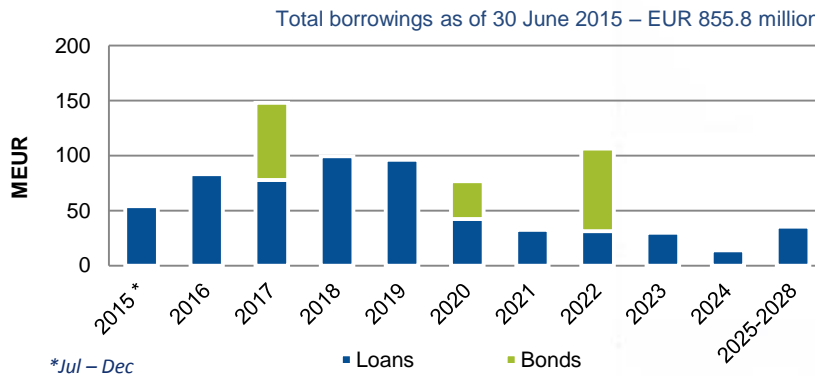
Stable liquidity ratios



Diversified borrowing sources

- ▶ Latvenergo issued *green* bonds in the amount of EUR 75 million. The program amounts up to EUR 100 million
- ▶ *Moody's Investors Service* has assigned Baa2 (stable) to the *green* bonds
- ▶ EUR 180 million, or more than one fifth, of the total borrowing amount is covered by bonds
- ▶ Equity – 58% of total assets
- ▶ In August *Moody's Investors Service* reaffirmed the 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*

	01/01-30/06/2015	01/01-30/06/2014
	EUR'000	EUR'000
Revenue	474 136	543 082
Other income	2 230	1 842
Raw materials and consumables used	(219 037)	(320 295)
Personnel expenses	(47 917)	(48 814)
Depreciation, amortisation and impairment of property, plant and equipment	(98 782)	(87 917)
Other operating expenses	(31 575)	(29 635)
Operating profit	79 055	58 263
Finance income	1 443	1 391
Finance costs	(9 853)	(10 159)
Share of profit / (loss) of associates	-	(395)
Profit before tax	70 645	49 100
Income tax	(8 947)	(6 751)
Profit for the period	61 698	42 349

Consolidated Statement of Financial Position*

	30.06.2015	31.12.2014
	EUR'000	EUR'000
ASSETS		
Non-current assets		
Intangible assets and property, plant and equipment	3 057 895	3 079 327
Investment property	716	1 343
Non-current financial investments	41	41
Investments in held-to-maturity financial assets	28 498	28 528
Other non-current receivables	9	14
TOTAL non-current assets	3 087 159	3 109 253
Current assets		
Inventories	29 160	22 560
Trade receivables and other current receivables	259 076	233 752
Current financial investments	-	-
Derivative financial instruments	-	-
Cash and cash equivalents	152 116	121 011
TOTAL current assets	440 352	377 323
TOTAL ASSETS	3 527 511	3 486 576
EQUITY		
Share capital	1 288 446	1 288 446
Reserves	649 919	645 829
Retained earnings	109 128	79 995
Equity attributable to equity holders of the Parent Company	2 047 493	2 014 270
Non-controlling interests	6 482	6 531
TOTAL equity	2 053 975	2 020 801
LIABILITIES		
Non-current liabilities		
Borrowings	754 493	688 297
Deferred income tax liabilities	272 268	268 026
Provisions	14 758	15 588
Derivative financial instruments	8 616	11 698
Other liabilities and deferred income	194 922	194 474
Total non-current liabilities	1 245 057	1 178 083
Current liabilities		
Trade and other payables	117 952	139 912
Borrowings	101 268	138 925
Derivative financial instruments	9 259	8 855
TOTAL current liabilities	228 479	287 692
TOTAL liabilities	1 473 536	1 465 775
TOTAL EQUITY AND LIABILITIES	3 527 511	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*

	01/01-30/06/2015	01/01-30/06/2014
	EUR'000	EUR'000
Cash flows from operating activities		
Profit before tax	70 645	49 100
Adjustments:		
- Amortisation, depreciation and impairment of non-current assets	100 904	88 976
- Net financial adjustments	10 455	4 073
- Other adjustments	(791)	582
Operating profit before working capital adjustments	181 213	142 731
Increase in current assets	(38 295)	(55 553)
(Decrease) / increase in trade and other payables	(20 070)	9 386
Cash generated from operating activities	122 848	96 564
Interest paid	(9 688)	(9 808)
Interest received	808	1 376
Income tax paid	4 490	(3 427)
Net cash flows from operating activities	118 458	84 705
Cash flows from investing activities		
Purchase of intangible assets and property, plant and equipment	(83 070)	(67 026)
Proceeds from sales of investments	-	-
Proceeds on financing from European Union funds and other financing	149	2 073
Proceeds from redemption of held-to-maturity assets	30	30
Net cash flows used in investing activities	(82 891)	(64 923)
Cash flows from financing activities		
Proceeds from issued debt securities (bonds)	74 894	-
Proceeds on borrowings from financial institutions	30 862	2 600
Repayment of borrowings	(77 591)	(72 627)
Dividends paid to non-controlling interests	(1 148)	(1 197)
Dividends paid to equity holders of the Parent Company***	(31 479)	(12 649)
Dividends received from associates	-	2 473
Net cash flows from / (used in) financing activities	(4 462)	(81 400)
Net increase / (decrease) in cash and cash equivalents	31 105	(61 618)
Cash and cash equivalents at the beginning of the period	91 747	255 423
Cash and cash equivalents at the end of the period**	122 852	193 805

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**Received government grant for mandatory procurement public service obligation costs compensation in the amount of EUR 29,264 (30/06/2014 - nil) has not been included in cash and cash equivalents as at 30th of June 2015 because it is defined as restricted cash and cash equivalents

*** Dividends declared for 2013 in the amount of EUR 23,605 thousand are settled partly by corporate income tax overpayment in the amount of EUR 10,956 thousand