

Unaudited Interim Condensed Consolidated Financial Statements *Kopuma HES*

for the 9 month period ended
30 September 2015

30.11.2015/ RIGA



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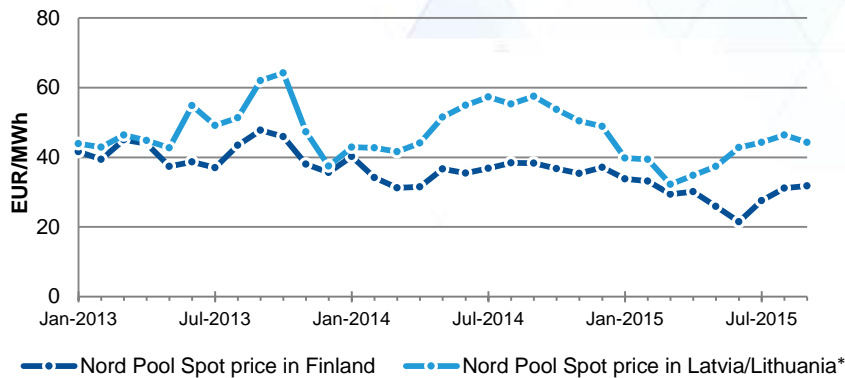
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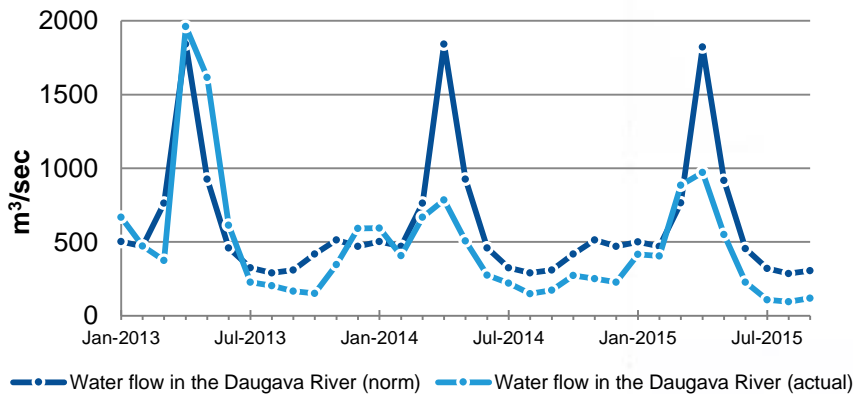
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Electricity price decreased in the Nordics and the Baltics

Low electricity price



Unusually low water inflow in the Daugava River



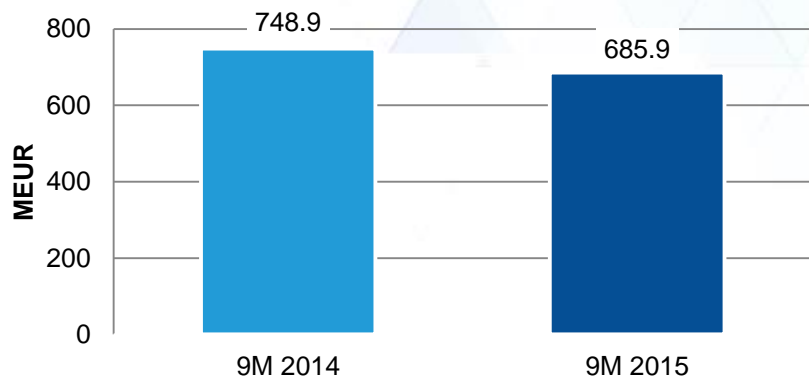
Main facts – 9M 2015

- ▶ Nord Pool Spot price decreased by 18% in Estonia and Finland (30.9 EUR/MWh and 29.3 EUR/MWh respectively) and by 19 % in Latvia/Lithuania* (40.2 EUR/MWh)
- ▶ Electricity price decrease was determined by increased generation of hydropower in Scandinavia
- ▶ Transmission system capacity shortage determines price differences between the Latvia/Lithuania and Estonia bidding areas
- ▶ Natural gas price in Latvia decreased by 11% reaching 31.4 EUR/MWh
- ▶ Similarly to 2014, in 2015 unusually low water inflow remained in the Daugava River

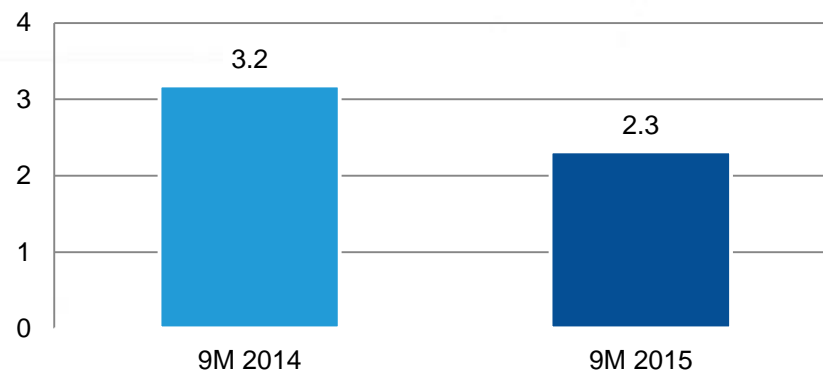
* In 9M 2015, electricity prices in the Latvia and Lithuania bidding areas were equal 99% hours.

Key Financial Figures

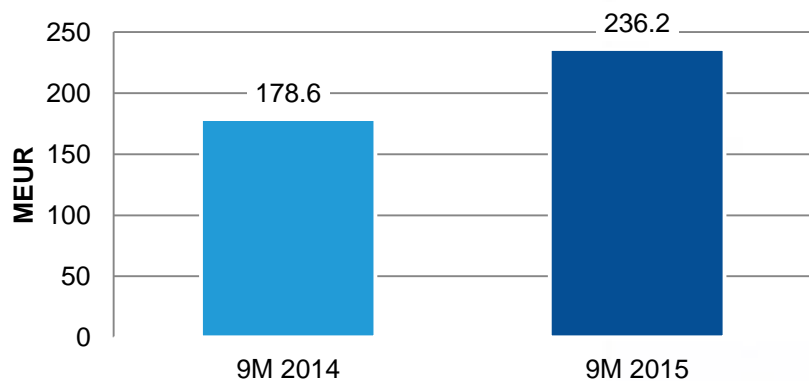
Revenue



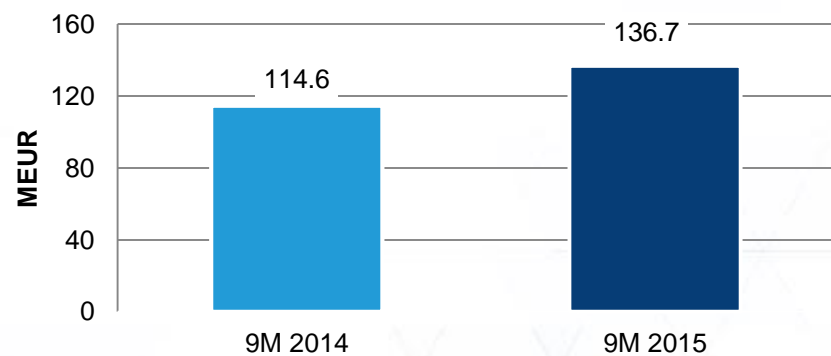
Net debt/EBITDA



EBITDA

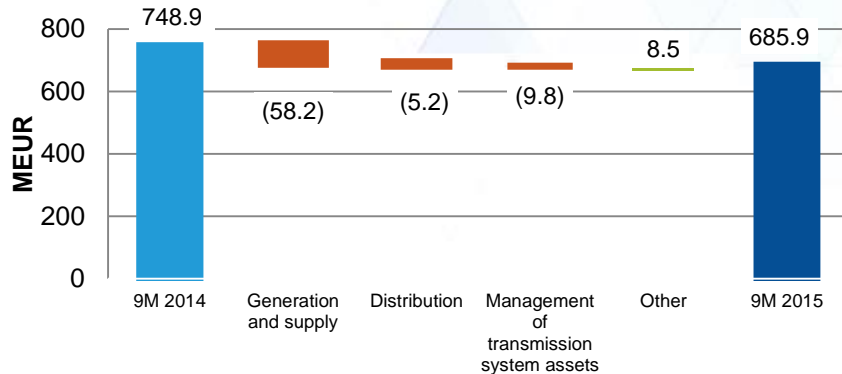


Investments



EBITDA of the Group has increased

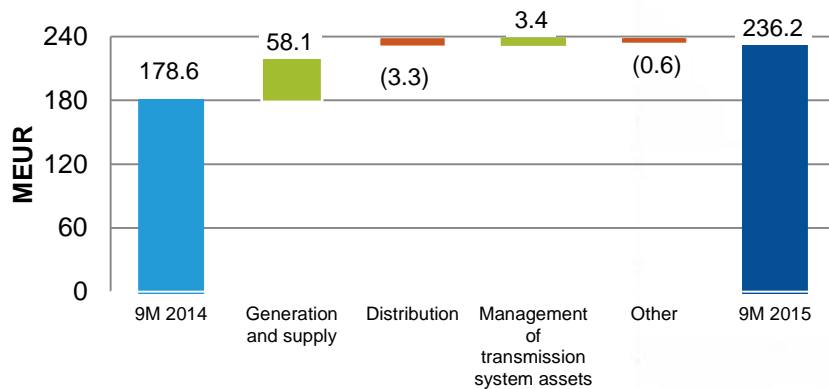
Revenue dynamics by segments



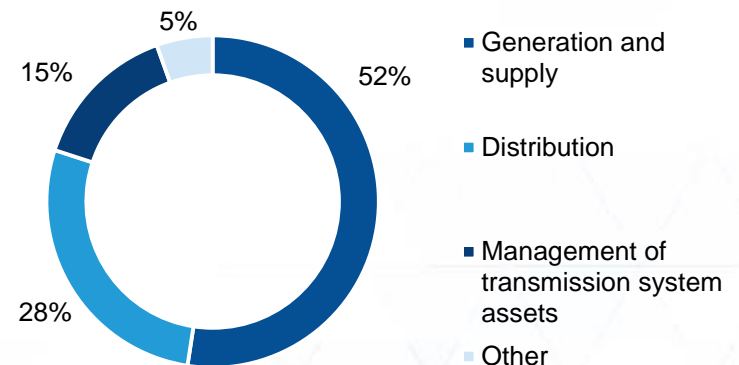
EBITDA reached 236.2 MEUR

- ▶ The results were positively impacted by electricity market opening for households in Latvia and by lower electricity prices in the market
- ▶ Lower revenue in generation and supply segment - mandatory procurement PSO fee revenues are no longer recognised in the revenue of the Group*
- ▶ EBITDA margin – 31% (9M 2014: 22%)

EBITDA dynamics by segments

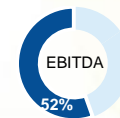


EBITDA weight by segments

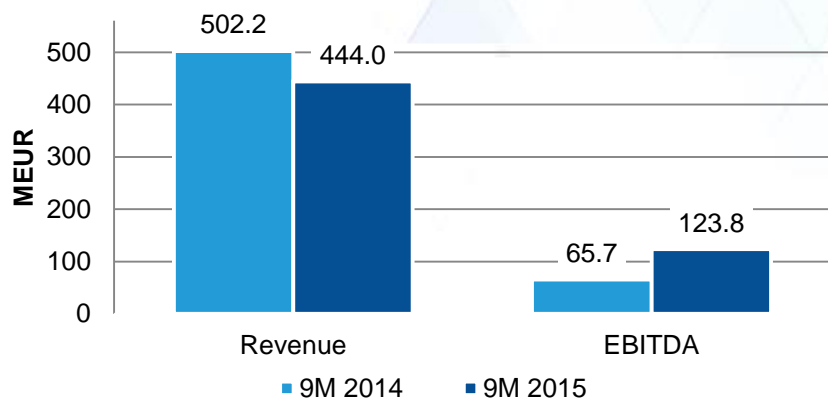


* Along with Energijas publiskais tirgotājs AS entrance into operation as of 1 April 2014, mandatory procurement PSO fee revenues are not recognised in the revenue

Generation and supply



Segment revenue and EBITDA



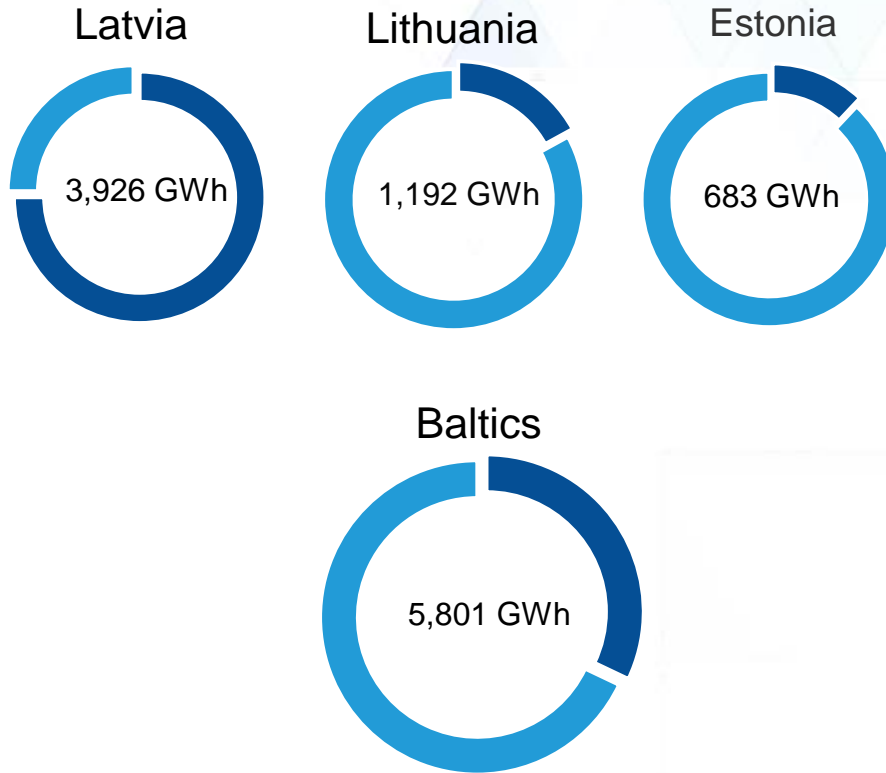
The largest segment of the Group

- ▶ The results of the segment were positively impacted by the opening of electricity market in Latvia and by lower electricity market prices. In 9M 2014, lost revenues due to electricity supply at the regulated tariff were 37.8 MEUR
- ▶ Lower revenue - 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

Elektrum – the most purchased electricity products in the Baltics

Retail electricity supply



■ Latvenergo Group ■ other suppliers

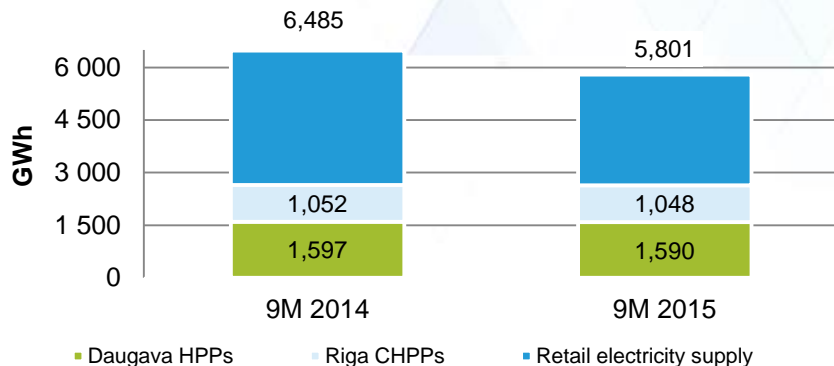
Focused and successful operations in the market

- ▶ The number of customers in Estonia and Lithuania has increased by approximately 5% exceeding 36.3 thousand
- ▶ Retail electricity supply in neighbouring countries reached 1,875 GWh, which is more than 40% 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 October 2015 the majority of household customers have chosen to keep Latvenergo as their electricity supplier
- ▶ Latvenergo Group's electricity trading brand's *Elektrum* products are tailored to customer needs

Effective and balanced generation sources



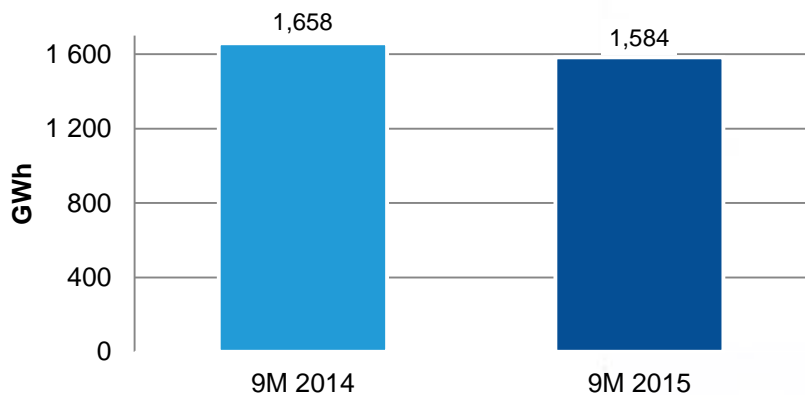
2,676 GWh of electricity generated



Riga CHPPs operation adjusted to the market conditions

- ▶ The total electricity generated represents 46% of retail electricity supply (9M 2014: 41%)
- ▶ Amount of electricity output remained at the level of the previous year
- ▶ Similarly to 2014, the water inflow in the Daugava River remained unusually low
- ▶ 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%.

1,584 GWh of thermal energy generated



Mandatory procurement PSO fee remains at the previous level

Recognised accrued PSO fee revenues

		9M 2015	9M 2014	Δ	Δ, %
Mandatory procurement PSO fee income	MEUR	128.6	131.8	(3.2)	(2%)
Received State grant	MEUR	20.3	0.0**	20.3	-
Mandatory procurement expenditures*	MEUR	(194.8)	(180.2)	(14.5)	8%
<i>Incl. Cogeneration</i>	MEUR	(117.9)	(115.7)	(2.3)	2%
<i>Incl. Renewable energy resources</i>	MEUR	(76.2)	(64.5)	(11.8)	18%
Difference	MEUR	(45.8)	(48.4)	2.6	(5%)

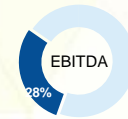
Balanced mandatory procurement PSO fee revenues and costs

- ▶ 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 45.8 MEUR
- ▶ In order to maintain the mandatory procurement PSO fee in the same level, a State grant in the amount of 20.3 MEUR (2014: 29.3 MEUR**) is taken into account upon calculation of the fee
- ▶ Dividends of Latvenergo AS are intended as one of the sources of funding for the State grant

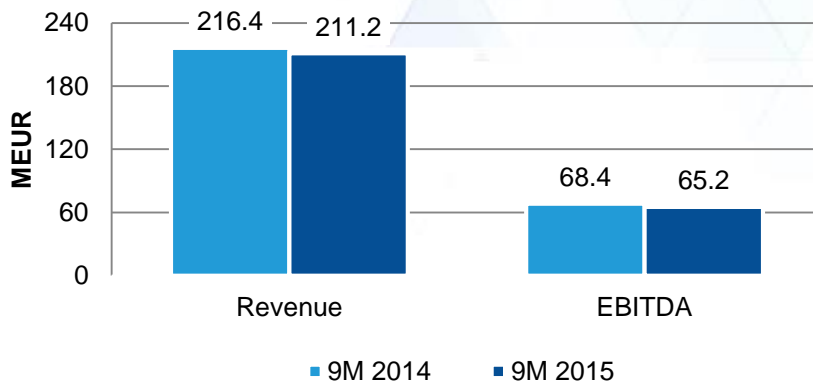
* Mandatory procurement expenditures – costs of electricity purchased within the mandatory procurement and guaranteed fee for electrical capacity installed at power plants minus revenues from sale of purchased electricity on the Nord Pool Spot exchange as well the costs of mandatory procurement balancing

** State grant for 2014 was received in December 2014

Increased investments in distribution assets



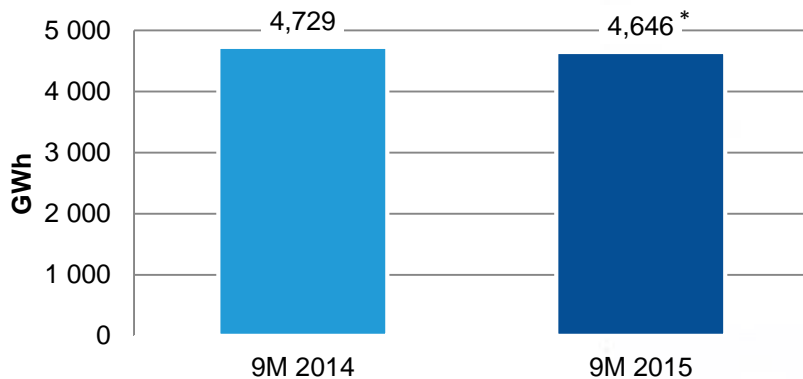
Segment revenue and EBITDA



Increased investments by 18%

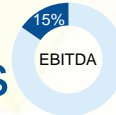
- ▶ Positive impact on the results was due to lower electricity price
- ▶ Negative impact on the results was due to decrease by 2% in distributed electricity*
- ▶ Investments in distributed assets reached 70.9 MEUR (9M 2014: 60.1 MEUR)
- ▶ Current distribution system tariffs does not cover all the costs

Electricity distributed

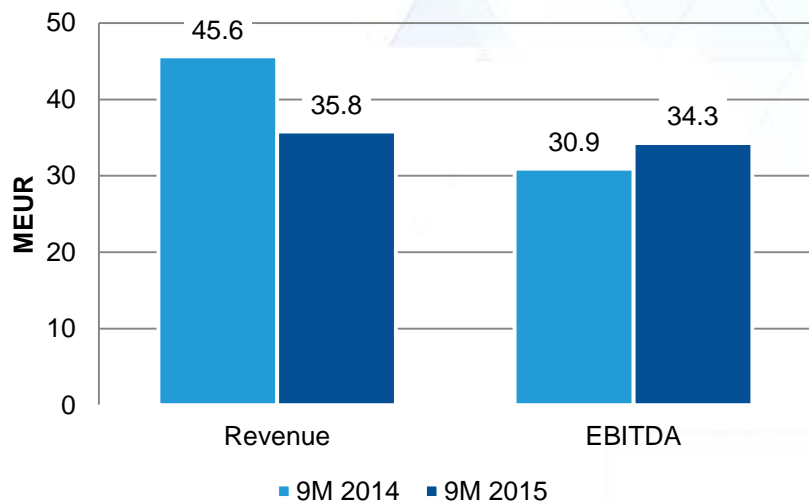


* The volume of electricity distributed excludes 123 GWh; that amount corresponds to the regulated electricity tariff revenues received at the beginning of 2015, that were recognized in 2014

Transmission system assets – gradually improving returns



Increase in EBITDA by 11%



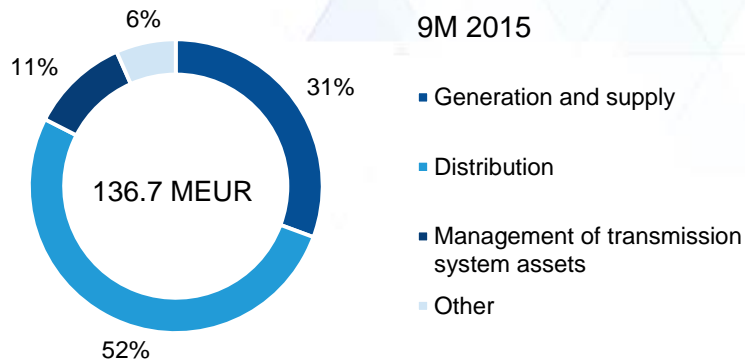
Return on transmission system assets* – 4.5%

- ▶ 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

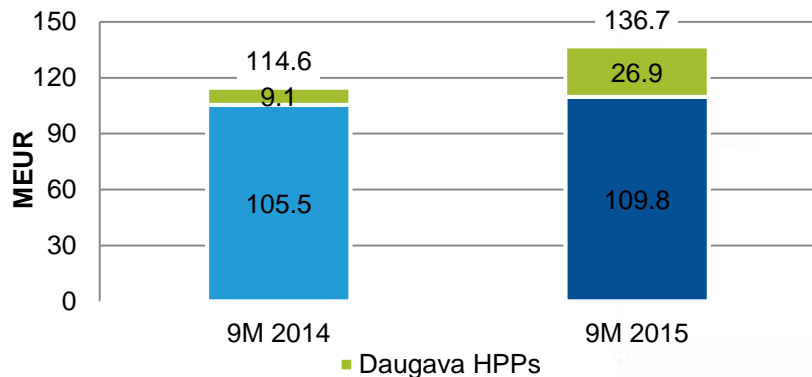
* Return on segment assets – operating profit of the segment (12-month rolling) / average segment assets ((assets at the beginning of the period + assets at the end of the period) / 2)

Investments in environmentally friendly projects

Investments in network assets - 63% of the total



Investment increase due to Daugava HPPs hydropower unit reconstruction



Investment projects

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

- ▶ NordBalt 02 -330kV, *Kurzeme Ring*:
 - ▶ Total costs ~220 MEUR
 - ▶ incl. 95 MEUR in the 1st and 2nd stage of the project
 - ▶ Completion in 2019
 - ▶ EU co-funding for the final stage – 45%

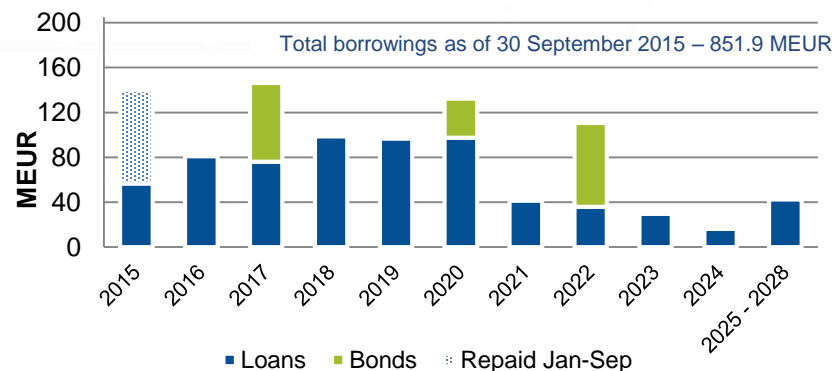
- ▶ Third electricity transmission interconnection between Estonia and Latvia
 - ▶ Estimated costs ~ 100 MEUR
 - ▶ Completion till 2020
 - ▶ EU co-funding – 65%
 - ▶ Environmental impact assessment of the interconnection project is being carried out

Green bonds in the amount of EUR 75 million were issued

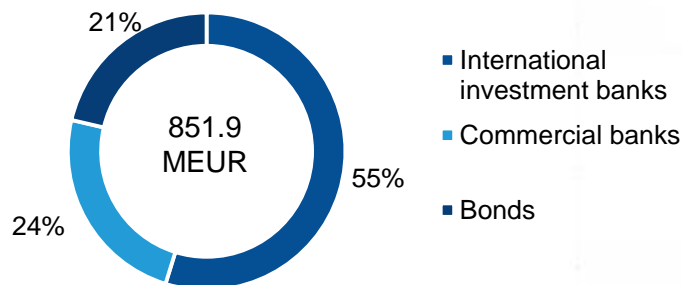
Diversified borrowing sources

- ▶ Financial needs for coming investment projects and refinancing of loans are attracted in a timely manner
- ▶ EUR 180 million, or more than 1/5, of the total borrowings is covered by bonds
- ▶ *Moody's Investors Service* has assigned Baa2 (stable) to the *green* bonds and reconfirmed the credit rating - Baa2 (stable)
- ▶ Capital ratio – 58%

Debt repayment schedule



Lenders by category



Liquidity

Liquid assets (cash and short term bank deposits with maturity up to 3 months)	169.4 MEUR
Committed long-term loans	290.0 MEUR
Investment in liquid financial assets	28.5 MEUR
Additional liquidity reserves	318.5 MEUR

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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*

	01/01-30/09/2015	01/01-30/09/2014
	EUR'000	EUR'000
Revenue	685,945	748,885
Other income	3,630	2,155
Raw materials and consumables used	(336,343)	(454,364)
Personnel expenses	(71,151)	(73,323)
Depreciation, amortisation and impairment of property, plant and equipment	(149,040)	(131,843)
Other operating expenses	(45,873)	(44,712)
Operating profit	87,168	46,798
Finance income	2,192	2,227
Finance costs	(14,557)	(15,206)
Share of profit / (loss) of associates	–	(493)
Profit before tax	74,803	33,326
Income tax	(6,208)	(3,308)
Profit for the period	68,595	30,018

Consolidated Statement of Financial Position*

	30/09/2015	31/12/2014
	EUR'000	EUR'000
ASSETS		
Non-current assets		
Intangible assets and property, plant and equipment	3,063,833	3,079,327
Investment property	751	1,343
Non-current financial investments	41	41
Investments in held-to-maturity financial assets	20,623	28,528
Other non-current receivables	7	14
Total non-current assets	3,085,255	3,109,253
Current assets		
Inventories	26,783	22,560
Trade receivables and other receivables	241,244	233,752
Investments in held-to-maturity financial assets	7,860	-
Cash and cash equivalents	169,407	121,011
Total current assets	445,294	377,323
TOTAL ASSETS	3,530,549	3,486,576
EQUITY		
Share capital	1,288,446	1,288,446
Reserves	649,320	645,829
Retained earnings	116,269	79,995
Equity attributable to equity shareholder of the Parent Company	2,054,035	2,014,270
Non-controlling interests	6,245	6,531
Total equity	2,060,280	2,020,801
LIABILITIES		
Non-current liabilities		
Borrowings	747,986	688,297
Deferred income tax liabilities	269,788	268,026
Provisions	14,971	15,588
Derivative financial instruments	10,391	11,698
Other liabilities and deferred income	195,001	194,474
Total non-current liabilities	1,238,137	1,178,083
Current liabilities		
Trade and other payables	120,011	139,912
Borrowings	103,955	138,925
Derivative financial instruments	8,166	8,855
Total current liabilities	232,132	287,692
Total liabilities	1,470,269	1,465,775
TOTAL EQUITY AND LIABILITIES	3,530,549	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*

	01/01-30/09/2015	01/01-30/09/2014
	EUR'000	EUR'000
Cash flows from operating activities		
Profit before tax	74,803	33,326
Adjustments:		
- Amortisation, depreciation and impairment of non-current assets	152,263	133,946
- Net financial adjustments	14,893	4,649
- Other adjustments	(579)	732
Operating profit before working capital adjustments	241,380	172,653
Increase in current assets	(56,012)	(73,748)
(Decrease) / increase in trade and other payables	(26,748)	20,588
Cash generated from operating activities	158,620	119,493
Interest paid	(10,364)	(10,310)
Interest received	1,454	1,860
Taxes repaid / (paid)	4,094	(4,604)
Net cash flows from operating activities	153,804	106,439
Cash flows from investing activities		
Purchase of intangible assets and property, plant and equipment	(132,790)	(117,868)
Proceeds on financing from European Union funds and other financing	17,971	2,073
Proceeds from redemption of held-to-maturity assets	45	45
Net cash flows used in investing activities	(114,774)	(115,750)
Cash flows from financing activities		
Proceeds from issued debt securities (bonds)	74,898	–
Proceeds on borrowings from financial institutions	30,000	22,600
Repayment of borrowings	(83,240)	(93,880)
Dividends paid to non-controlling interests	(1,148)	(1,197)
Dividends paid to equity holders of the Parent Company ***	(31,479)	(12,649)
Received compensation of mandatory procurement public service obligation	20,335	–
Dividends received from associates	–	2,473
Net cash flows used in financing activities	9,366	(82,653)
Net increase / (decrease) in cash and cash equivalents	48,396	(91,964)
Cash and cash equivalents at the beginning of the period	91,747	255,423
Cash and cash equivalents at the end of the period **	140,143	163,459

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**Received government grant for mandatory procurement public service obligation costs compensation in the amount of EUR 29,264 (30/09/2014 - nil) has not been included in cash and cash equivalents as at 30th of September 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