



Unaudited Interim Condensed Consolidated Financial Statements

for the 9 months period
ended 30 September 2014

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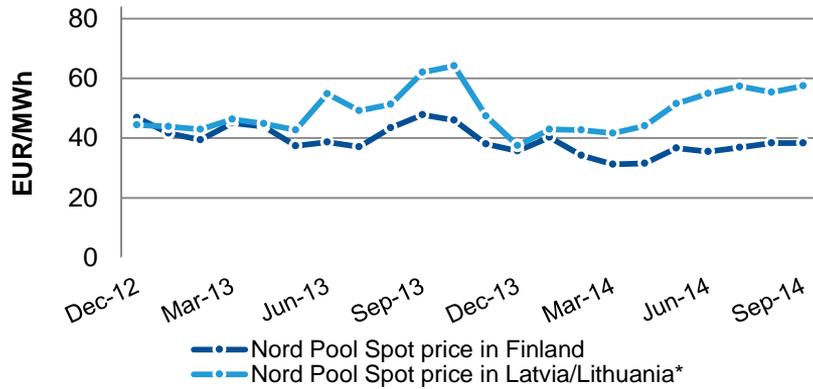
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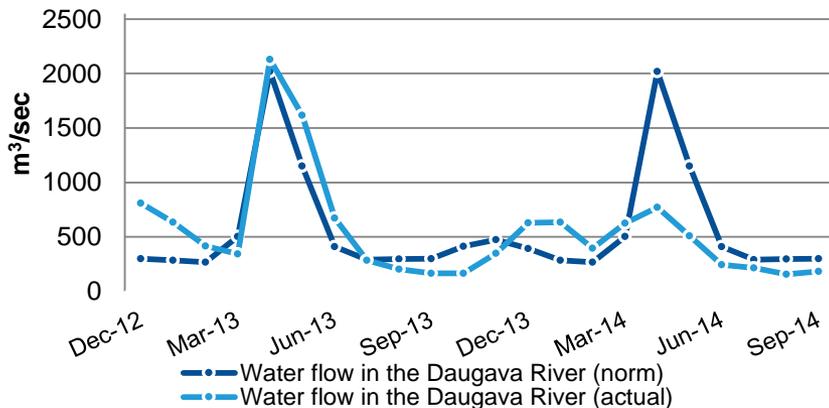
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Higher electricity price in Latvia due to transmission capacity constraints

Low electricity price



Lower water inflow in the Daugava River



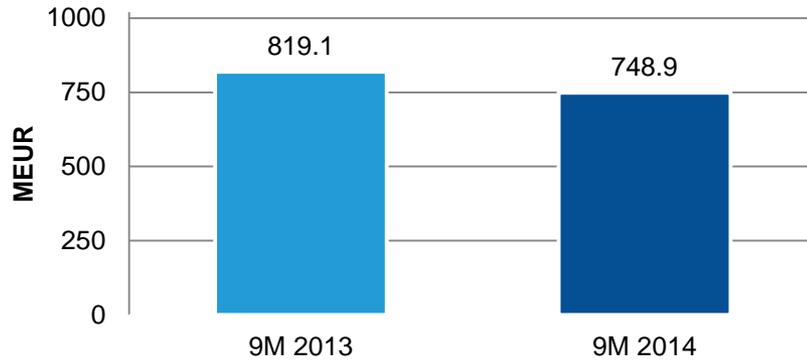
Main facts – 9 months 2014

- Nord Pool Spot electricity price decreased by 14% in Finland (35.9 EUR/MWh), while it increased by 2% in Latvia/Lithuania (49.8 EUR/MWh)
- Electricity price decrease was determined by lower electricity consumption due to warmer weather conditions and decline in the global market coal price
- Launch of *EstLink-2* allayed price differences between Nordic countries and Estonia
- Transmission capacity shortage determines price differences between the Latvia/Lithuania and the Estonia bidding areas
- The Daugava River water inflow lowest during the last 10 years – output at Daugava HPPs decreased by 33%
- In 9 months of 2014, natural gas price in Latvia remains high (35.5 EUR/MWh)
- Since mid-2014, Latvenergo Group trades all of its generated electricity on Nord Pool Spot exchange

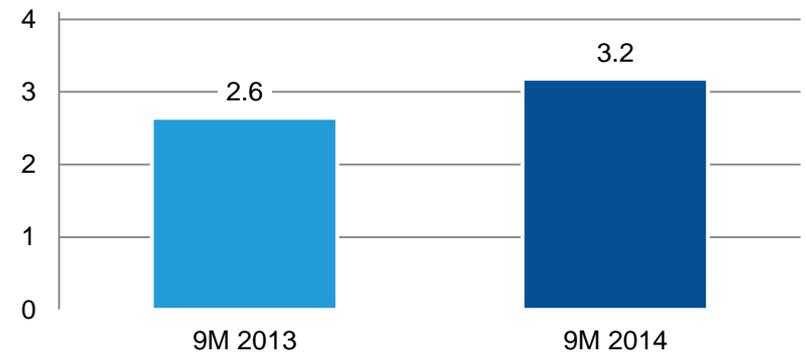
* Nord Pool Spot Latvia bidding area was opened on 3 June 2013. In 9 months of 2014, electricity prices in Latvia and Lithuania bidding areas were equal 99.9% hours

Key financial figures

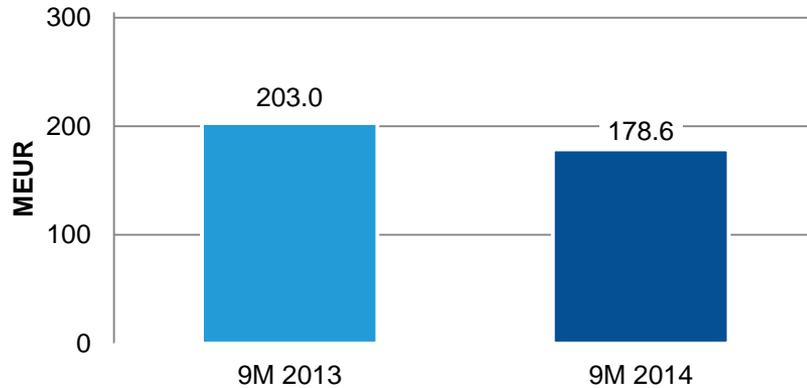
Revenue



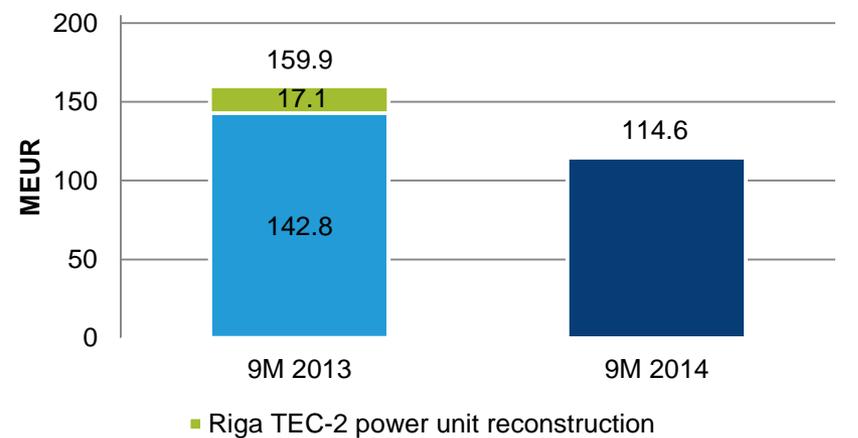
Net debt / EBITDA



EBITDA

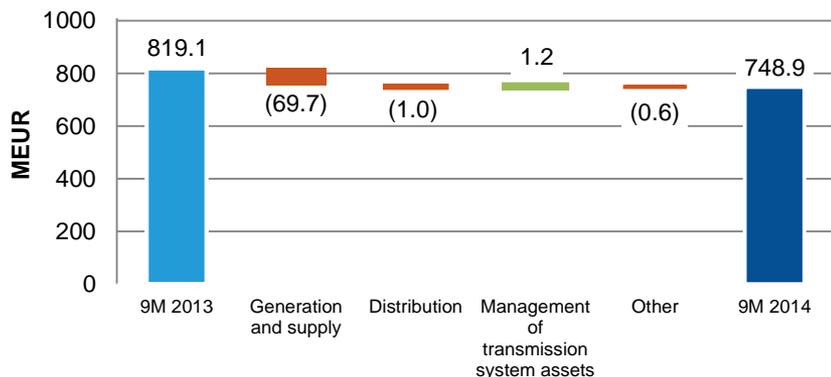


Investments

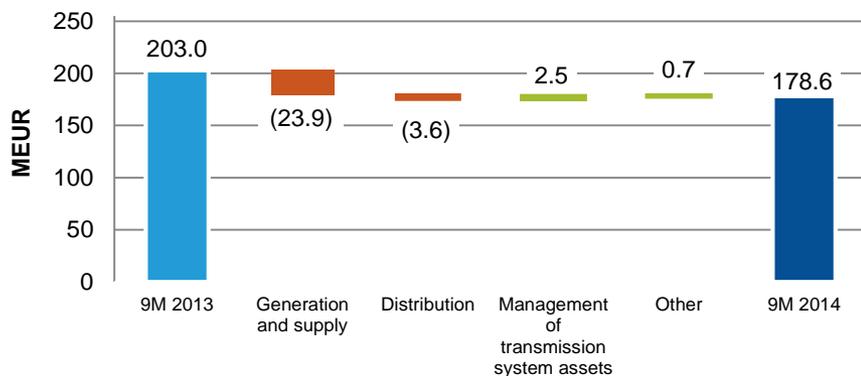


Financial results

Revenue dynamics by segment



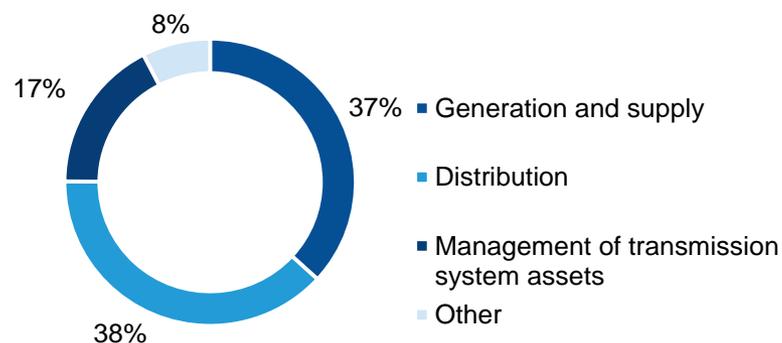
EBITDA dynamics by segment



EBITDA – 178.6 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
- Warmer weather conditions caused decrease in thermal energy demand and distributed electricity volume

Weight of EBITDA by segment

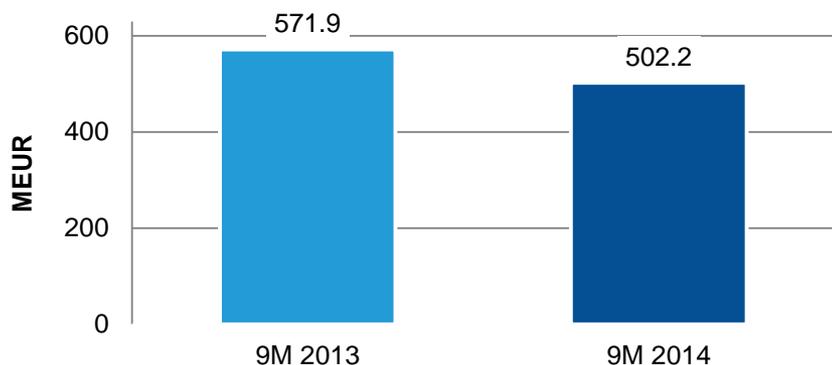


* Principal/agent accounting principle – mandatory procurement revenues and costs are balanced and recognised in the balance sheet assets

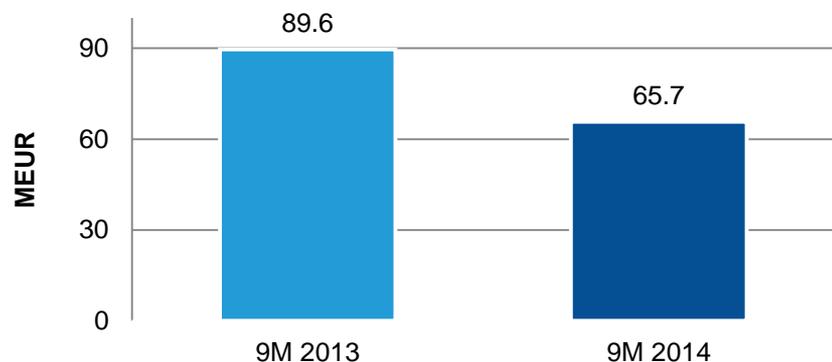
Generation and supply



Segment revenue



Segment EBITDA



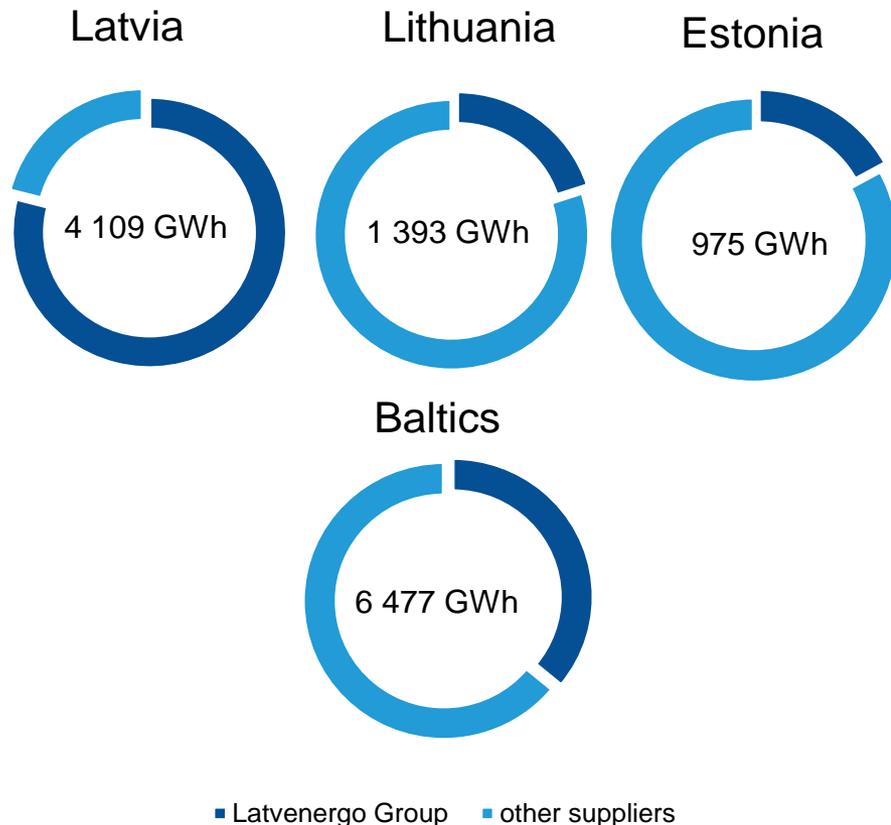
The largest segment of the Group

- Decrease in revenues is mainly determined by change in mandatory procurement accounting principles as well as by decrease in thermal energy and electricity consumption due to warmer weather conditions
- 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 (37.6 MEUR)



More than 1/3 of electricity supplied outside Latvia

Retail electricity supply



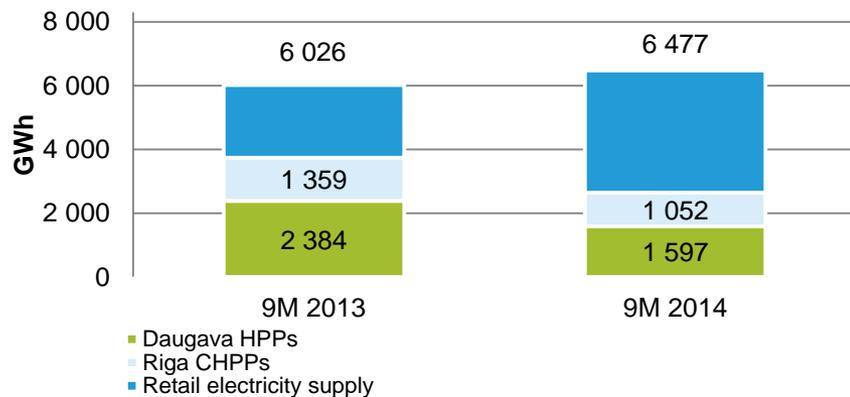
Focused and successful operations in the market

- Latvenergo Group – the largest electricity supplier in the Baltics
- Retail electricity supply has been increased by 7% despite a decline in the Baltic electricity consumption by 2%
- More than 1/3 of retail electricity supply in Lithuania and Estonia
- The number of customers in Lithuania and Estonia reached almost 34 thousands, retail electricity supply was increased by 47%
- 80% of the retail electricity supply were supplied on the open electricity market in the Baltics, while 20% – at the regulated tariff in Latvia

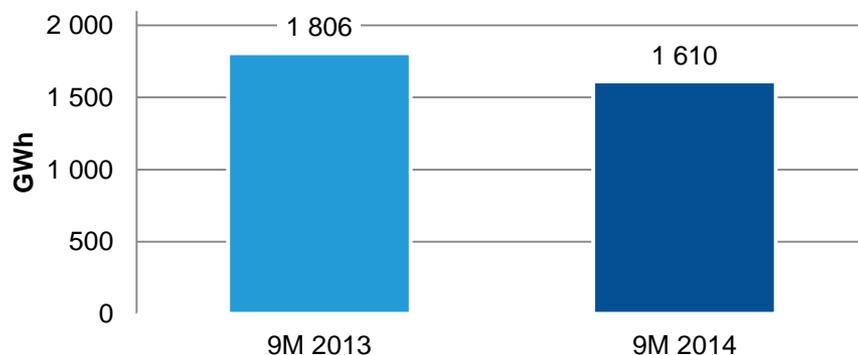
Effective and balanced generation sources



2,688 GWh of electricity generated



1,610 GWh of thermal energy generated



Lower water inflow in the Daugava River

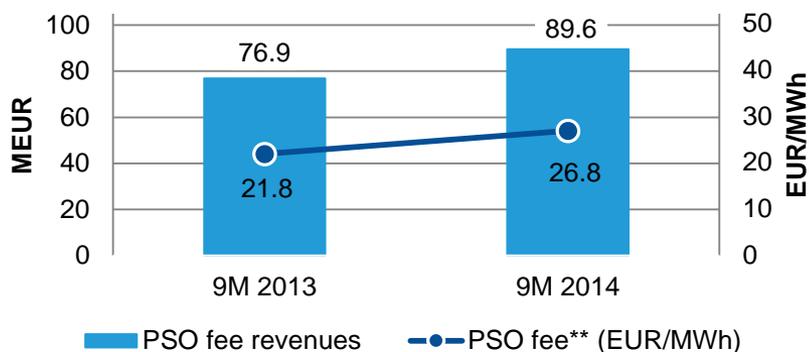
- Generated electricity represents 41% of retail electricity supply
- The Daugava River water inflow lowest during the last 10 years – output at Daugava HPPs decreased by 33%
- Warmer weather conditions and adjustment works carried out at Riga TEC-2 second power unit during 2013 determined lower output at Riga CHPPs
- Along with the change in support scheme, Riga CHPPs do not receive compensation for natural gas and other variable costs; capacity payments are retained at adjusted amount
- 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

		9M 2014	9M 2013	Δ	Δ, %
Mandatory procurement PSO fee income	MEUR	131.8	118.4	13.3	11%
Change in liabilities of accrued compensable mandatory procurement PSO	MEUR	(12.5)	30.0	(42.5)	(142%)
Mandatory procurement expenditures ² :	MEUR	(180.5)	(148.5)	(32.1)	22%
<i>Cogeneration after SET</i>	MEUR	(100.2)	(96.8)	(3.5)	4%
<i>Renewable energy resources after SET</i>	MEUR	(57.9)	(51.7)	(6.2)	12%
<i>SET</i>	MEUR	(22.4)	0.0	(22.4)	–
Unsettled revenue on mandatory procurement PSO fee recognised as assets	MEUR	61.3	0.0	61.3	–

PSO fee



* 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

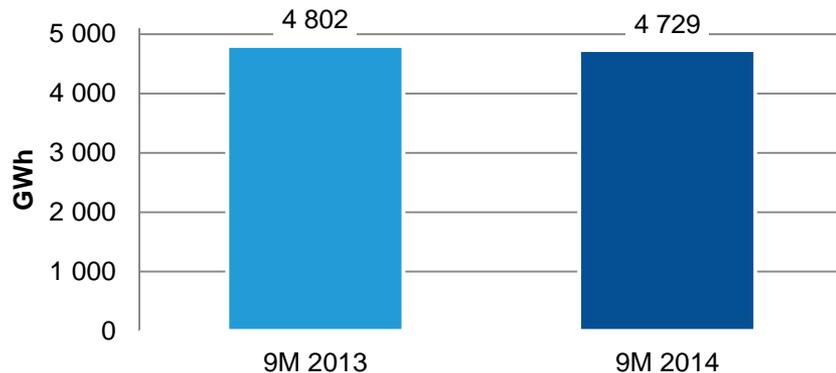
Balanced PSO fee revenues and costs

- As of 1 April 2014, the public trader functions are performed by Enerģijas publiskais tirgotājs AS
- Uncollected PSO fee income recognised in the balance sheet – 61.3 MEUR
- Increase of PSO fee income was due to increase of PSO fee on 1 April 2013
- Along with introduction of SET (on 1 January 2014), EUR 22.4 million were withheld from mandatory procurement payments to generators and transferred into the State Budget
- Major part of mandatory procurement expenditure increase after SET comprises payments to generators that are using renewable energy sources (6.2 MEUR)

Distribution asset value exceeds 1/3 of the Group assets



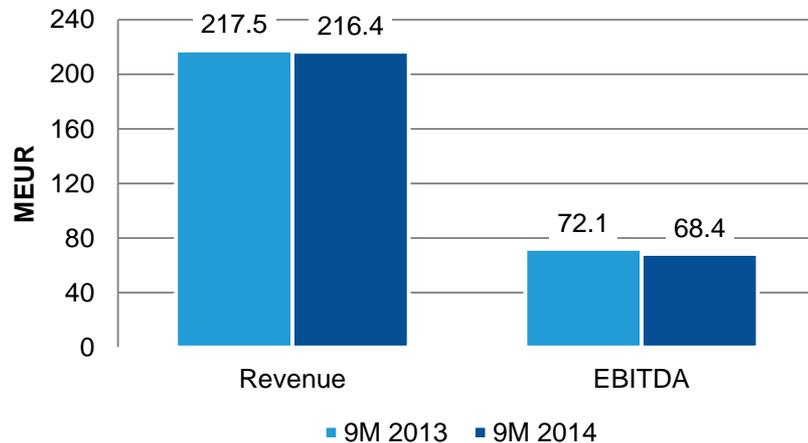
Distributed electricity lower by 2%



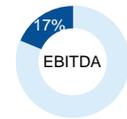
Decreased electricity losses

- Warmer weather conditions and lower industrial sector consumption led to a decline in distributed electricity volume
- Positive impact on the results due to lower electricity losses (-13 GWh)
- Negative impact on the results due to 2% lower distributed electricity volume
- Distribution asset value exceeds 1,250 MEUR

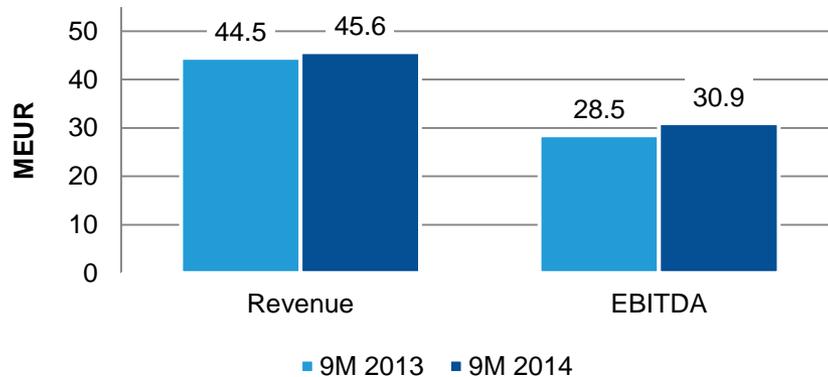
Lower distributed electricity volume affects the results



Transmission system assets – gradually improving returns



Growth of revenue improves EBITDA



Return on transmission system assets – 3.8%

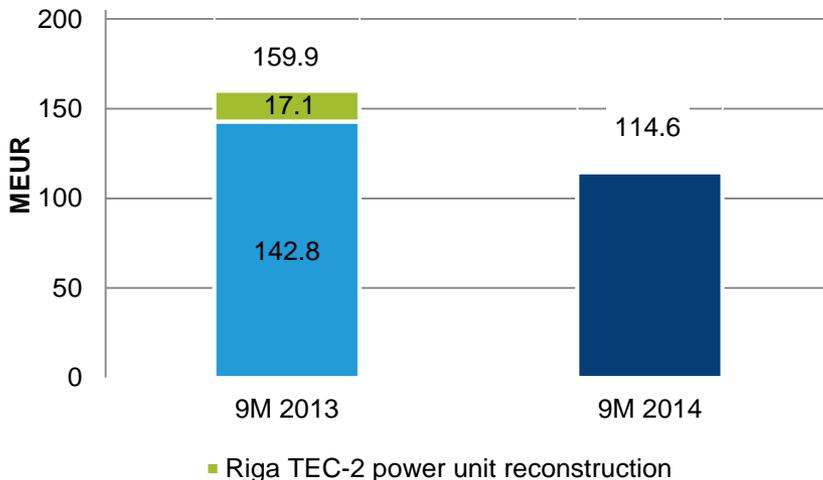
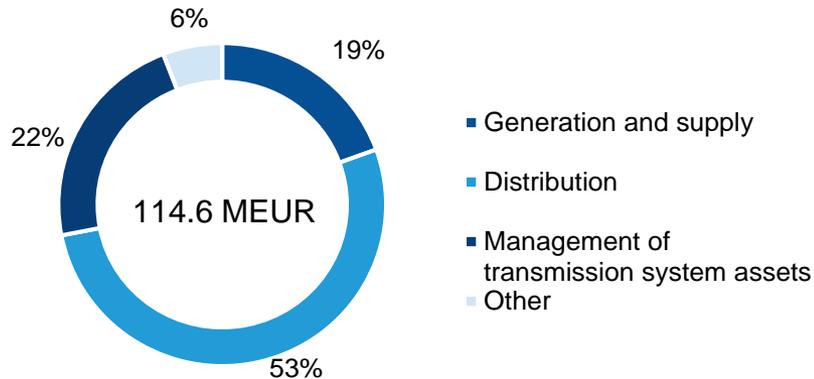
- Positive impact on profitability due to a gradual inclusion of the value of regulatory asset revaluation reserve into the lease
- Transmission system asset value increased by 5% due to investments

Future events

- The PUC decision on certification of the TSO provides a takeover of transmission system construction and maintenance functions by TSO as of 2015, while Latvijas elektriskie tīkli AS retains ownership of transmission system assets. These changes will not have an adverse impact on financial results

Finished construction of *Kurzeme Ring* transmission line connection *Grobiņa-Ventspils*

Investments in network assets – 75%

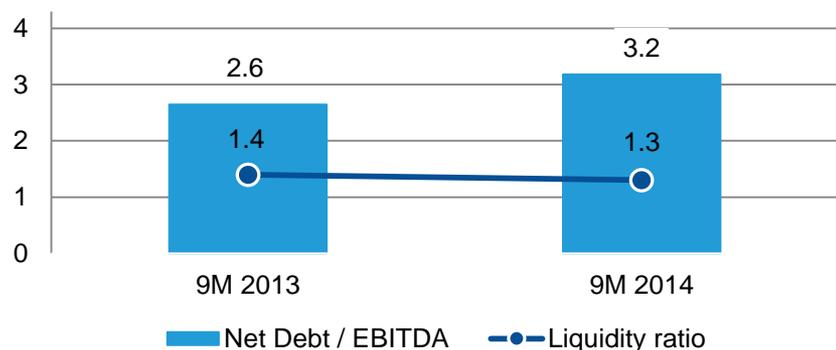


Investment projects

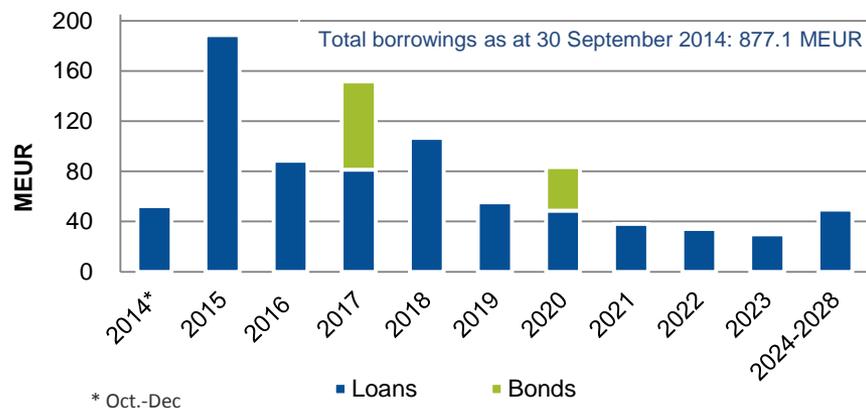
- NordBalt 02 -330kV, *Kurzeme Ring*:
 - total costs ~220 MEUR
 - completion in 2019
 - finished construction of 330 kV connection line *Grobiņa-Ventspils*
 - line connection *Ventspils-Tume-Rīga*, the final stage of the project, included in the indicative funding allocation list of the EC
- Daugava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

We plan and source funding in a timely manner

Stable liquidity ratios



Debt repayment schedule



Diversified borrowing sources

- Total amount of bonds issued –105 MEUR
- We source borrowed capital in a timely manner to ensure the required funding for investment programme of the following years and debt repayments due in 2015
- After the end of the reporting period, bank loan of 150 MEUR has been attracted
- We responsibly plan future investments without committing to significant irrevocable long-term liabilities prior to ensure the necessary funding
- Equity – 57% of the total assets
- Moody's Investors Service reconfirmed credit rating Baa3 (stable)



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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
PUC –	Public Utilities Commission
Riga CHPPs –	Riga combined heat and power plants
Riga TEC-2 –	Riga 2 nd combined heat and power plant
SET –	Subsidised Energy Tax
TSO –	Transmission system operator

Consolidated income statement *

	01/01-30/09/2014	01/01-30/09/2013
	EUR'000	EUR'000
Revenue	748,885	819,101
Other income	2,155	1,454
Raw materials and consumables used	(454,364)	(505,121)
Personnel expenses	(73,323)	(70,347)
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	(131,843)	(156,799)
Other operating expenses	(44,712)	(42,120)
Operating profit	46,798	46,168
Finance income	2,227	3,470
Finance costs	(15,206)	(12,484)
Share of profit / (loss) of associates	(493)	353
Profit before taxes	33,326	37,507
Income tax	(3,308)	(4,631)
Profit for the period	30,018	32,876

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

Consolidated statement of financial position *

	30/09/2014	31/12/2013
	EUR'000	EUR'000
ASSETS		
<i>Non-current assets</i>		
Intangible assets and property, plant and equipment	3,078,202	3,097,905
Investment property	1,430	1,473
Investments in associates and other financial investments	41	41
Investments in held-to-maturity financial assets	28,543	28,588
Other non-current receivables	21	57
TOTAL non-current assets	3,108,237	3,128,064
<i>Current assets</i>		
Inventories	25,665	21,634
Trade receivables and other current receivables	219,647	161,560
Current financial investments	5,094	8,060
Derivative financial instruments	211	617
Cash and cash equivalents	163,459	255,423
TOTAL current assets	414,076	447,294
TOTAL ASSETS	3,522,313	3,575,358
EQUITY		
Share capital	1,288,011	1,288,011
Reserves	645,664	652,418
Retained earnings	80,571	74,832
Equity attributable to equity holders of the Parent Company	2,014,246	2,015,261
Non-controlling interests	5,929	6,453
TOTAL equity	2,020,175	2,021,714
LIABILITIES		
<i>Non-current liabilities</i>		
Borrowings	719,008	805,192
Deferred income tax liabilities	268,998	269,116
Provisions	16,298	15,597
Derivative financial instruments	11,823	6,238
Other liabilities and deferred income	173,882	170,152
TOTAL non-current liabilities	1,190,009	1,266,295
<i>Current liabilities</i>		
Trade and other payables	145,476	130,670
Borrowings	158,120	139,483
Derivative financial instruments	8,533	17,196
TOTAL current liabilities	312,129	287,349
TOTAL liabilities	1,502,138	1,553,644
TOTAL EQUITY AND LIABILITIES	3,522,313	3,575,358

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

Consolidated statement of cash flows *

	01/01-30/09/2014	01/01-30/09/2013
	EUR'000	EUR'000
Cash flows from operating activities		
Profit before tax	33,326	37,507
Adjustments:		
- Amortisation, depreciation and impairment of non-current assets	133,946	159,251
- Net financial adjustments	4,649	9,401
- Other adjustments	732	(143)
Operating profit before working capital adjustments	172,653	206,016
Increase in current assets	(73,748)	(3,826)
Increase / (decrease) in trade and other payables	20,588	(62,082)
Cash generated from operating activities	119,493	140,108
Interest paid	(10,310)	(17,524)
Interest received	1,860	2,442
Income tax paid	(4,604)	(15,029)
Net cash flows from operating activities	106,439	109,997
Cash flows from investing activities		
Purchase of intangible assets and property, plant and equipment	(117,868)	(147,152)
Proceeds on financing from EU funds and other financing	2,073	844
Proceeds from redemption of held-to-maturity assets	45	45
Net cash flows used in investing activities	(115,750)	(146,263)
Cash flows from financing activities		
Proceeds from issued debt securities (bonds)	-	70,259
Proceeds from borrowings from financial institutions	22,600	27,671
Repayment of borrowings	(93,880)	(72,747)
Dividends paid to non-controlling interests	(1,198)	(313)
Dividends paid	(12,649)	(30,644)
Dividends received from associates	2,474	-
Net cash flows used in financing activities	(82,653)	(5,774)
Net decrease in cash and cash equivalents	(91,964)	(42,040)
Cash and cash equivalents at the beginning of the period	255,423	242,493

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