



# Unaudited Interim Condensed Consolidated Financial Statements

for the 3 months period  
ended 31 March 2014

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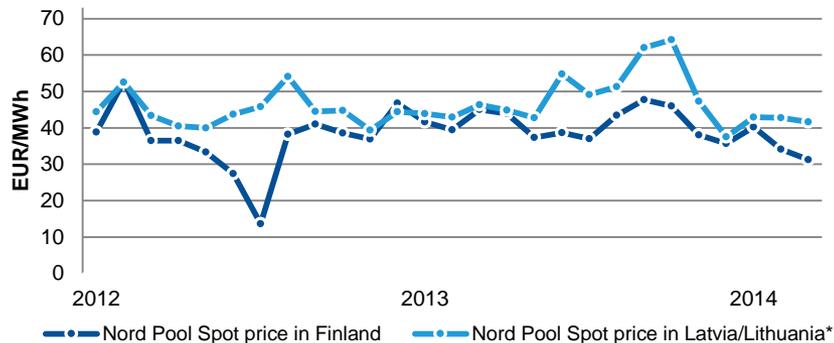
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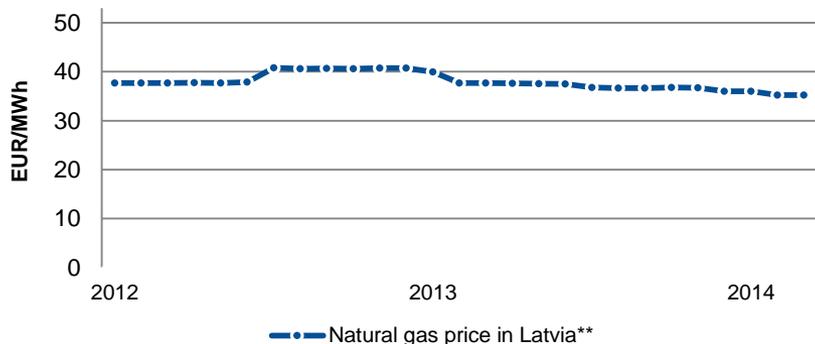
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# Electricity Nord Pool Spot price decrease in the Baltic and Nordic countries

## Low electricity price



## Still high natural gas price



## Main facts – Q1 2014

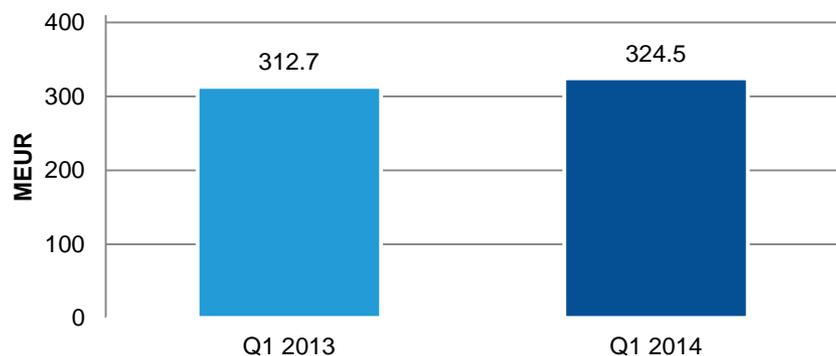
- Nord Pool Spot electricity price decreased by 16% in Finland (35.2 EUR/MWh) and by 4% in Latvia/Lithuania (42.4 EUR/MWh)
- Electricity price decrease was determined by lower electricity consumption due to warmer weather conditions and higher water level in Nordic hydropower plant reservoirs
- Transmission capacity deficit determines price differences between the Latvia/Lithuania and Estonia bidding areas
- Power transmission interconnection *EstLink-2* was launched
- In Q1 2014, natural gas price in Latvia still remains high (35.5 EUR/MWh)
- Latvia has joined the European Economic and Monetary Union on 1 January 2014

\* Nord Pool Spot Latvia bidding area was opened on 3 June 2013. In Q1 2014, electricity prices in the Latvia and Lithuania bidding areas were equal 99.9% hours

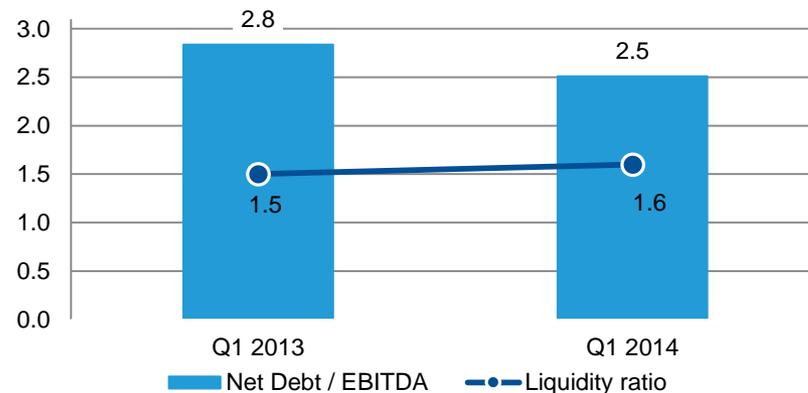
\*\* price of natural gas in Latvia, including the excise tax, for users with gas consumption above 100,000 thousands nm<sup>3</sup> (source: <http://www.lg.lv/>)

# Increase in revenue and EBITDA of the Group

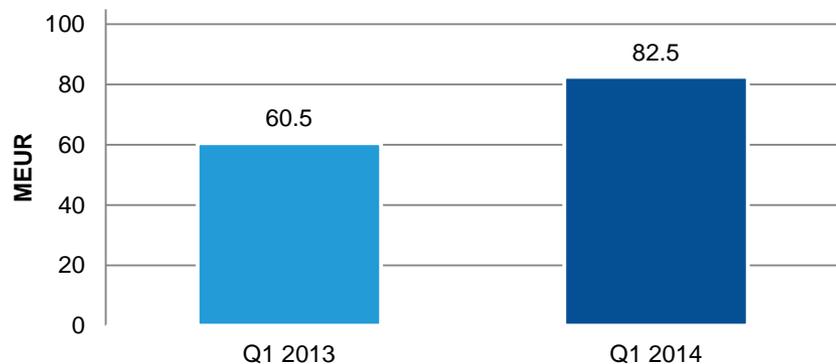
## Revenue



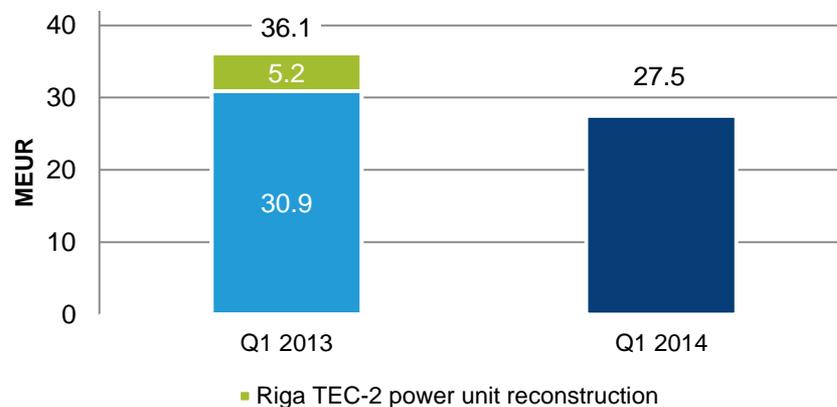
## Net debt / EBITDA



## EBITDA

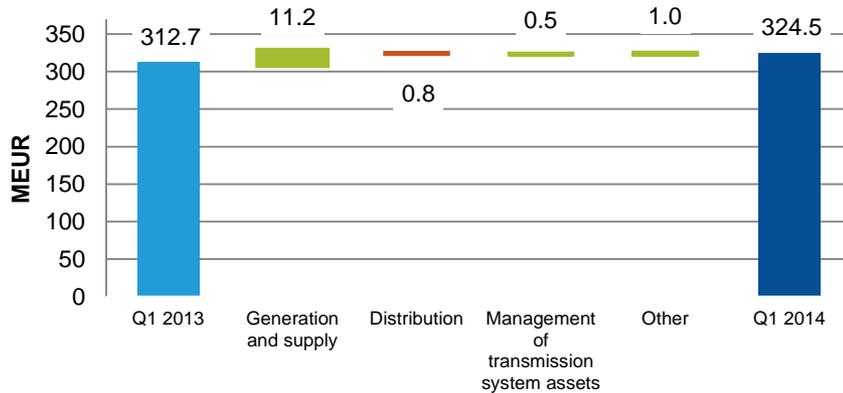


## Investments



# Revenue of the Group grew by 4%

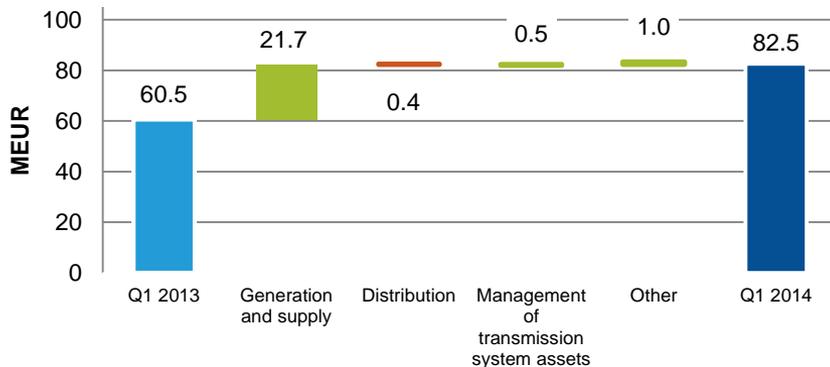
## Revenue dynamics by segments



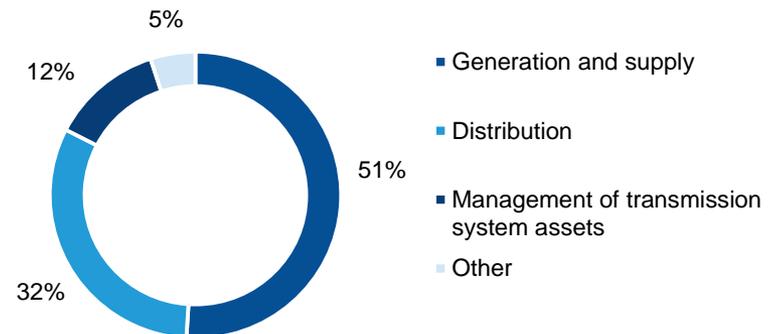
## EBITDA reached 82.5 MEUR

- Results were positively impacted by recognition of balanced mandatory procurement revenues and costs
- Lower volume of distributed electricity decreased revenue and EBITDA of distribution segment

## EBITDA dynamics by segments



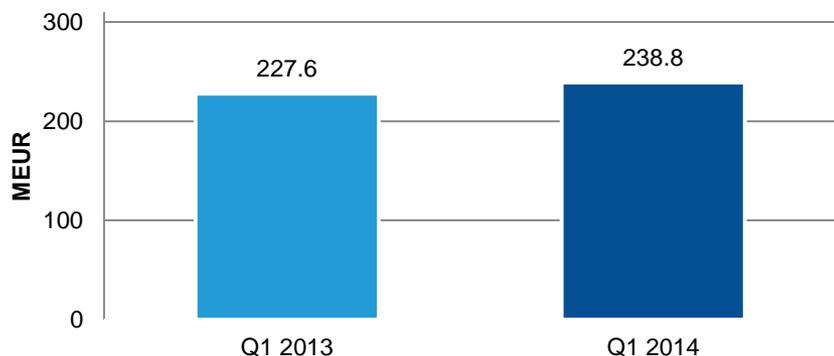
## EBITDA weight by segments



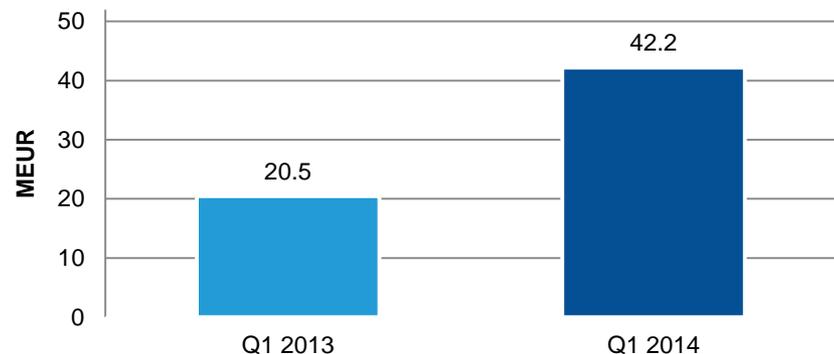
# Generation and supply



## Segment revenue



## Segment EBITDA



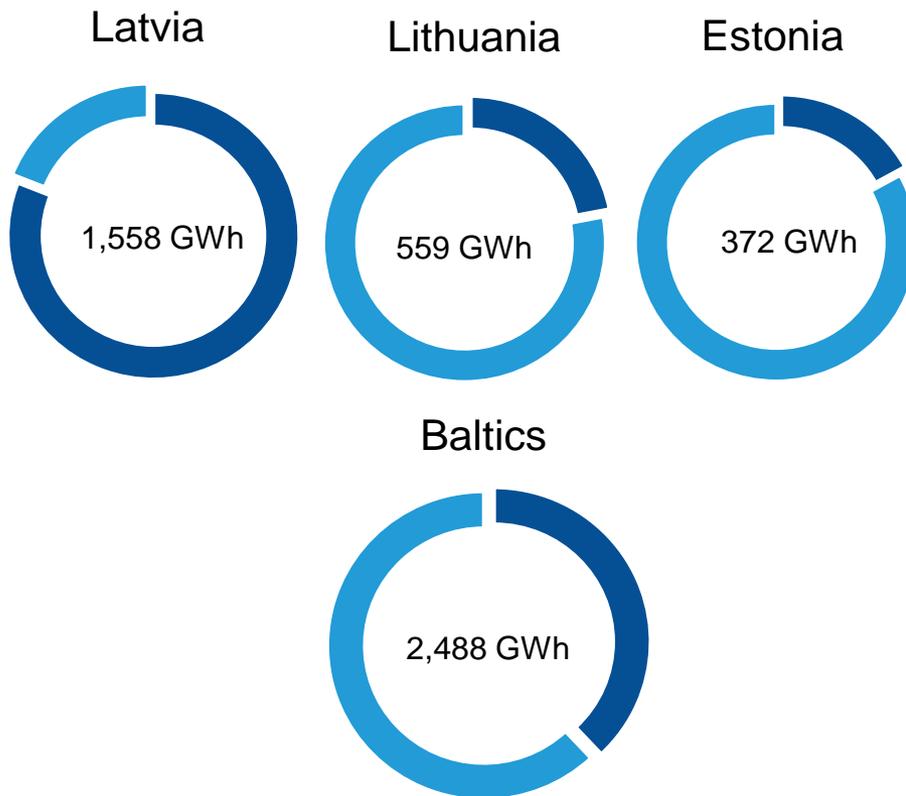
## The largest segment of the Group

- Results of the segment were positively impacted by increase of the mandatory procurement PSO fee (on 1 April 2013) and recognition of balanced revenues and costs of mandatory procurement in Q1 2014, as well as by higher generation at Daugava HPPs (+10%)
- Results were negatively affected by lost revenues due to electricity supply at the regulated tariff in Latvia
- Lower thermal energy and electricity consumption due to warmer weather conditions
- As of 1 January 2014, the subsidised energy tax has been introduced for a four-year period thus reducing the profit of the generation and supply segment

# On the open market in the Baltics – 82% of retail electricity supply



## Retail electricity supply



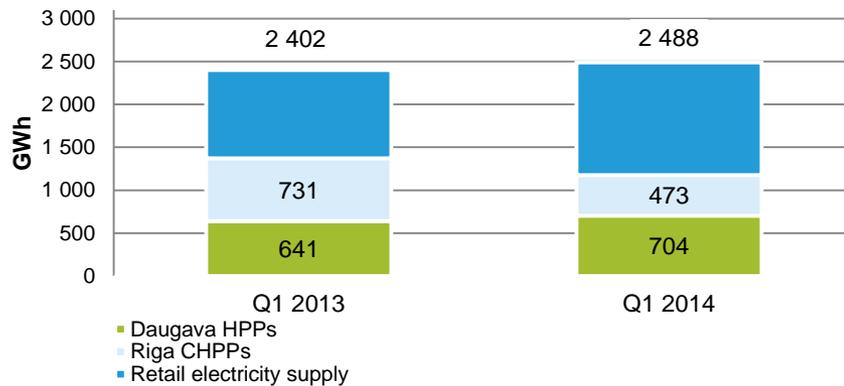
## Focused and successful operations in the market

- Latvenergo Group – the largest electricity supplier in the Baltics
- Despite a decline in electricity consumption in the Baltics, retail electricity supply was increased by 4%
- More than 1/3 of retail electricity supply outside Latvia
- The number of customers in Lithuania and Estonia exceeds 30 thousands, and retail electricity supply was increased by 55%
- 82% of the retail electricity supply were supplied on the open electricity market in the Baltics, while 18% – at the regulated tariff in Latvia

# Riga CHPPs operation adjusted to the market conditions



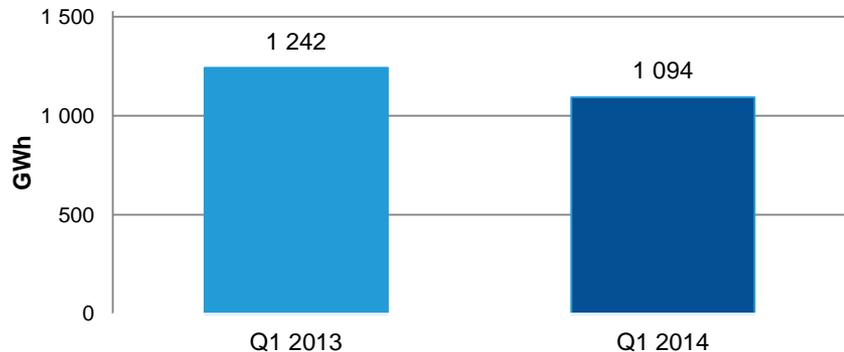
## 1,192 GWh of electricity generated



## Effective and balanced generation sources

- Generated electricity represents 48% of retail electricity supply
- Generation at Daugava HPPs increased by 63 GWh
- Due to adverse market conditions and warmer weather conditions, electricity generation at Riga CHPPs was 258 GWh lower
- Lower thermal energy demand due to warmer weather conditions – by 12% lower thermal energy generation

## 1,094 GWh of thermal electricity generated

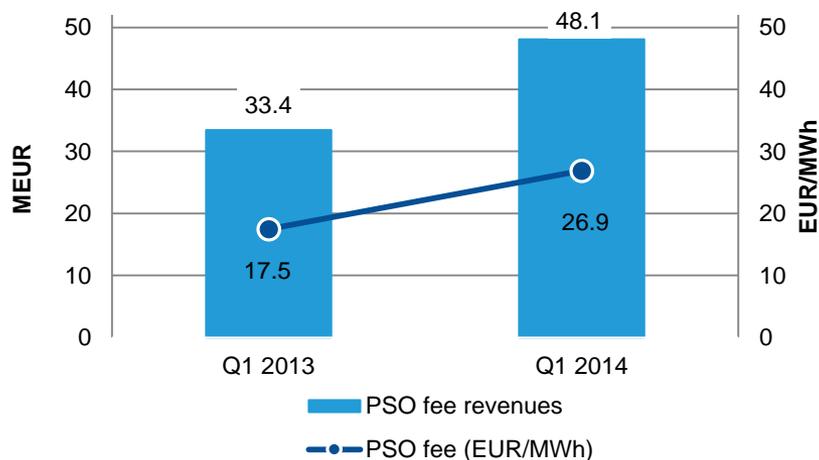


# Mandatory procurement does not affect the results

## Recognised accrued PSO fee revenues

		Q1 2014	Q1 2013	Δ	Δ, %
Mandatory procurement PSO fee revenues	MEUR	48.1	33.4	14.7	44%
Accrued PSO fee revenues	MEUR	19.9	0.0	19.9	-
Mandatory procurement costs above the market price	MEUR	(68.0)	(54.4)	(13.6)	25%
<i>Latvenergo AS</i>	MEUR	(25.1)	(20.3)	(4.8)	24%
<i>other generators</i>	MEUR	(42.9)	(34.1)	(8.7)	26%
<b>Difference</b>	<b>MEUR</b>	<b>0.0</b>	<b>(21.0)</b>	<b>21.0</b>	<b>(100%)</b>

## PSO fee



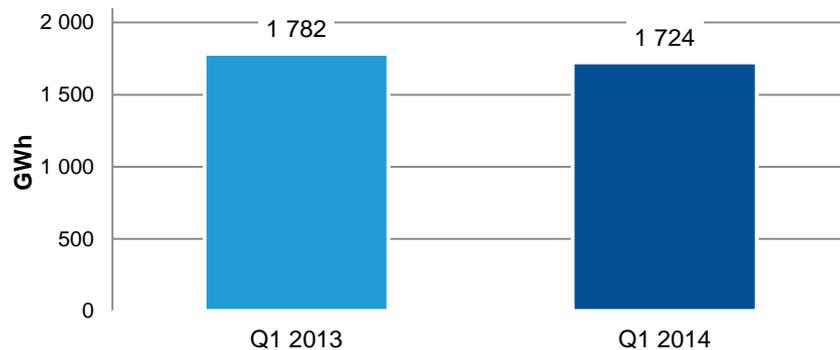
## Balanced mandatory procurement PSO fee revenues and costs

- Until 31 March 2014, Latvenergo AS is obliged to purchase electricity from generators that qualify for support plans within the mandatory procurement process
- As of 1 April 2014, the public trader functions are performed by Enerģijas publiskais tirgotājs AS
- Taking into account the amendments to Electricity Market Law, EUR 19.9 million accrued PSO fee revenues were recognised in the results of Q1 2014
- Increase of PSO fee revenues was due to increase of PSO fee on 1 April 2013
- Higher mandatory procurement costs due to increased electricity volume procured from other generators under the mandatory procurement process

# Distribution asset value exceeds 1/3 of the Group assets



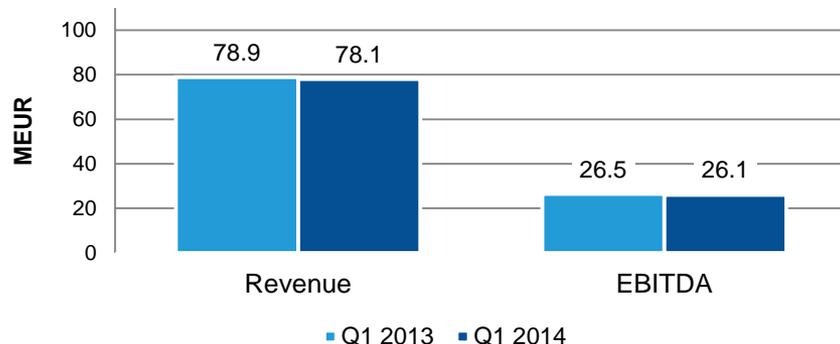
## Distributed electricity lower by 3%



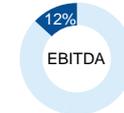
## Decreased electricity losses

- Due to warmer weather conditions and lower industrial sector consumption the volume of distributed electricity has decreased
- Positive impact on financial results due to lower electricity losses (-24 GWh) and costs
- Distribution asset value exceeds 1,250 MEUR

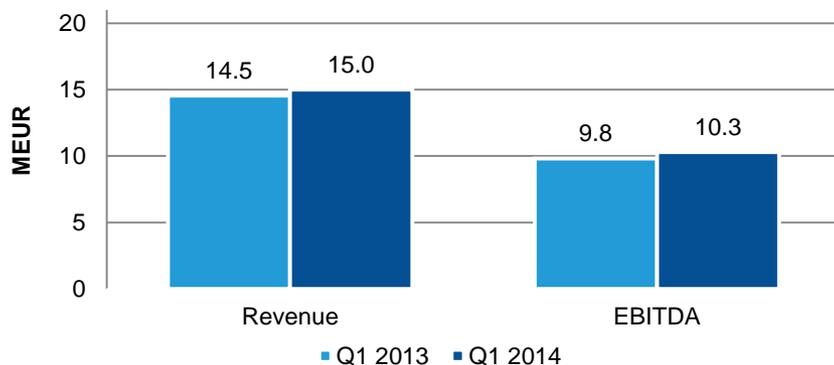
## Insignificant changes in revenue and EBITDA



# Transmission system assets – gradually improving returns



## Growth of revenue improves EBITDA



## Return on transmission system assets\* – 3.6%

- 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 9% due to investments

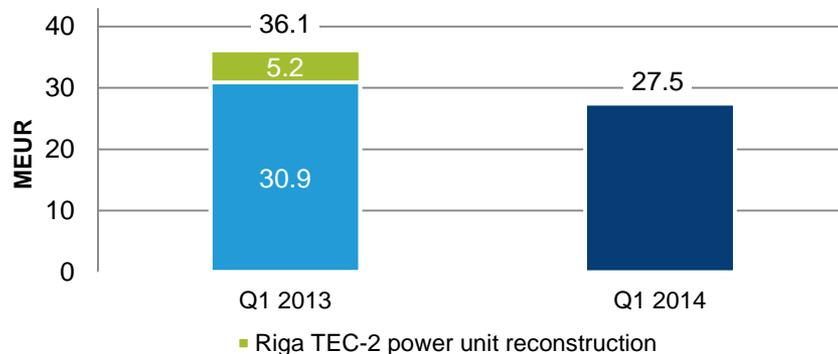
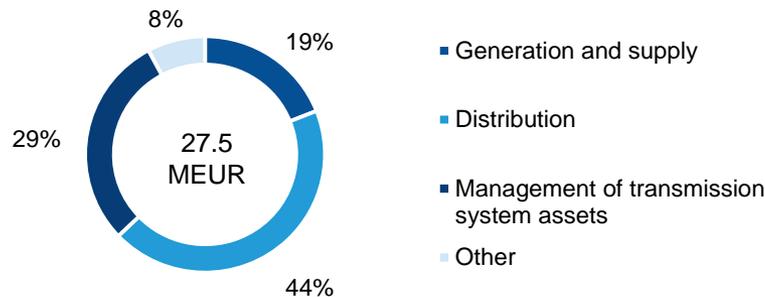
## Future events

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

\* Return on segment assets – operating profit of the segment / average segment assets ((assets at the beginning of the year + assets at the end of the year) / 2)

# Construction of transmission line connection *Grobiņa-Ventspils* approaching completion

Investments in network assets exceed 70%



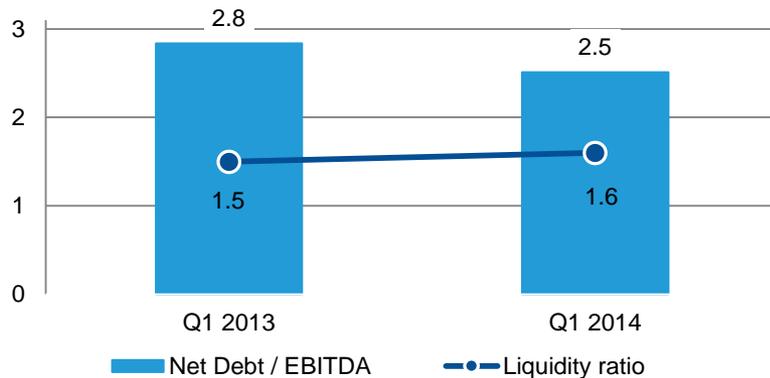
## Investment projects

- NordBalt 02 -330kV, *Kurzeme Ring\**:
  - total costs ~200 MEUR
  - completion in 2019
  - construction of 330kV connection line *Grobiņa-Ventspils* is scheduled for completion in mid-2014
- Daugava HPPs hydropower unit reconstruction:
  - estimated costs > 200 MEUR
  - completion in 2022
- Along with the completion of the Riga TEC-2 second power unit reconstruction project in late 2013, total investments are lower in 2014

\*Environmental impact assessment has been performed for the final stage of the project *Ventspils-Tume-Rīga* and planning preparation works are carried out for further implementation of the project.

# We are planning to continue bond emission in the Baltics

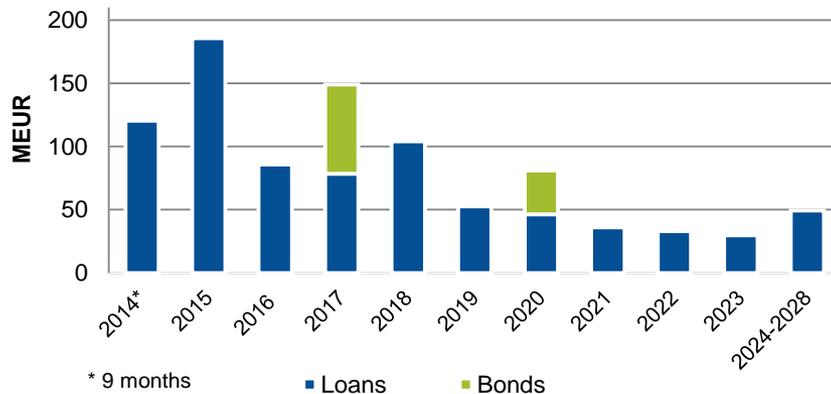
## Stable liquidity ratios



## Diversified borrowing sources

- A decision to issue bonds within a new bond emission programme (up to EUR 100 million) has been taken
- Equity – 57% of the total assets
- We responsibly plan future investments without committing to significant irrevocable long-term liabilities prior to ensure the necessary funding
- Moody's Investors Service reconfirmed credit rating Baa3 (stable)

## Debt repayment schedule





## Contacts

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# Abbreviations



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
TSO –	Transmission system operator

# Consolidated income statement\*

	01/01-31/03/2014	01/01-31/03/2013
	EUR'000	EUR'000
Revenue	324,495	312,654
Other income	1,128	346
Raw materials and consumables used	(204,164)	(214,684)
Personnel expenses	(23,528)	(22,732)
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	(43,798)	(46,316)
Other operating expenses	(15,398)	(15,061)
<b>Operating profit</b>	<b>38,735</b>	<b>14,207</b>
Finance income	751	1,095
Finance costs	(5,132)	(4,197)
Share of profit / (loss) of associates	(329)	141
<b>Profit before taxes</b>	<b>34,025</b>	<b>11,246</b>
Income tax	(3,251)	(4,132)
<b>Profit for the period</b>	<b>30,774</b>	<b>7,114</b>

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

# Consolidated statement of financial position\*

	31/03/2014	31/12/2013
	EUR'000	EUR'000
<b>ASSETS</b>		
<b>Non-current assets</b>		
Intangible assets and property, plant and equipment	3,081,234	3,097,905
Investment property	1,368	1,473
Investments in associates and other financial investments	41	41
Investments in held-to-maturity financial assets	28,574	28,588
Other non-current receivables	39	57
<b>TOTAL non-current assets</b>	<b>3,111,256</b>	<b>3,128,064</b>
<b>Current assets</b>		
Inventories	22,174	21,634
Trade receivables and other current receivables	211,732	161,560
Current financial investments	5,807	8,060
Derivative financial instruments	-	617
Cash and cash equivalents	246,995	255,423
<b>TOTAL current assets</b>	<b>486,708</b>	<b>447,294</b>
<b>TOTAL ASSETS</b>	<b>3,597,964</b>	<b>3,575,358</b>
<b>EQUITY</b>		
Share capital	1,288,011	1,288,011
Reserves	650,016	652,418
Retained earnings	104,654	74,832
<b>Equity attributable to equity holders of the Parent Company</b>	<b>2,042,681</b>	<b>2,015,261</b>
Non-controlling interests	7,404	6,453
<b>TOTAL equity</b>	<b>2,050,085</b>	<b>2,021,714</b>
<b>LIABILITIES</b>		
<b>Non-current liabilities</b>		
Borrowings	783,985	805,192
Deferred income tax liabilities	268,349	269,116
Provisions	15,792	15,597
Derivative financial instruments	7,684	6,238
Other liabilities and deferred income	173,788	170,152
<b>TOTAL non-current liabilities</b>	<b>1,249,598</b>	<b>1,266,295</b>
<b>Current liabilities</b>		
Trade and other payables	138,731	130,667
Borrowings	142,753	139,483
Derivative financial instruments	16,797	17,196
<b>TOTAL current liabilities</b>	<b>298,281</b>	<b>287,349</b>
<b>TOTAL liabilities</b>	<b>1,547,879</b>	<b>1,553,644</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>3,597,964</b>	<b>3,575,358</b>

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# Consolidated statement of cash flows\*

	01/01-31/03/2014	01/01-31/03/2013
	EUR'000	EUR'000
<b>Cash flows from operating activities</b>		
Profit before tax	34,025	11,246
<b>Adjustments:</b>		
- Amortisation, depreciation and impairment of non-current assets	43,798	46,316
- Net financial adjustments	4,548	(2,472)
- Other adjustments	189	308
<b>Operating profit before working capital adjustments</b>	<b>82,561</b>	<b>55,398</b>
Increase in current assets	(52,771)	(4,901)
Increase / (decrease) in trade and other payables	10,426	(29,837)
<b>Cash generated from operating activities</b>	<b>40,215</b>	<b>20,660</b>
Interest paid	(2,934)	(952)
Interest received	1,230	494
Income tax paid	(3,591)	(5,450)
<b>Net cash flows from operating activities</b>	<b>34,920</b>	<b>14,752</b>
<b>Cash flows from investing activities</b>		
Purchase of intangible assets and property, plant and equipment	(26,152)	(48,926)
Proceeds on financing from European Union funds and other financing	2,073	-
Proceeds from redemption of held-to-maturity assets	15	14
<b>Net cash flows used in investing activities</b>	<b>(24,064)</b>	<b>(48,912)</b>
<b>Cash flows from financing activities</b>		
Proceeds from issued debt securities (bonds)	-	50,404
Repayment of borrowings	(21,208)	(17,959)
Dividends received from associates	1,924	-
<b>Net cash flows (used in) / generated from financing activities</b>	<b>(19,284)</b>	<b>32,445</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(8,428)</b>	<b>(1,715)</b>
Cash and cash equivalents at the beginning of the period	255,423	242,493
<b>Cash and cash equivalents at the end of the period</b>	<b>246,995</b>	<b>240,778</b>

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