

Annual Unaudited Condensed Consolidated Financial Statements of 2015



29.02.2016/ RIGA

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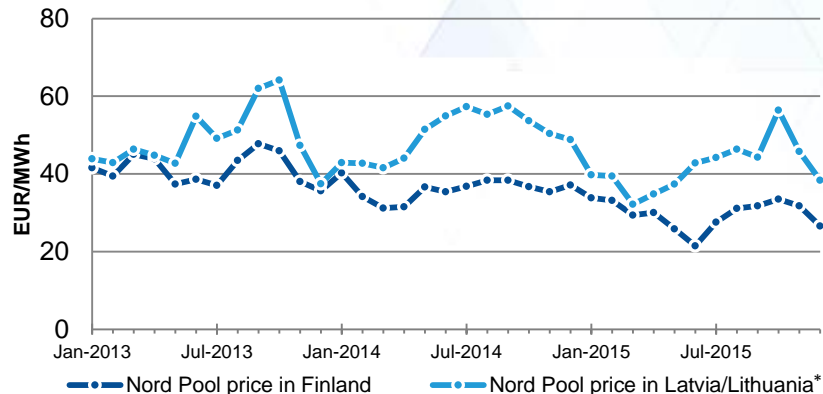
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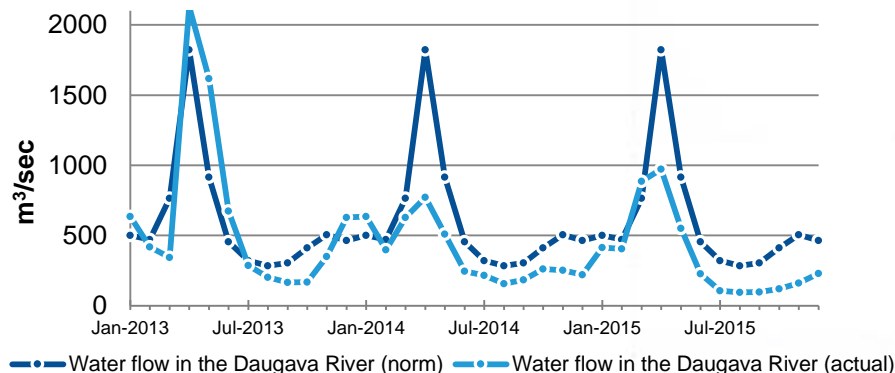
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Electricity price decreased in the Nordics and the Baltics

Low electricity price



Unusually low water inflow in the Daugava River



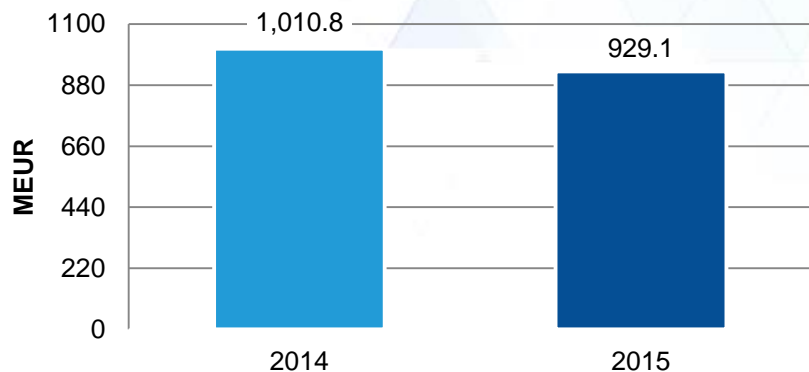
Main facts – 2015

- ▶ Nord Pool price decreased by 17% in Estonia and by 18% Finland (31.1 EUR/MWh and 29.7 EUR/MWh respectively) and by 16% in Latvia/Lithuania* (41.8 EUR/MWh)
- ▶ Electricity price decrease was determined by increased generation of hydropower in the Nordics and lower coal prices
- ▶ Transmission system capacity shortage determines price differences between the Latvia/Lithuania and Estonia bidding areas
- ▶ Natural gas price in Latvia decreased by 15% reaching 30.4 EUR/MWh
- ▶ Similarly to 2014, water inflow in the Daugava River in 2015 unusually low – the lowest since 1976.

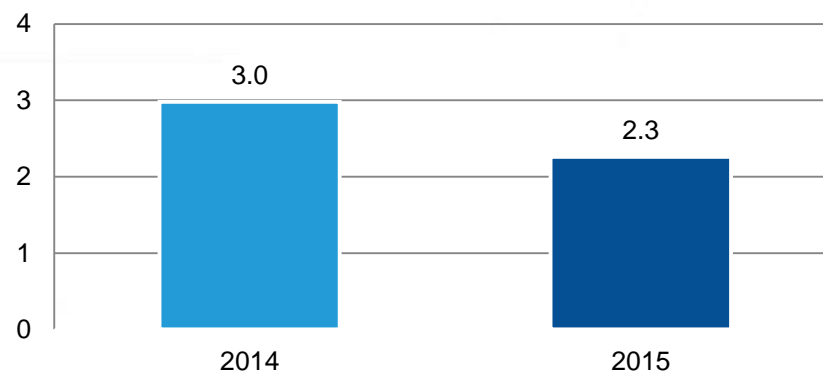
* In 2015, electricity prices in the Latvia and Lithuania bidding areas were equal 99% hours.

Key Financial Figures

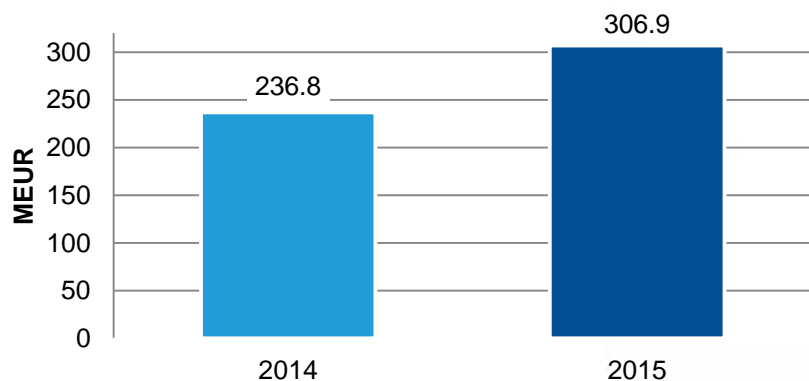
Revenue



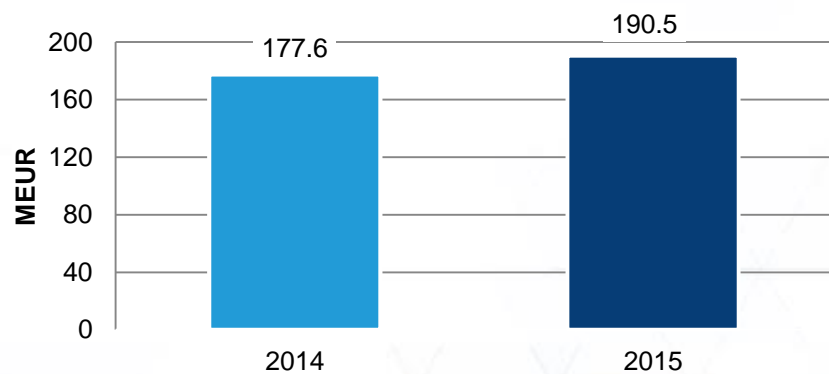
Net debt/EBITDA



EBITDA

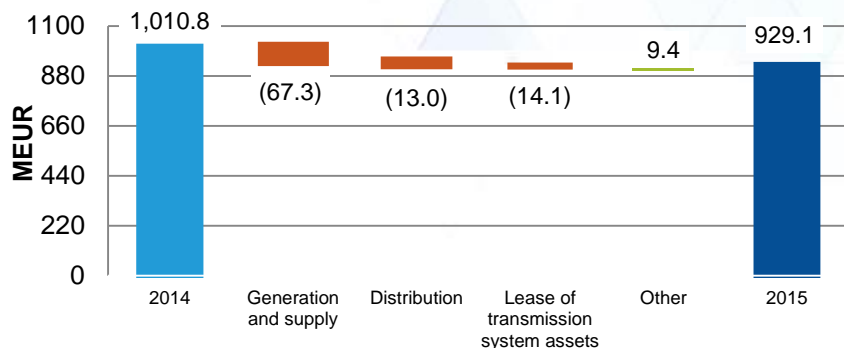


Investments



EBITDA of the Group has increased

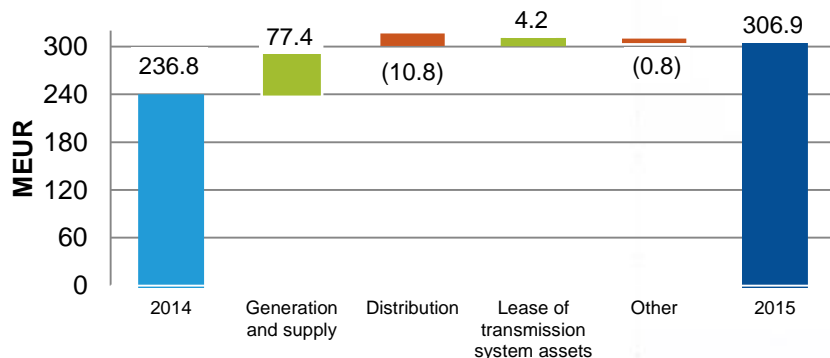
Revenue dynamics by segments



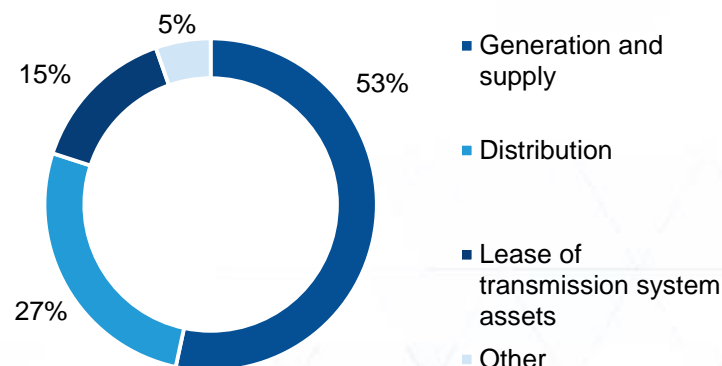
EBITDA reached 306.9 MEUR

- ▶ The results were positively impacted by electricity market opening for households in Latvia and by lower electricity and natural gas prices
- ▶ Lower revenue in generation and supply segment - mandatory procurement PSO fee revenues are no longer recognised in the revenue of the Group*
- ▶ EBITDA margin – 33% (2014: 23%)

EBITDA dynamics by segments



EBITDA weight by segments

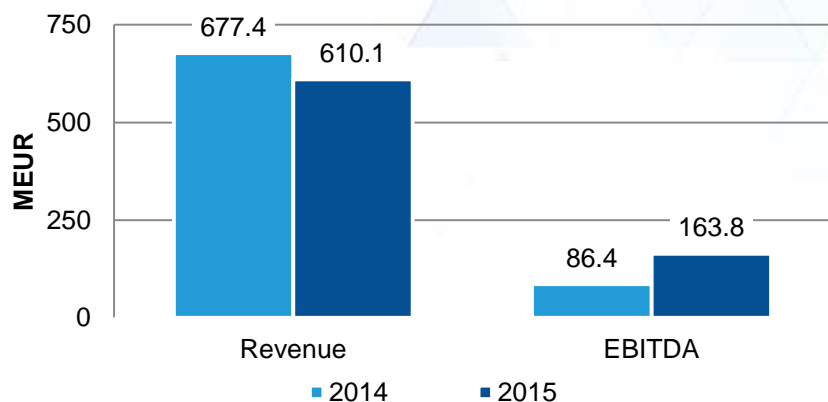


* Along with Energijas publiskais tirgotājs AS entrance into operation as of 1 April 2014, mandatory procurement PSO fee revenues are not recognised in the revenue

Generation and supply



Segment revenue and EBITDA



The largest segment of the Group

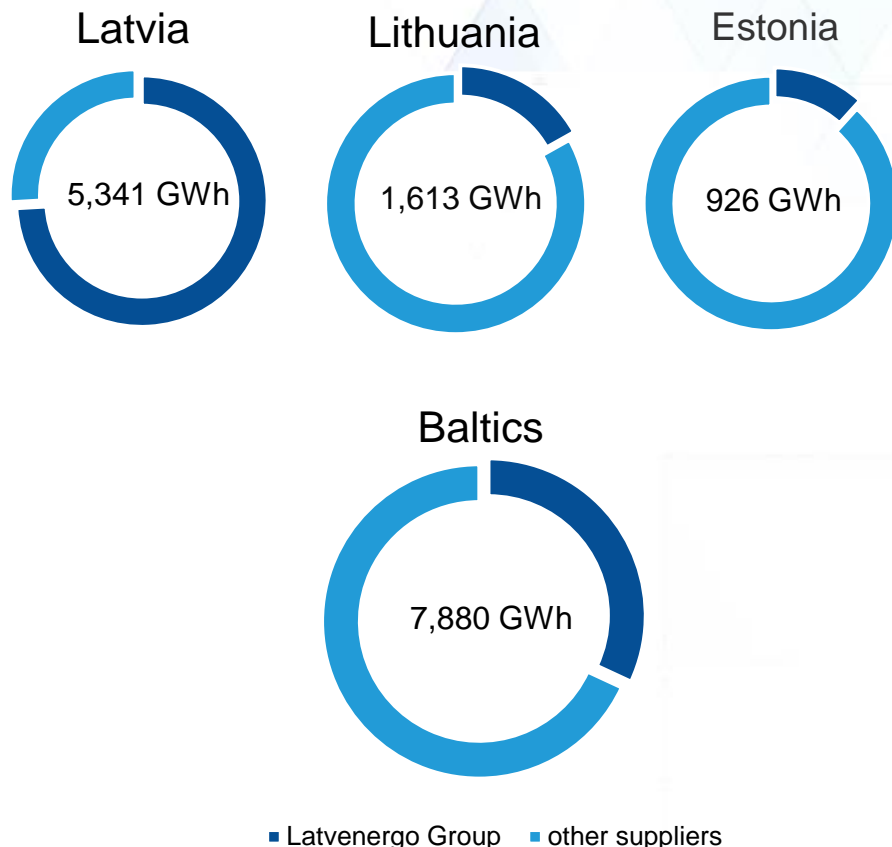
- ▶ The results of the segment were positively impacted by the opening of electricity market in Latvia and by lower electricity and natural gas prices. In 2015, lost revenues due to electricity supply at the regulated tariff were 48.2 MEUR
- ▶ The results of the segment were negatively impacted by 6% lower amount of power generated at the Daugava HPPs
- ▶ 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



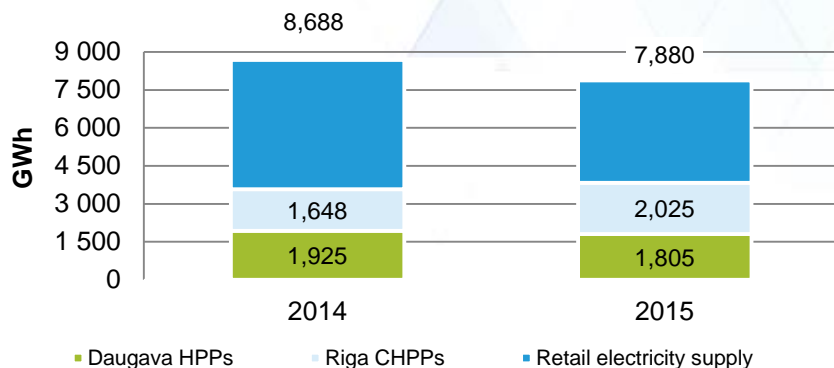
Focused and successful operations in the market

- ▶ The number of business clients in Estonia and Lithuania was increased by about 33%
- ▶ Retail electricity supply in neighbouring countries reached 2,539 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
- ▶ In 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



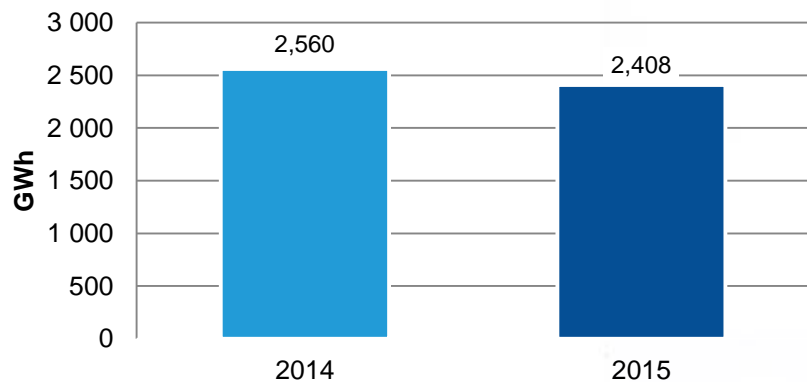
3,882 GWh of electricity generated



Riga CHPPs electricity generation increased by 23%

- ▶ Riga CHPPs operated in market conjuncture effectively planning operating modes and fuel consumption
- ▶ Similarly to 2014, the water inflow in the Daugava River remained unusually low - the amount of power generated by Daugava HPPs decreased by 6%
- ▶ The total electricity generated represents 49% of retail electricity supply (2014: 42%)
- ▶ Warmer weather conditions determined lower consumption of thermal energy – thermal energy generation decreased by 6%.

2,408 GWh of thermal energy generated



Mandatory procurement PSO fee remains at the previous level

Recognised accrued PSO fee income

		2015	2014	Δ	Δ, %
Mandatory procurement PSO fee income	MEUR	173.3	182.5	(9.2)	(5%)
Received State grant	MEUR	20.3	29.3	(8.9)	(31%)
Mandatory procurement expenditures*	MEUR	255.7	245.9	9.8	4%
<i>Incl. Cogeneration</i>	MEUR	155.3	157.5	(2.2)	(1%)
<i>Incl. Renewable energy resources</i>	MEUR	99.6	88.2	11.4	13%
Difference	MEUR	(62.0)	(34.1)	(27.9)	82%

Balanced mandatory procurement PSO fee income and costs

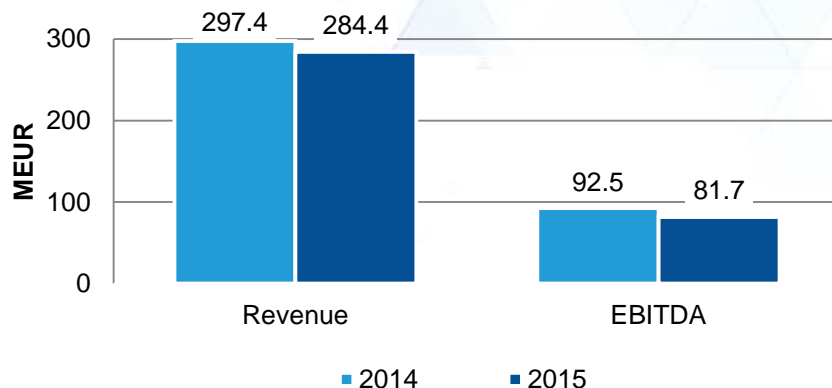
- ▶ As of 1 April 2014 the public trader functions are performed by Enerģijas publiskais tirgotājs AS
- ▶ Starting from 1 April 2016 PSO fee remains unchanged (EUR 2.679 cents/kWh)
- ▶ In order to maintain the mandatory procurement PSO fee at the same level, a State grant in the amount of 78.9 MEUR, of which 59.7 MEUR are expected in 2016 (2015: 20.3 MEUR), has been taken into account upon the calculation of the fee
- ▶ The difference between PSO fee income and expenditures* was 62.0 MEUR
- ▶ Dividends of Latvenergo AS are intended as one of the funding sources 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 exchange and plus the costs of mandatory procurement balancing

Investments in distribution assets exceed EUR 100 million



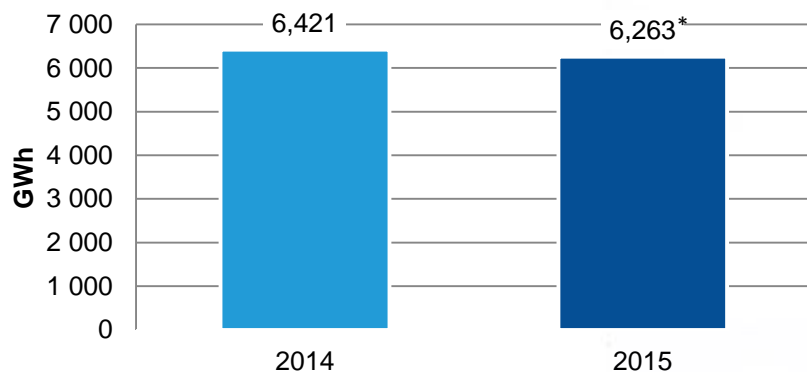
Segment revenue and EBITDA



Distribution assets increase by 3% due to investments

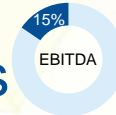
- ▶ Investments in distribution assets reached 101.3 MEUR (2014: 99.8 MEUR)
- ▶ Positive impact on the results was from lower electricity price
- ▶ Negative impact on the results was due to decrease by 2% in distributed electricity*
- ▶ On 20 January 2016 Sadales tīkls AS submitted PUC electricity distribution system services tariff rebalancing project

Electricity distributed

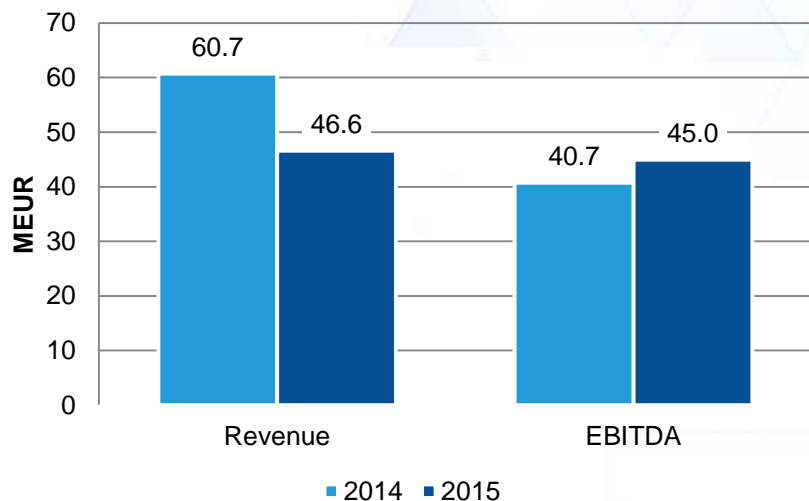


* The volume of electricity distributed excludes 123 GWh; that amount corresponds to the regulated electricity tariff revenues received at the beginning of 2015, that were recognized in 2014

Transmission system assets – gradually improving returns



Increase in EBITDA by 10%



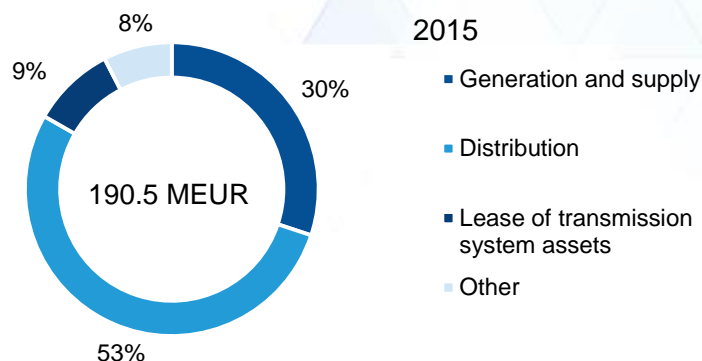
Return on transmission system assets* – 4.7%

- ▶ 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

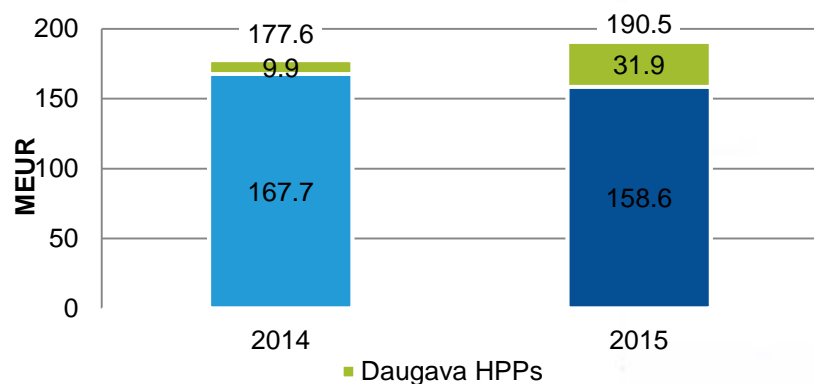
* Return on segment assets – operating profit of the segment / average segment assets ((assets at the beginning of the period + assets at the end of the period) / 2)

Investments in environmentally friendly projects

Investments in network assets exceed 60%



Investment increase due to Daugava HPPs hydropower unit reconstruction



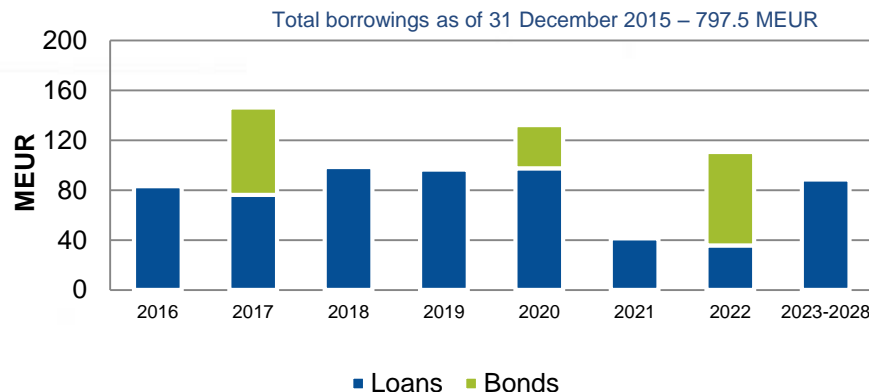
Investment projects

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

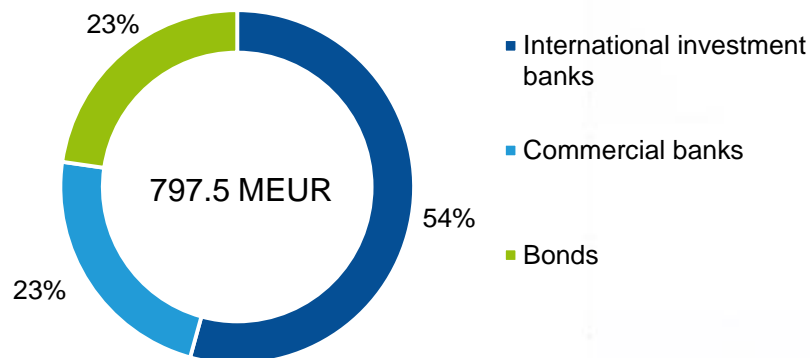
Diversified borrowing sources

More than 1/5 of the total borrowings are bonds Debt repayment schedule

- ▶ Financial needs for coming investment projects and refinancing of loans are attracted in a timely manner
- ▶ *Green* bonds in the amount of EUR 75 million were issued, Moody's assigned Baa2 (stable) to the bonds
- ▶ At the beginning of 2015 Moody's upgraded Latvenergo AS credit rating to Baa2 with a stable outlook and on 12 February 2016 reconfirmed the rating
- ▶ Capital ratio – 60%



Lenders by category



Liquidity

Liquid assets (cash and short term bank deposits with maturity up to 3 months)	104.5 MEUR
Committed long-term loans	290.0 MEUR*
Investment in liquid financial assets	28.5 MEUR
Additional liquidity reserves	318.5 MEUR

* As of 31.12.2015. After the reporting end of the reporting period a long-term loan in the amount of 40.0 MEUR was withdrawn

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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
TSO –	Transmission system operator

Consolidated Statement of Profit or Loss*

	2015	2014
	EUR'000	EUR'000
Revenue	929,128	1,010,757
Other income	4,880	5,273
Raw materials and consumables used	(470,532)	(621,285)
Personnel expenses	(94,609)	(97,954)
Depreciation, amortisation and impairment of property, plant and equipment	(198,828)	(187,595)
Other operating expenses	(61,978)	(59,953)
Operating profit	108,061	49,243
Finance income	2,925	3,004
Finance costs	(18,579)	(20,380)
Share of profit / (loss) of associates	1	(357)
Profit before tax	92,408	31,510
Income tax	(7,443)	(1,720)
Profit for the year	84,965	29,790

Consolidated Statement of Financial Position*

	31/12/2015	31/12/2014
	EUR'000	EUR'000
ASSETS		
Non-current assets		
Intangible assets and property, plant and equipment	3,090,660	3,079,327
Investment property	696	1,343
Non-current financial investments	41	41
Investments in held-to-maturity financial assets	20,609	28,528
Other non-current receivables	6	14
Total non-current assets	3,112,012	3,109,253
Current assets		
Inventories	24,791	22,560
Trade receivables and other receivables	268,128	233,752
Investments in held-to-maturity financial assets	7,859	–
Cash and cash equivalents	104,543	121,011
Total current assets	405,321	377,323
TOTAL ASSETS	3,517,333	3,486,576
EQUITY		
Share capital	1,288,531	1,288,446
Reserves	669,596	645,829
Retained earnings	131,588	79,995
Equity attributable to equity holders of the Parent Company	2,089,715	2,014,270
Non-controlling interests	6,913	6,531
Total equity	2,096,628	2,020,801
LIABILITIES		
Non-current liabilities		
Borrowings	714,291	688,297
Deferred income tax liabilities	273,980	268,026
Provisions	15,984	15,588
Derivative financial instruments	8,291	11,698
Other liabilities and deferred income	196,386	194,474
Total non-current liabilities	1,208,932	1,178,083
Current liabilities		
Trade and other payables	121,211	139,912
Borrowings	83,192	138,925
Derivative financial instruments	7,370	8,855
Total current liabilities	211,773	287,692
TOTAL EQUITY AND LIABILITIES	3,517,333	3,486,576

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

Consolidated Statement of Cash Flows*

	2015	2014
	EUR'000	EUR'000
Cash flows from operating activities		
Profit before tax	92,408	31,510
Adjustments:		
- Amortisation, depreciation and impairment of non-current assets	202,906	190,065
- Net financial adjustments	16,300	9,904
- Other adjustments	(735)	215
Operating profit before working capital adjustments	310,879	231,694
Increase in current assets	(79,421)	(90,817)
(Decrease) / increase in trade and other payables	(19,318)	19,062
Cash generated from operating activities	212,140	159,939
Interest paid	(19,189)	(20,915)
Interest received	1,606	2,082
Repaid / (paid) corporate income tax and real estate tax	3,631	(5,777)
Net cash flows from operating activities	198,188	135,329
Cash flows from investing activities		
Purchase of intangible assets and PPE	(190,423)	(177,988)
Proceeds from sales of investments	–	5,779
Proceeds on financing from EU funds and other financing	17,972	2,161
Proceeds from redemption of held-to-maturity financial assets	60	60
Net cash flows used in investing activities	(172,391)	(169,988)
Cash flows from financing activities		
Proceeds from issued debt securities (bonds)	74,902	–
Proceeds on borrowings from financial institutions	30,000	22,600
Repayment of borrowings	(134,875)	(139,695)
Dividends paid to non-controlling interests	(1,148)	(1,197)
Dividends paid to equity holders of the Parent Company**	(31,479)	(12,649)
Cancelled restriction on government grant for mandatory procurement public service obligation costs compensation	29,264	–
Received government grant for mandatory procurement public service obligation costs compensation	20,335	–
Dividends received from associates	–	1,924
Net cash flows used in financing activities	(13,001)	(129,017)
Net increase / (decrease) in cash and cash equivalents	12,796	(163,676)
Cash and cash equivalents at the beginning of the year	91,747	255,423
Cash and cash equivalents at the end of the year***	104,543	91,747

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** 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

*** At the end of 2014 received government grant for mandatory procurement public service obligation costs compensation in the amount of EUR 29,264 was not included in cash and cash equivalents because it was defined as restricted cash and cash equivalents