



Latvenergo Group Presentation

December, 2012

Business Overview

Latvenergo Financials

Latvenergo Group at a Glance



General

- ✓ Wholly-owned by the State of Latvia
- ✓ Vertically integrated energy utility
- ✓ 4,443 employees (as of 30 June 2012)
- ✓ Rating of the Republic of Latvia
 - ✓ Moody's – Baa3/positive
 - ✓ S&P – BBB/positive
 - ✓ Fitch – BBB/positive

Main Facts

- ✓ Generation – installed capacity
 - ✓ Electric capacity – 2,372 MW (2,543 MW*)
 - ✓ Thermal energy capacity – 2,042 MW
- ✓ Distribution - electricity supply 6 TWh (2011)
- ✓ Installed transmission transformer capacity
 - ✓ 330 kV – 3,200 MVA
 - ✓ 110 kV – 4,829 MVA
- ✓ Market share in Baltics – 36% (2011)

* after reconstruction of Riga TEC-2

Financial Ratios

		2009	2010	2011
Revenue	MLVL	501	567	682
EBITDA Margin	%	29%	37%	27%
Net Debt to EBITDA	times	2.4	1.5	2.3
Capital Ratio	%	52%	59%	59%

- ✓ Moody's credit rating of Baa3/stable

Operational Figures

GWh	2009	2010	2011
Electricity supply	6,659	7,620	8,980
Generation	4,871	5,869	5,285

Exchange rate fixed at LVL 0.702804 = EUR 1.00

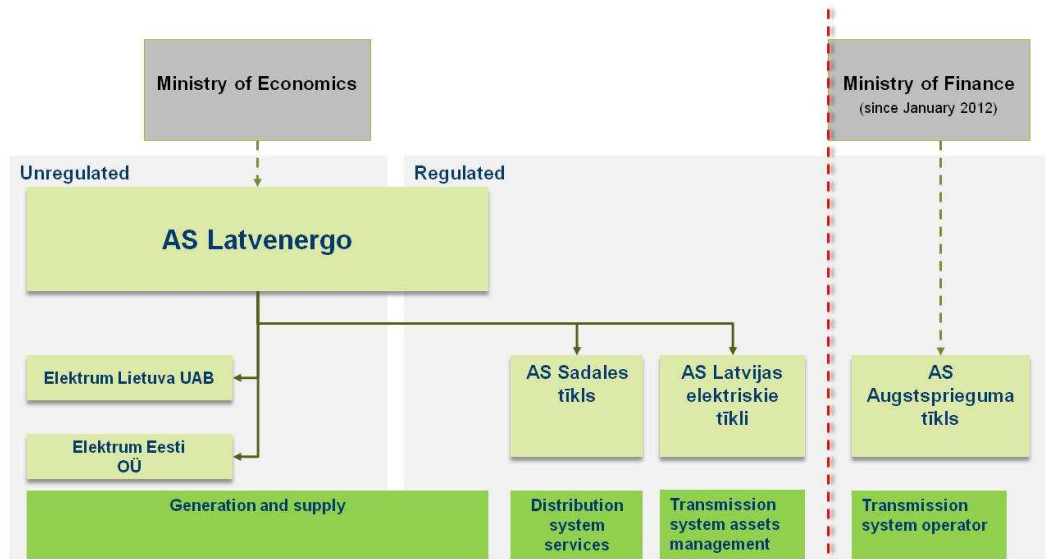
Latvenergo Group Structure



Business Segments

- ✓ Generation and supply (approx. 67% of revenues)
 - ✓ Latvenergo (LV)
 - ✓ Elektrum Eesti (EE)
 - ✓ Elektrum Lietuva (LT)
 - ✓ Liepājas Enerģija (LV)
- ✓ Distribution system services (approx. 25% of revenues)
 - ✓ Sadales tīkls (LV)
- ✓ Management of transmission system assets (approx. 8% of revenues)
 - ✓ Latvijas elektriskie tīkli (LV)

Regulatory Framework



EU Regulations

- ✓ Unbundling Directive 2009/72/EC
 - ✓ The ownership unbundling model
 - ✓ The independent system operator (ISO)
 - ✓ The independent transmission operator
- ✓ LV approach – 2nd unbundling model
 - ✓ ISO operations divested from Group
 - ✓ Transmission system assets management
- ✓ Nordpool in LV from June 3, 2013

Regulated Activities (Latvenergo)

- ✓ Distribution system services in LV
- ✓ Transmission system asset management in LV
- ✓ End user tariffs (households up to Sept 2013)
- ✓ Procurement of renewable and cogeneration (feed-in tariff)

Interconnections

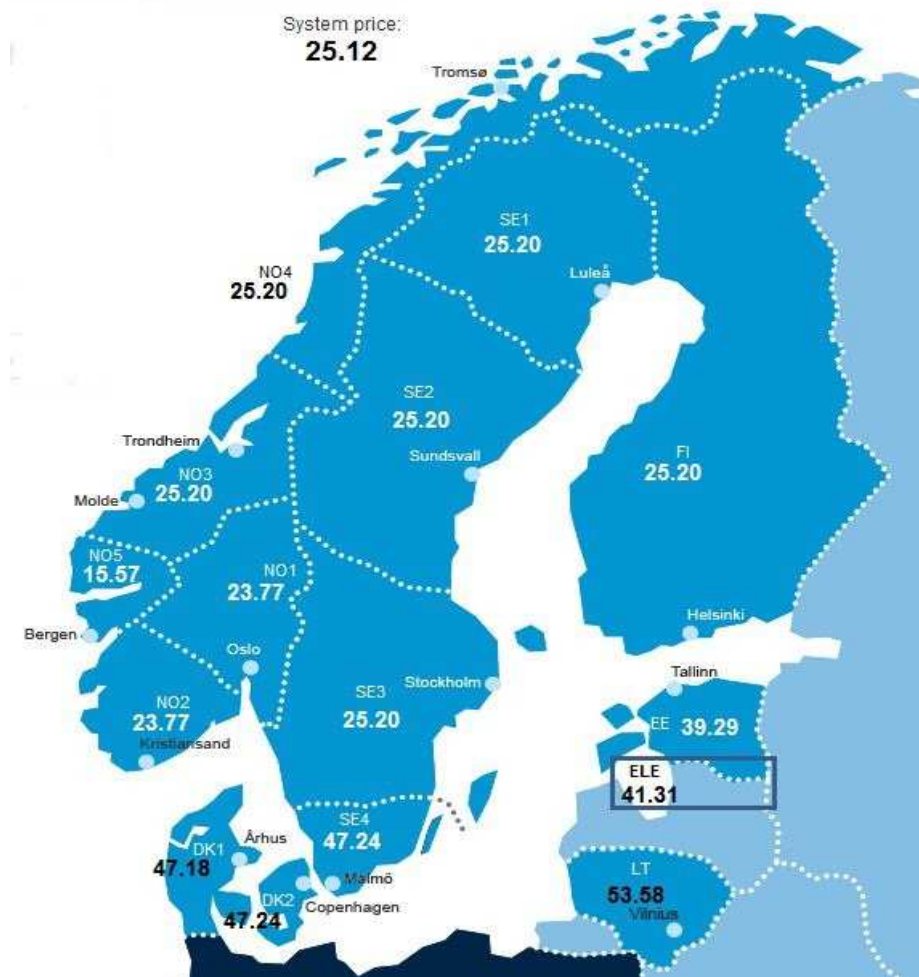


Key Facts

- ✓ Interconnections might replace need for new generations
- ✓ Existing interconnections
 - ✓ Stable system
 - ✓ Limited Nordic supply availability
- ✓ 2014 – Estlink 2 (EE-FI)
- ✓ 2016 – Nordbalt (LT-SE)
- ✓ Forseen LitPool (LT – POL)
- ✓ Nordic market 16 times bigger than Baltic market
- ✓ Nordic market specifics - high hydro generation
- ✓ Future outlook
 - ✓ Flows both directions
 - ✓ Baltics as price takers

Wholesale Market Operations

NordPool – Nordic Region



Nordpool Spot and Forward Market

- ✓ Next day market/Forwards
- ✓ Hourly price setting
- ✓ Price zones – interconnection capacity impact

Latvenergo Generation Units

- ✓ Latvenergo HPP (installed capacity 1,560 MW_{el})
 - ✓ Competitive
 - ✓ Volatile, but flexible for daily optimization
- ✓ Latvenergo CHPP's (installed capacity 806 MW_{el})
 - ✓ Feed-in tariffs
 - ✓ Efficient and competitive at cogeneration mode

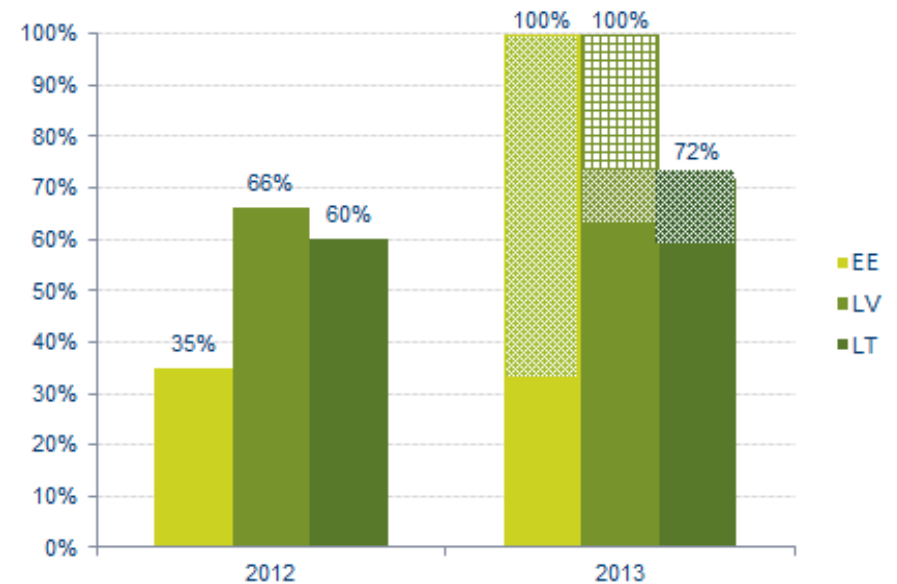
Baltic Electricity Market



Key Highlights

- ✓ Baltic markets are opening in different speeds
- ✓ LV
 - ✓ Availability to freely choose supplier from 2007
 - ✓ Nov 1, 2012 – all legal clients in open market
 - ✓ Sept 1, 2013 (planned) all households in open market
- ✓ EE
 - ✓ Major opening Jan 1, 2013 – households and remaining legal entities. Up to this time only large clients in market
- ✓ LT
 - ✓ All legal clients in open market from Jan 1, 2013
 - ✓ Households – currently estimated in 2015
- ✓ Latvenergo market approach
 - ✓ ELEKTRUM – new brand name from Sept, 2012
 - ✓ Local player in each market
 - ✓ Interest in each market
 - ✓ LT – overall market size
 - ✓ EE – consumption per household
 - ✓ LV – historical monopoly position

2013 – Market Change



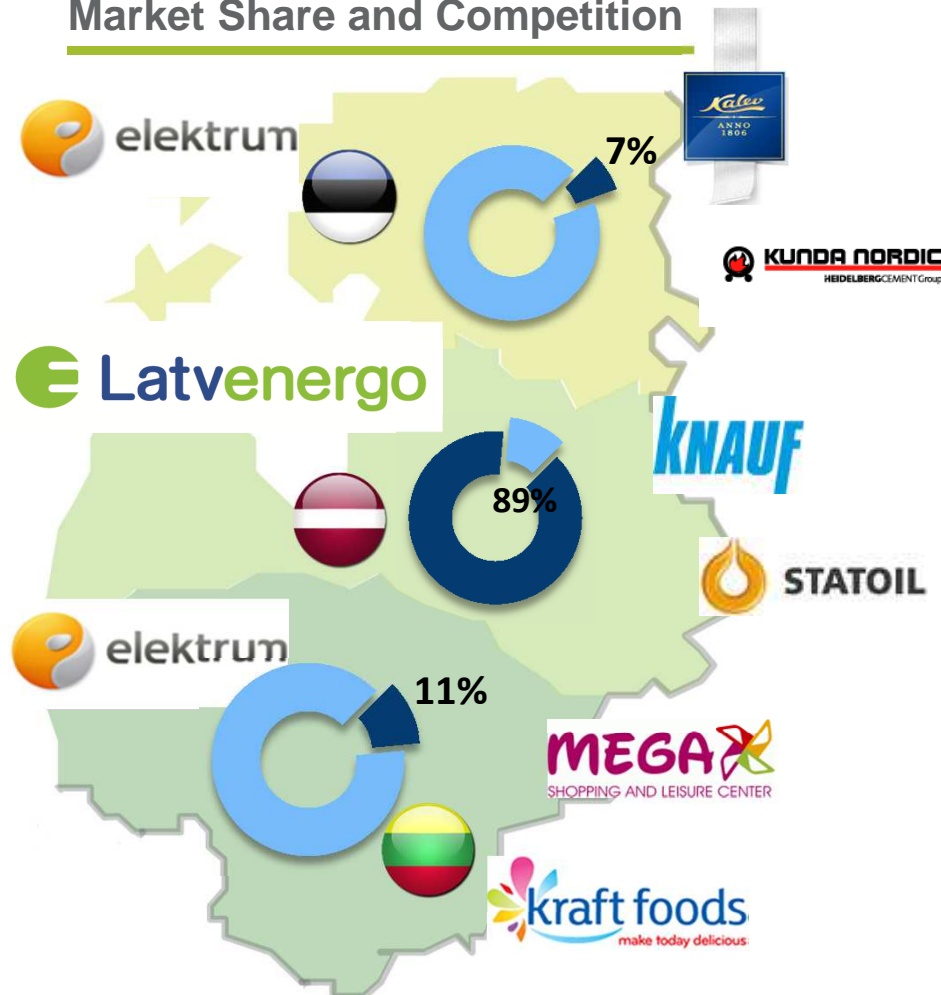
Market Attractiveness

	EE	LV	LT
Inhabitants (th)	1340	2074	3245
Households (th)	585	888	1419
Consumption (TWh)	7.9	7.2	9.7
Average consumption per household (kWh/annual)	3458	2182	1825

Electricity Supply



Market Share and Competition



Key Highlights

- ✓ Largest retailer in Baltics
- ✓ Improved retail position through geographical expansion
- ✓ Gaining outside LV more than losing in LV
- ✓ Trademark in LT and EE – ELEKTRUM
- ✓ Agreement terms
 - ✓ General industry 1 year fixed price
- ✓ Focus customer segments
 - ✓ SMEs and households
 - ✓ Tight margins in the large client segment, frequent changes
- ✓ Competitive advantage
 - ✓ Low CO₂ exposure
 - ✓ Longer experience in open market due to LV opening earlier

Strategic Perspective (2012-2016)

Strategic Planning

- ✓ Planning period 2012 – 2016
- ✓ Key challenges
 - ✓ Finalization of market opening in Baltics
 - ✓ New interconnections with Nordics
 - ✓ Low return on assets

Generation

- ✓ Existing portfolio
 - ✓ Hydro – competitive position
 - ✓ CHPP – regulated, stable cash flows
- ✓ Perspective
 - ✓ Geographical expansion of generation
 - ✓ Diversification of generation sources

Electricity Supply



- ✓ Equally positioned in all 3 Baltic countries
- ✓ Selected primary supplier for targeted clients segments
- ✓ Balanced retail and generation portfolio

Distribution Services

- ✓ Balanced distribution network development
 - ✓ Master plan for maintenance and renovation planning
 - ✓ Improving return on assets
 - ✓ Balanced quality, capex and revenues

Business Overview

Latvenergo Financials

Financial Highlights



Growing revenue while sustaining stable profitability

INCOME STATEMENT (MLVL)	2007	2008	2009	2010	2011	2012 1H*
REVENUE	362	476	501	567	682	389
EBITDA	90	107	145	207	181	112
NET PROFIT	8	7	20	44	44	42

Stable and strong capital structure

BALANCE SHEET (MLVL)	2007	2008	2009	2010	2011	2012 1H*
TOTAL ASSETS	1,316	1,681	1,699	2,279	2,288	2,339
TOTAL EQUITY	712	866	889	1,345	1,352	1,350
BORROWINGS FROM FINANCIAL INSTITUTIONS	355	496	507	546	513	551
NET DEBT	316	393	352	311	404	401

Operating cash flow in line with capex

CASH FLOW STATEMENT (MLVL)	2007	2008	2009	2010	2011	2012 1H*
CF FROM OPERATING ACTIVITIES	125	84	138	161	180	125
CF FROM INVESTING ACTIVITIES	-225	-160	-90	-99	-238	-81
CF FROM FINANCING ACTIVITIES	109	140	3	18	-68	-2

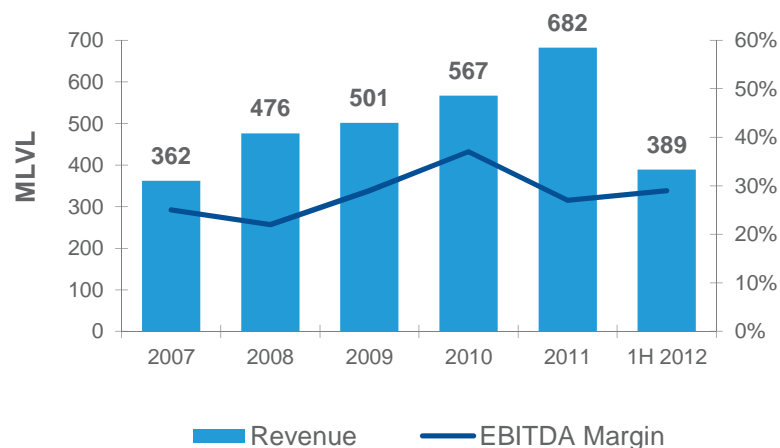
Strong financial performance

KEY FINANCIAL RATIOS	2007	2008	2009	2010	2011	2012 1H*
EBITDA MARGIN	25%	22%	29%	37%	27%	29%
NET MARGIN	2%	2%	4%	8%	6%	11%
CAPITAL RATIO	54%	52%	52%	59%	59%	58%
DEBT TO EQUITY	0.5	0.6	0.6	0.4	0.4	0.4
NET DEBT TO EBITDA	3.5	3.7	2.4	1.5	2.3	2.2
ROA	1%	1%	1%	2%	2%	2%
ROE	2%	1%	2%	4%	3%	4%

* unaudited results

Revenue Growth

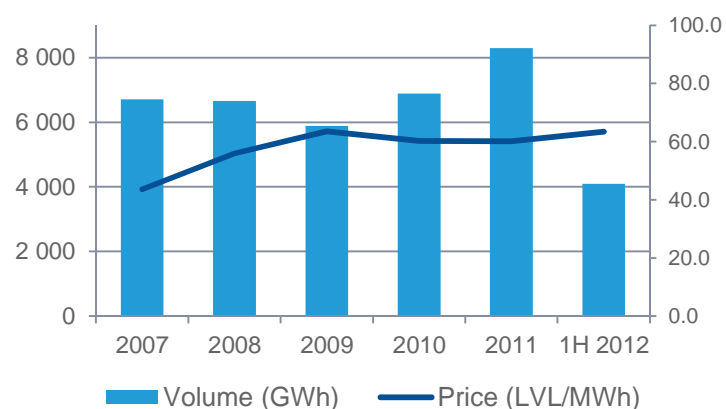
Revenue and EBITDA Margin



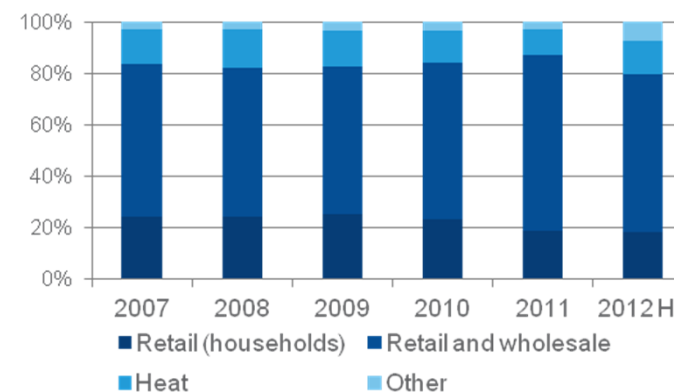
Key Highlights

- ✓ Revenue growth during 5 years - double digit growth, except 2009
- ✓ Consumption outlook stable
- ✓ Major revenue source – electricity supply to retail
- ✓ 20% growth 2011 mainly due to retail volume growth in LT & EE

Electricity Retail Sales: Volumes and Prices

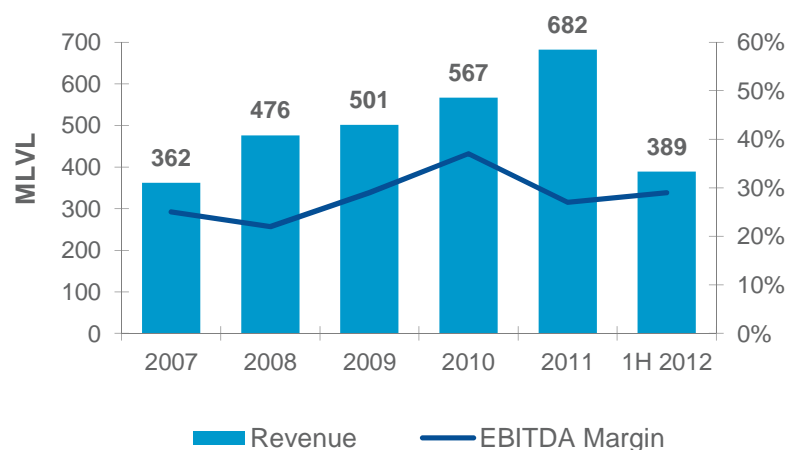


Revenue Structure



Profitability

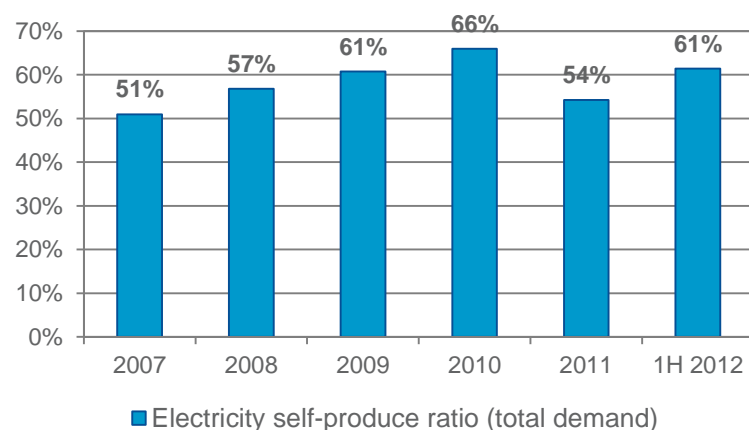
Revenue and EBITDA Margin



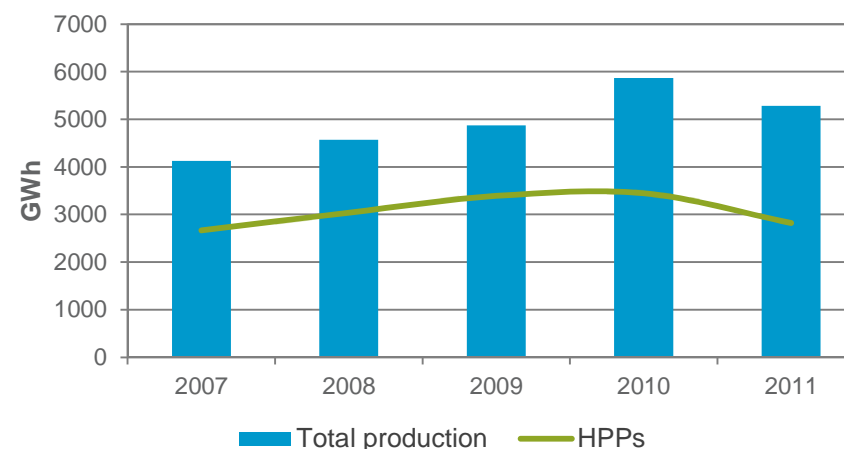
Key Highlights

- ✓ Main impact – net import position
 - ✓ Fluctuates between 34% and 49%
 - ✓ Subject to capacity and operating conditions
- ✓ EBITDA margin influenced by production output
 - ✓ New TEC 2.1. started operations end of 2009
 - ✓ TEC 2.2. expected mid 2013
 - ✓ Actual HPP output
- ✓ 2011 – increase of retail portfolio which decreases weight of self produced electricity, thus margins

Weight of Production Output

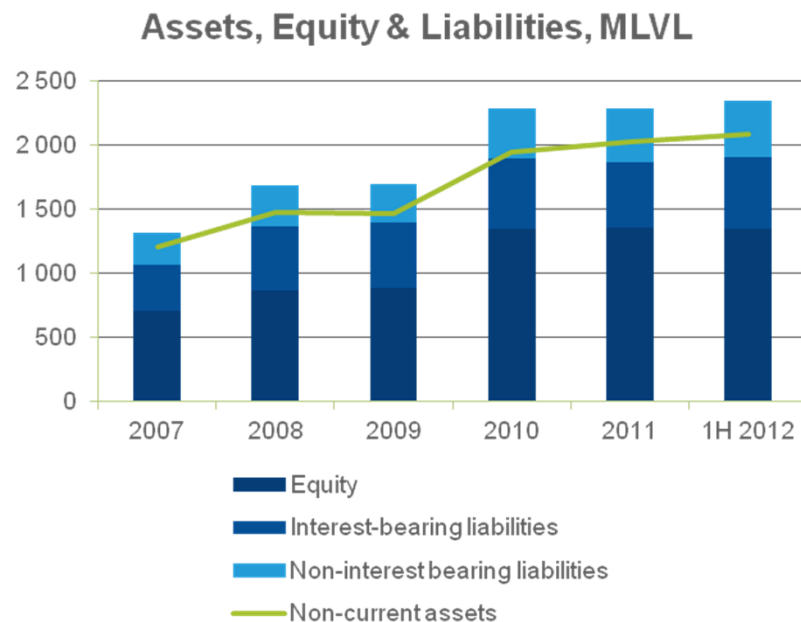


Production Volume by Source (GWh)



Strong Balance Sheet

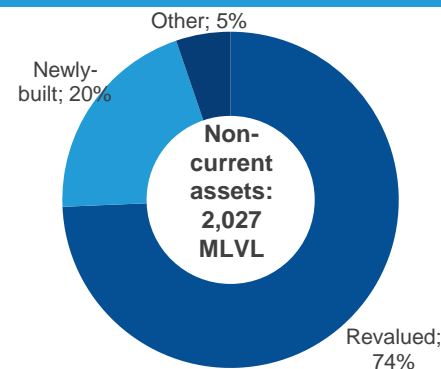
Total Assets (1H 2012): 2,339 MLVL



Key Highlights

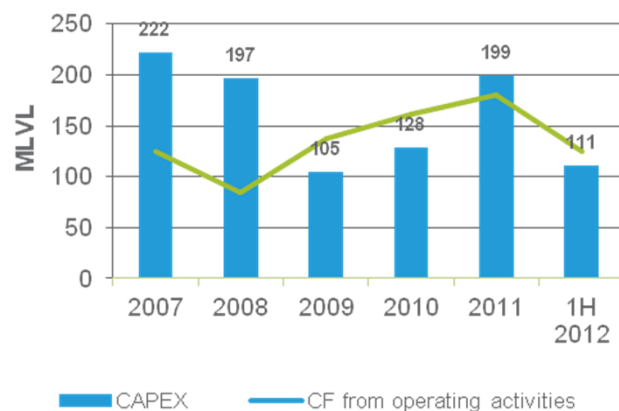
- ✓ From 2007 to 2010 all main fixed assets groups were revaluated, thus balance sheet recorded at fair value
- ✓ 90% of assets are non-current
- ✓ Current assets mainly comprise of liquid assets (cash, money market instruments and securities)
- ✓ Stable and strong capital structure
 - ✓ Capital ratio - 58%
 - ✓ D/E ratio – 0.4

Asset Structure

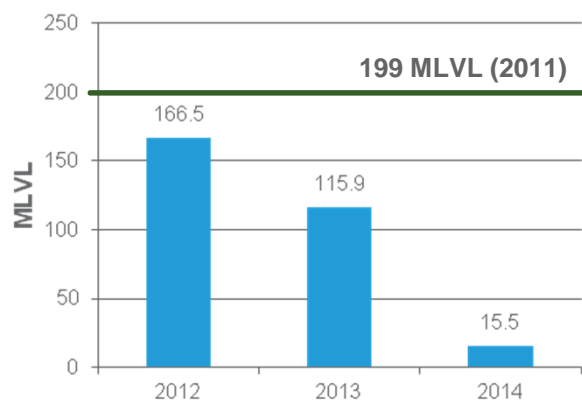


Group Investment Programme

Capex and Operating Cash Flow



Committed Capex*



Note: * information as of 30 June 2012 on contractually committed capital expenditures of the Group

Key Highlights

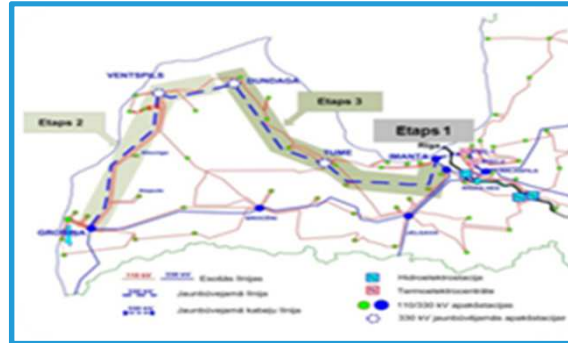
- ✓ The Group is efficient in capex management – capex spending balanced with operating CF
- ✓ All major production facilities are newly renovated
- ✓ Low level of committed capital expenditures ~300 MLVL
- ✓ Major projects totaling 164 MLVL
 - ✓ Reconstruction project of Riga TEC-2
 - ✓ NORDBALT - 02 – 330kV “Kurzeme Ring”

Main Investment Projects



Reconstruction of Riga TEC- 2

- ✓ Committed capex 225 MLVL*
- ✓ Completion 2013
- ✓ Electricity capacity
 - ✓ 833 MW (gross)



NordBalt 02 – 330 kV, Kurzeme Ring

- ✓ Committed capex 66 MLVL**
- ✓ Completion 2014
- ✓ Co-funded by EEPR



Reconstruction of Daugava HPPs hydropower units

- ✓ Capex (not committed) > 100 MLVL
- ✓ Completion 2022
- ✓ Output increase 65 GWh (annual)

Notes:

* - EPC (engineering, procurement, construction)

** - first and second stage

Visaginas New Nuclear Power Plant Project



Current Status

- ✓ Negative advisory referendum and new government in Lithuania
- ✓ Further development – contingent upon Lithuanian government standing



If Project would be continued

- ✓ Latvenergo potential participation – up to 20%
- ✓ ~60-70% of the Project to be financed by credit facilities from export credit agencies (JBIC, USEXIM) and EIB / EURATOM
- ✓ Equity investment through SPV (risk limitation)
- ✓ Step by step increasing investments, major Capex around 2018-2022 – post Latvenergo bond horizon

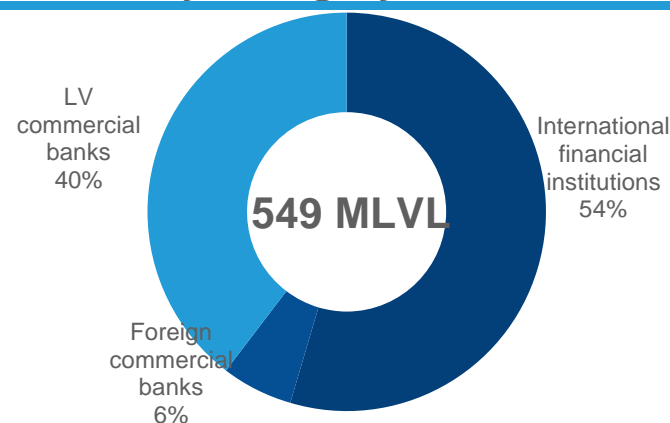


Debt Profile as of 30 June 2012

Key Highlights

- ✓ All currently outstanding loans are floating rate loans denominated in euro
- ✓ Total refinancing 2014 and 2015 – 235 MLVL
 - ✓ Priority – further lender diversification (Eurobond issue)
 - ✓ Continue corporation with commercial banks
 - ✓ Committed lines - 194 MLVL
- ✓ Existing financial covenants
 - ✓ Net debt/EBITDA, DSCR

Lenders by Category

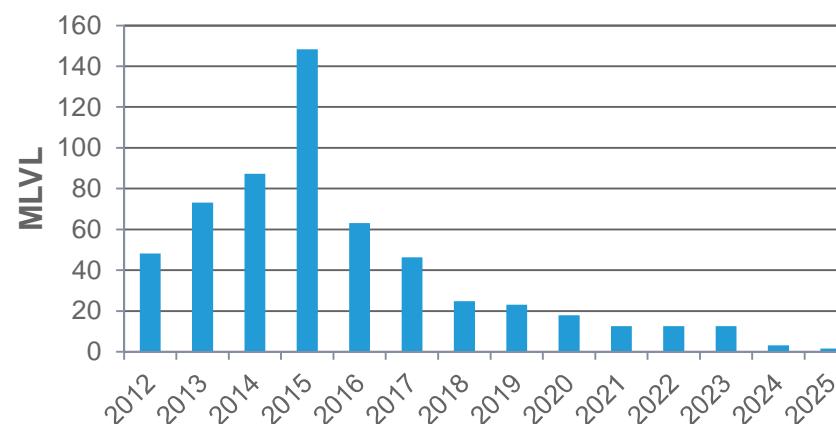


30 June 2012

31 December 2011

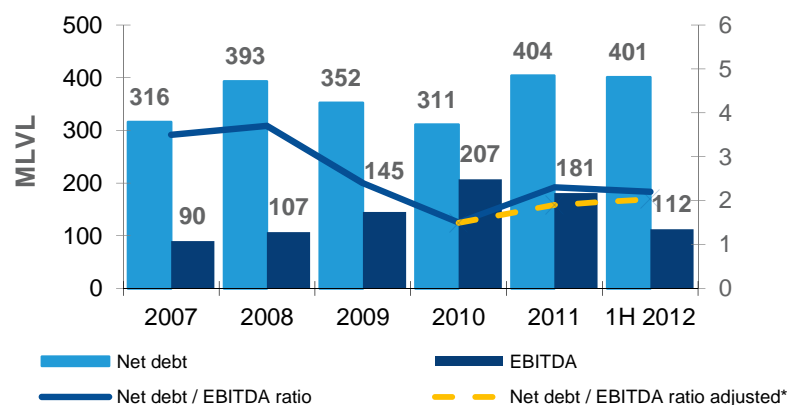
Gross debt	549 MLVL	511 MLVL
Weighted average interest rate (with IRS)	2.99%	3.03%
Weighted average time to maturity	3.77 years	4.5 years
Fixed proportion (with IRS)	46%	47%
Duration	1.94 years	2.13 years

Debt Repayment Schedule

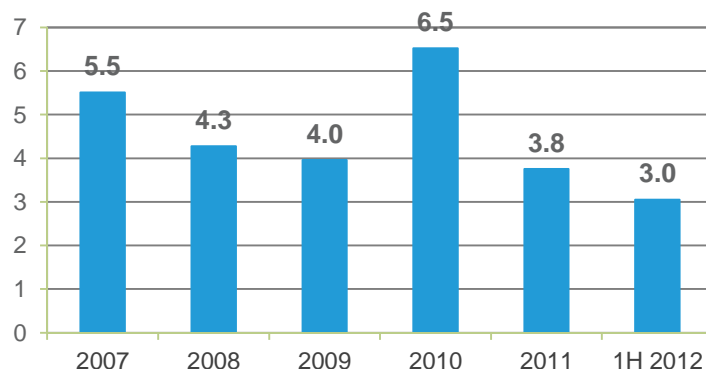


Financial Covenants

Net Debt/ EBITDA



DSCR



Notes:

* - Adjusted Net debt / EBITDA ratio excludes investments in held-to-maturity financial assets

** - Net debt – borrowings from financial institutions at the end of the period minus cash and cash equivalents at the end of the period

*** - Net debt / EBITDA ratio calculated for rolling twelve months

**** - DSCR -the sum of the net income, depreciation and interest on long-term debt divided by the principal on long-term debt payment and interest paid

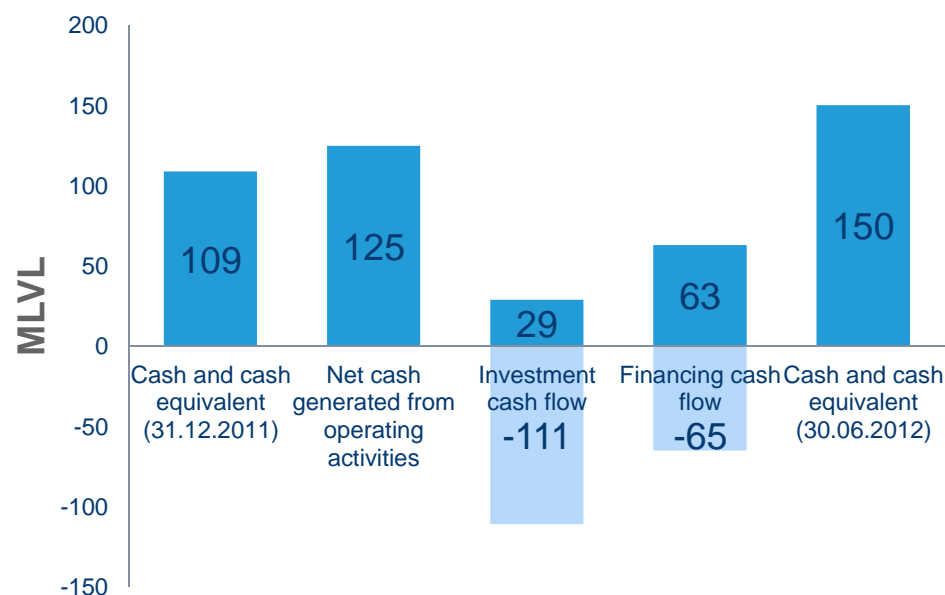
Key Highlights

- ✓ Strong generated cash flow from operations combined with adequate level of debt
- ✓ Net Debt /EBITDA level in line with industry average
- ✓ Net debt/EBITDA slight increase in 2011
 - ✓ Lower EBITDA level (positive hydro conditions in 2010)
 - ✓ Investments in TEC-2 (launching in 2013)
 - ✓ Investments in held-to-maturity financial assets
- ✓ High DSCR in 2010 due to EBITDA level and low debt servicing costs (financial costs and principal repayment)

Liquidity Risk Management

Liquidity Position (as of 30 June 2012)

- ✓ Cash and cash equivalents – 150 MLVL
- ✓ Liquid financial assets – 31 MLVL
- ✓ Short term committed credit lines – 24 MLVL
- ✓ Long term undrawn committed credit facilities 276 MEUR (194 MLVL)
- ✓ Committed investment projects in line with available financial resources



	2007	2008	2009	2010	2011	1H 2012
Liquidity Ratio	1.0	1.6	2.1	2.6	1.4	1.3

Key Highlights

- ✓ Wholly owned by the State of Latvia
 - ✓ Latvenergo rating - Moody's Baa3/stable
 - ✓ Government rating - Moody's Baa3/positive
- ✓ Stable Baltic electricity consumption levels
- ✓ Most valuable company in LV four years in row
- ✓ Largest electricity retailer in Baltics
- ✓ Improved retail position through geographical expansion to other Baltic countries
- ✓ Gaining outside LV more than loosing in LV
- ✓ 80% of revenues from electricity supply
- ✓ Retail portfolio expected to be fully market based from Sept, 2013
- ✓ Cash generating production portfolio
 - ✓ HPPs – competitive at all times, low variable costs
 - ✓ CHPs – newly modernized, effective cogeneration cycles, security of supply, regulated cash flows
- ✓ Strong balance sheet
 - ✓ 95% of long-term assets recorded at fair value
 - ✓ Capital structure (D/E = 0.4)
- ✓ Operating cash flows
 - ✓ Strong operating cash flows
 - ✓ Efficient capex management
 - ✓ Low committed capex
- ✓ Moderate debt level

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